BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Consolidated Edison Company of New York, Inc.

Case 07-E-0523

September 2007

Prepared Testimony of:

Staff Infrastructure Panel

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Q. Please state your names, employer, and business address.

A. Kin Eng, Nicola Jones, Jason Pause, and Leka P. Gjonaj. We are all employed by the New York State Department of Public Service (Department). Mr. Eng and Ms. Jones are both located at 90 Church St., New York, New York 10007. Mr. Pause and Mr. Gjonaj are located at Three Empire State Plaza, Albany, New York 12223.

Q Mr. Eng, what is your position at the Department?

A. I am a Utility Analyst 3 assigned to the Distribution Systems and Generation Section in the Office of Electric, Gas, and Water.

Q. Please describe your educational background.

A. I graduated from New York Tech with an Associate in Applied Science Degree in Electrical Technology in 1986.

Q. Please describe your responsibilities with the Department and professional experience.

A. I joined the Department in 1981. My responsibilities include: monitoring utility operations to determine if facilities are

operated and maintained in accordance with appropriate codes and safe operating practices; ensuring that utilities are adequately prepared to respond to emergencies by reviewing utilities' electric emergency plans and attending annual emergency drills; and monitoring utility operation and maintenance activities to ensure acceptable electric service reliability. I have also been involved in many investigations of electric utility service disruptions, including the Westchester Outages in January 2006, the Long Island City Network outages in 2006, the Jodie Lane fatality, the August 2003 Blackout, the September 11th terrorist attack in 2001, and the Washington Heights outages in 1999.

Q. Have you previously testified before the Commission?

A. Yes. I testified in Case 04-E-0572 regarding Con Edison’s infrastructure investment.

Q. Ms. Jones, what is your position at the Department.

A. I am a Utility Engineer 1 assigned to the

Distribution Systems and Generation Section in the Office of Electric, Gas, and Water.

Q. Please describe your educational background.

A. I graduated from Rensselaer Polytechnic Institute with a Bachelor of Science Degree in Civil Engineering and a Bachelor of Science Degree in Management in 2003.

Q. Please describe your responsibilities and professional experience with the Department.

A. I joined the Department in 2005. My responsibilities include: monitoring electric utility safety and reliability cases; investigating the cause and response level of the utilities after emergency events; monitoring electric distribution projects; and monitoring utility compliance with electrical codes and with electric service and safety standards.

Q. Have you previously testified before the Commission?

A. No.

Q. Mr. Pause, what is your position at the Department.

A. I am a Power System Operations Specialist 4

assigned to the Distribution Systems & Generation in the Office of Electric, Gas, and Water.

Q. Please describe your educational background. I received a Bachelor of Science degree in Electrical Engineering from Merrimack College in 1998.

Q. Please describe your professional experience and responsibilities with the Department.

A. I have been employed by the Department since November of 2004. My responsibilities include: monitoring utility operations to determine if facilities are operated and maintained in accordance with appropriate codes and safe operating practices; ensuring that utilities are adequately prepared to respond to emergencies by reviewing utilities' electric emergency plans and attending annual emergency drills; and monitoring utility operation and maintenance activities to ensure acceptable electric service reliability. For the past year I have been involved in and responsible for the Long Island City Network outages investigation and

monitoring efforts. Prior to joining the Department I worked in the consulting engineering field on both commercial and industrial projects. This included building power, lighting, and systems design, along with mission critical facilities design. Additionally I was involved in both overhead and underground medium voltage systems design work before joining the Department.

Q. Have you previously testified before the Commission?

A. Yes, I testified in Case 06-E-1433, Orange and Rockland Utilities – Electric Rates.

Q. Mr. Gjonaj, what is your position in the Department?

A. I am employed as a Power Transmission Planner 4 in the Bulk Transmission Section of the Office of Electric, Gas, and Water.

Q. Please state your educational background and professional experience.

A. I hold a Bachelor of Science degree in Mechanical Engineering from Clarkson University and a Master of Science in Mechanical

Engineering degree from Rensselaer Polytechnic Institute. I am also a licensed Professional Engineer in New York State. Before joining the Department in November 1990, I was employed by General Electric as a Manufacturing Engineer in its Defense Systems Division. I was responsible for designing, implementing, and recommending manufacturing and quality control equipment needed for the production of highly specialized United States Naval components and systems.

Q. Please describe your duties with the Department of Public Service.

A. My areas of responsibility include and have included electric system computer simulations, review of power plant siting (Article X), wholesale market matters, cyber security, review and analyses of utility fuel budgets, purchased power contracts, depreciation and rate base, operating and maintenance expenses, and cost of service determination.

Q. Have you previously testified before the Commission?

A. Yes. I have testified in Commission proceedings

on seven occasions, covering a broad range of topics including: review of construction budgets; depreciation and rate base; rate design matters; purchased power and utility fuel budgets/targets; independent power producer contracts; and electric production computer simulations.

Overview

Q. What is the purpose of the Panel's testimony?

A. The purpose of this testimony is to address the capital budget and Operations and Maintenance (O&M) expenses proposed by Consolidated Edison Company of New York, Inc. (Con Edison or the Company) for the areas of electric transmission, substation, and distribution.

Q. In this testimony, will the Panel refer to, or otherwise rely upon, any information produced during the discovery phase of this proceeding?

A. Yes. We have relied upon numerous responses to Staff Information Requests, some of which we will reference in our testimony. They are attached as Exhibit___(SIP-1).

Q. Please briefly describe what Con Edison has

identified for the electric infrastructure investment it proposes to undertake during the rate year.

A. Con Edison has identified numerous projects to increase electric Transmission and Distribution (T&D) capacity to address the economic growth in its service territory, reinforce its transmission and distribution system, and enhance public safety related to the Company's electric facilities.

Q. What other projects has the Company proposed to improve its electric infrastructure?

A. The Company has also proposed projects to mitigate the effects of storm and heat related events, enhance its computer technology programs to assist in operations and engineering decisions, and improve operating efficiencies by streamlining its processes.

Q. Please continue.

A. A major undertaking proposed in this proceeding is the Company's construction and upgrade of several substations throughout its service territory. This includes the establishment of

138/13-27 kV area substations, installation of additional transformer banks, and new primary feeder positions. Three major substation projects, Parkview, Astor, and Rockview, are scheduled to go into service during the rate year. Our analysis of these projects focused on capital expenditures projected for the rate year, but we also examined the appropriateness of in-service dates for infrastructure projects beyond the rate year. Additionally, in response to an increasing number of public safety issues and poor response to customer outages, Con Edison has proposed new projects including the replacement of distribution equipment, an increased mitigation of hazardous facilities to address public safety, and the implementation of new processes and procedures to improve its emergency responses.

Q. Have you prepared a summary of the Company's overall budget sheet and historical spending?

A. Yes. The Overall Budget Summary sheet in Exhibit___(SIP-2), Page 1 of 6, shows the Company's budgeted and actual amounts spent for

Transmission, Substations, and Distribution capital expenditures between 2004 and 2007, with the 2007 actual amount updated as of July 2007. In addition, the exhibit shows the Company's expected spending for the rate year compared with Staff's proposed rate year allowance. This Panel's total transmission, substation, and distribution capital adjustment reduces Con Edison's capital budget by approximately $218 million, from $1.795 billion to $1.576 billion. Specific details of these adjustments are included in Exhibit___(SIP-2).

Q. Have you reviewed the Company's Operations and Maintenance (O&M) expenses for Electric Operations?

A. Yes, we have reviewed the Company's Operations and Maintenance (O&M) expenses for Electric Operations, and based on that review propose no adjustments in this area. However, we have concerns with the programmatic structure of some of these O&M programs, which will be discussed later in our testimony.

Q. How do you propose variations between rate year

allowances approved in this proceeding and actual T&D expenditures be addressed?

A. The impact of the Company's proposed T&D budget on rates demonstrates the need to ensure that the Company is held accountable for its rate allowance for electric infrastructure improvements. Con Edison should be required to file with Staff a quarterly report providing detailed information comparing, by project, actual construction progress to Con Edison's projected schedules and actual expenditures with rate year allowances. Justification should be provided for any discrepancies on a project by project basis, as well as an aggregate for all projects. If the year-end review of these expenditures reveals that the Company has spent less than what was allowed in its rates, we propose that the Company be required to defer such variations between rate allowance and actual expenditures as a ratepayer credit, with interest accruing at an appropriate rate.

Infrastructure Investment

Q. What is your overall assessment of Con Edison's

electric infrastructure investment proposal?

A. Overall, the electric infrastructure improvements are necessary to maintain a safe and reliable system. Economic growth has been gradually increasing, and the Company's aging transmission and distribution system justifies the need for significant targeted capital investment. Without such investment, there is a reasonable expectation that system performance will further deteriorate and the risk to public safety will increase.

Q. How does economic growth in Con Edison's Service Territory affect its infrastructure?

A. During the past three years, the electric demand on the Company's system has steadily increased. This is due to new business growth, the increased use and installation of technology equipment, as well as air conditioning ownership and usage. We examined the Company's peak electric load between 2004 and 2006. During this period, the actual load increased for both the network and area substation levels. We also compared the Company's 2002 forecasted peak

loads with the actual peak loads experienced from 2004 to 2006 for each of the area substations. This data shows that the actual peak loads either reached or exceeded the Company's 2002 projections at both the substation and network levels. This is important because substations need to maintain a level of electric capability in order to meet the demand of customer load. To achieve such capability, the Company needs to provide sufficient capacity at the substation level. Once demand tied to a particular substation exceeds its capacity, the system cannot supply adequate electricity to its customers. There are several ways the Company can address this issue. Through energy efficiency or demand response efforts, overall load demand can be reduced and the need for additional equipment and capacity deferred for some time. Additionally, it can install additional equipment to supplement the substation's maximum design capacity, or it can reduce the size of a network, or it can, build new substations to

meet the demand.

Q. Why is it imperative that Con Edison invest in the transmission and distribution infrastructure?

A. The Company's transmission lines average approximately 40 years in age. Con Edison's aging transmission and distribution equipment needs to be reinforced and upgraded to meet both its Public Service Law requirements and its customers' expectations for a safe and reliable system. The Company proposes to address this situation through the projects proposed in its filing. For example, Con Edison has proposed replacing feeders 69M43/44. These specific feeders have been in-service for approximately 55 years and are some of Con Edison's oldest transmission feeders. Such advanced age, when coupled with the numerous dielectric fluid leaks that have occurred, necessitate the replacement of those particular feeders. The Company proposes replacing those feeders with solid dielectric cable (i.e., no fluid) operating at 138kV to permit increased transfer capability.

Additionally, much of Con Edison's underground and overhead distribution equipment, such as its transformers, secondary mains, and service cables, has also degraded, with some equipment still in-service having reached its life expectancy. This is a problem because normal equipment degradation over time can result in equipment failures and customer outages.

Q. How does such degradation result in equipment failures and customer outages?

A. An example of degradation would be cable insulation breakdown. Insulation breakdown can occur when a cable is constantly subjected to heat (loads) over a period of time. Eventually, the conductor becomes exposed due to melting of the insulation. This exposure can cause a fault on the cable which, in turn, could lead to the interruption of electric service. Specifically, Staff has been tracking the causes of Con Edison manhole incidents for the past 5 years and found an alarming rate of secondary burnouts associated with cable failures like those described above. Another way insulation breaks

down is through exposure to a harsh environment. Such exposure occurs from the cable shifting underground due to vibration, contractor digging, or even winter salt accumulation. The Company's equipment has an age limitation. Wear and tear, as well as abuse while in-service, will shorten the equipment's useful life.

Q. Please discuss the specific areas of your analysis and review.

A. The Company presented its proposed capital expenditures under the following categories: 1) Support Economic Growth – Capital; Substations, Transmission and Switching Stations, Distribution, 2) Improve System Reliability Capital; Substations,

We will provide our analysis following the same basic categories.

Support Economic Growth - Capital

Substations

Q. Where there any proposed expenditure changes to the Company's original electric rate case filing of May 4, 2007?

A. Yes, On August 8, 2007 the Company provided

Staff an addendum to the original electric filing. Within this addendum, the Company identified several proposed expenditure changes for the rate year on the following projects listed under Support Economic Growth – Substations – Capital: Parkview, York, Elmsford, Newtown, Woodrow, and the West 49th Street Generator Interconnection projects. However, the Company did not provide any work papers, detailed cost breakdown, or justification for the proposed expenditure changes within this addendum for the projects listed above. In order to fully understand these proposed changes, we sent out an information request (DPS-498) to obtain this additional information. On August 30, 2007 the Company responded to DPS-498 with some additional work papers, but the information provided was limited and lacked the detailed justification and cost breakdowns we had requested. Given the timeframe in which we received this information and the lack of information provided, we proceeded with our testimony, not taking into account the proposed

expenditure changes submitted in August, but instead relying on the proposed expenditures originally filed back in May.

Q. Please briefly describe some of the major area substation capital projects included in the "Support Economic Growth" category that the Panel reviewed.

A. We reviewed and examined the following major projects for which in-service dates are projected to be within the rate year.

1. Parkview substation: This substation will provide load relief to the upper Manhattan area, specifically the area around the West 110th St. substation. This particular substation area is projected to experience overloads beginning in 2008. The Parkview substation will be supplied from the Mott Haven Switching Station and is scheduled to be in-service in May of 2008.

2. Astor substation: This substation will provide load relief to the West side of Manhattan, specifically the West 42nd St. #2 substation and the West 65th St. #2 substation. These substations are projected to experience

overloads beginning in 2009. The Astor substation will be supplied from the West 49th St. switching station and is scheduled to be in-service in the Spring of 2009.

3. Rockview substation: This substation will provide load relief to several Westchester County substations that are projected to experience overloads beginning in 2009. The Rockview substation will be supplied from the existing Dunwoodie switching station and is scheduled to be in-service in May of 2008.

Q. Did your review reveal any other area substation projects in the Support Economic Growth – Capital that are projected to be in-service in the rate year?

A. Yes.

1. Mott Haven area substation: This 13 kV area substation project was constructed simultaneously and at the same location as the Mott Haven 345 kV transmission switching station project. Both projects initially went into service in June 2007. An additional $8 million is budgeted for the Spring 2008 final completion

of both projects.

2. Cedar Street Substation: This project involved the installation of a third transformer and a 138kV feeder at the Cedar St. area substation. The substation initially went into service in May 2007, and an additional $2.4 million is budgeted for the final construction completion by Spring 2008.

3. Fox Hills Substation:

This project involves the installation of two new 33kV feeder positions at the Fox Hills substation at a budget of $1.6 million and a scheduled completion date of May 2008.

4. Fresh Kills Substation:

This project involves the installation of a new 30 MVAR capacitor bank at the 33kV Fresh Kills substation at a budget of $2 million and a scheduled completion date of Spring 2009.

Q. Has the Company justified the need for the proposed major area substation and other area substation projects in the Support Economic Growth - Substations category?

A. Yes. To confirm that each of these proposed

programs is needed and justified, we analyzed and reviewed the Company's 10-year load relief program. We also examined the Company's work papers, project schedules, and current working construction estimates for each project that is placed in rate base and/or scheduled to be in-service in the rate year. Based on our review, we determined that each of these projects is needed and justified for Con Edison to meet its load requirements.

Q. Are there any other projects or areas within the Support Economic Growth - Substation category that you would like to discuss?

A. Yes, there are several other area substation projects and programs identified by the Company that they do not go into service or do not affect rate base within the rate year, for which the Company forecast expenditures in the rate year. For example, the Newtown substation's current in-service date was accelerated from 2015 to 2011 due to reliability concerns that were exposed in the aftermath of the 2006 Long Island City Network outages. In total, the

Company identifies approximately $20 million of such expenditures in 2008. Based on our review of the budgeted amounts, the Company's load relief program, work papers, and project schedules, we determined that the proposed expenditures are reasonable and recommend no adjustment.

Transmission and Switching Stations

Q. Are you proposing adjustments to the Company's Transmission and Switching Station budget category?

A. Yes.

Q. Please explain.

A. In response to DPS-466, the Company provided the table shown on Exhibit___(SIP-1) page 143 of 190. The table indicates that since 2004 the Company has been over-budgeting this category compared to actual expenditures. In fact, the discrepancy appears to be getting larger in the years since 2004, as shown on Exhibit___(SIP-1) page 143 of 190.

Q. Do the Company's figures indicate a similar pattern in its other major budget categories?

A. No. Based on the same Exhibit___(SIP-1) page 143 of 150, the budget forecasts and actual expenditures for other major budget categories are more closely aligned.

Q. Please describe your proposed.

A. We propose an adjustment to this category based on the relationship between the Company's actual and forecast expenditures for years 2004 through 2006.

Q. Did you include 2007 actual expenditures data?

A. No. The actual expenditure data for 2007 is incomplete and cannot, therefore, be properly compared to its corresponding budget data.

Q. Please describe your proposed adjustment.

A. Column C of Exhibit___(SIP-2) page 5 of 6 shows ratios of actual expenditures and budgeted amounts for the years 2004 through 2006. We averaged those ratios to obtain the 58.44% factor in Column D. The Company's proposed allowances were then reduced by this factor to develop revised allowances for years 2008 and 2009 (Column F) and the rate year (Column G).

Q What is the net result of your adjustment?

A. The net result is a decrease of approximately $108.5 million to the Company's forecast for the Transmission and Switching Station budget category.

Distribution

Q. What major distribution projects under the category of Support Economic Growth have you reviewed?

A. We examined distribution load relief projects associated with area substations. The following projects constitute the major load relief work addressed in the Company's filing:

1. Establish a third transformer at the Cedar St. area substation;
2. Transfer 30 MW of load from White Plains to Rockview;
3. Transfer 55 MW of load from Granite Hill to Rockview;
4. Transfer 120 MW of load from W110St. No. 1 to Parkview;
5. Primary Feeder Relief; and
6. Distribution Substation Transformer Purchases.

Q. Has the Company justified the need for the above projects?

A. Yes. The load transfer projects are necessary to relieve the loads in the designated areas and are supported by the construction of the new substations. Primary Feeder Relief work involves the reinforcement of feeders that are projected to operate at or above their normal or emergency loadings. Such work entails replacing smaller capacity cables with new larger capacity feeders, or transferring load via the re-arrangement of feeder cables. The Long Island City Network outage produced overloads on the network which resulted in 54 feeder outages. For all of these outages, the feeders involved experienced a variety of faulty operating conditions that included bus trips, transformer failures, and cable and joint failures. We also examined the historical system-wide failure performance of Con Edison’s primary feeders for 2005 and 2006. (DPS-385) Our analysis revealed that cable sections and joints were the main cause of the system-wide failures. These

findings were consistent with the failures in the Long Island City Network outages. In our judgment, the reinforcement of primary feeders to the networks would increase loading capacity and allow for future growth in the networks. Therefore, we determined that these projects are necessary.

Q. Are there other reasons to support the Panel's conclusion that the projects are necessary?

A. Yes. Underground network transformers and their associated equipment, such as network protectors and Remote Monitoring System (RMS) units, are part of the reinforcement work needed to provide load relief and allow for future growth. Our assessment of the transformer failures in the Long Island City Network outage investigation revealed that 81 out of the 842 transformers inspected failed, and these failures occurred because of corrosion, overheating, failed pressure tests, and defective housings. In addition, a review of the number of transformer replacements since 2003 suggests the Company has experienced a steady increase in the number of

transformer failures. Staff has become gravely concerned about the Company's ability to sustain adequate electric capacity given the deterioration of its infrastructure. For the Company to avoid future outages similar in scope to that experienced in 2006 in Long Island City, Con Edison needs to continue to improve and update its infrastructure.

Improve System Reliability – Capital

Substations

Q. Have you reviewed the projects and programs listed under the category Improve System Reliability – Substations?

A. Yes. We reviewed the Company's exhibits and work papers specific to those projects and also compared the Company's past budgets to its actual expenditures and related that information to the Company's proposed budgets (DPS-466).

Q. Are there any system reliability projects or programs proposed by the Company the Panel found were not justified or that warrant adjustments?

A. Yes. While we support many of these programs, either based on a comparison of past

expenditures to budgeted amounts for certain existing programs, or the Company's lack of justification for its proposed budgeting on certain of its new programs, we propose budget adjustments to several of the Company's proposed programs. Although the Company is accelerating many of its existing programs and adding new programs in an effort to address its aging infrastructure, load demand, growth and system-wide reliability, the Company has known about these major issues for several years. For this reason, this, our specific recommendations are, in part, made to ameliorate rate impacts while allowing the Company to address its system-wide problems.

Q. Please discuss the specific programs.

A. The programs are as follows:

1. Obsolete Transformer Replacement Program: Although this program is justified, we recommend that the $17.2 million budgeted for 2008 be reduced to $15.0 million based on the Company's historic under-spending compared to its budget from the program's inception in 2005. In 2005,

the Company's actual expenditures were $2 million below its projected budget, and in 2006 the Company under-spent its budget by almost $3 million. Furthermore, we note the Company has only budgeted $10.3 million for this program in 2007. Therefore, the $15.0 million recommended herein not only addresses the Company's past budget versus expenditures experience, it would still provide the Company with significantly greater funding than is budgeted for this program in the current year. (DPS-121)

2. Spare Transformer Program:

As noted, on August 8, 2007 the Company provided Staff an addendum to its initial filing. In this addendum, the Company increased the Spare Transformer Program's proposed expenditures from $16.5 million to $21.2 million for the rate year. Staff sent out information request DPS-498 to which the Company responded on August 30, 2007. The response, however, was limited and did not provide any new information pertaining to the rate year justifying the proposed expenditure increase, or adequately

supplement information received in response to our prior information request, DPS-440. Therefore, we have not considered the proposed expenditure changes submitted in August. Although this program is justified, we recommend that the $16.5 million budgeted for 2008 be reduced to $14.0 million. Our adjustment is based on the Company's expected future expenditures, which decline from $16.5 million in 2008 to $12.0 million in 2009 and 2010. Our adjustment to the $14.0 million level for 2008 averages out future expenditures while still allowing program acceleration as compared to the Company's historic expenditure levels. (DPS-292)

3. Category Alarms Program:

Although this program is justified, we recommend that the $2.25 million budgeted for 2008 be reduced to $1.0 million. Our recommendation here is based on the Company's failure to achieve its budgeted amounts for the last several years. Additionally, the Company did not spend more than $812,000 in any of the past three years. Because of the lower historic

expenditure levels and the lack of a Company justification as to how it expects spending in this program area to almost triple, we recommend a budgeted level of $1.0 million, which is still above the recent historic experience. (DPS-123)

4. Remote Terminal Unit (RTU) Replacement Program:

Although this program is justified, we recommend that the $3.0 million budgeted for 2008 be reduced to $2.0 million. Our recommendation here is based on the fact that the Company budgeted $1.0 million in 2006 and 2007, made no actual expenditure in 2006, and its 2007 expenditures are currently unknown. Given the absence of any expenditure experience, we recommend an allocation of $2.0 million, which is below the Company's amounts, but takes into consideration the lack of data regarding any historic expenditure levels. (DPS-123)

5. Substation Loss Contingency Program

Although this program is justified, we recommend that the $2.0 million budgeted for 2008 be reduced to $1.0 million. Our adjustment is

based on the Company's historic expenditures which were less than $300,000 in 2004 and subsequently reduced to $0 in both 2005 and 2006. Our $1.0 million allocation recognizes that the Company may in the past have needed to divert money from those budgeted amounts elsewhere. (DPS-123)

6. Enhancing Substation Reliability Program

Although this program is justified, we recommend that the $12.5 million budgeted for 2008 be reduced to $10.0 million. Our recommendation is based on the Company's 2008 budget being more than double its 2007 $6.1 million budget, and despite the fact that its 2007 budget was lower than its actual 2006 expenditure of $7.75 million. Our recommendation essentially recognizes that historic expenditures and budgets have remained well short of the $10.0 million we propose herein, thereby making an allowance for program acceleration. (DPS-124 and DPS-145)

7. Facility Improvement Program:

We recommend that the $6.0 million budgeted for

2008 be eliminated. This program appears to be redundant with the Company's Small Capital program. Both programs include structural improvements, paving, heating, lighting, flooring, and other similar improvements. Moreover, the Company's response to DPS-145 provided examples of projects in this category that were more appropriately placed in other programs. For example, the Company's high voltage test sets for Parkchester and fire protection system upgrades at Dunwoodie would more appropriately fit under the new High Voltage Tests Set program and Transmission Capital, not under Substation Facility Improvements. Without further justification or the refuting of double counting, we recommend no allocation for this proposed program at this time. Inasmuch as the Company provided no historical spending or budgeting data for this area. We have no basis on which to make any adjustment other than elimination. (DPS-125 & 145)

Distribution

Q. Have you reviewed the distribution programs under the category of Improve System Reliability?

A. Yes. Our review was informed by Staff's Long Island City/Westchester outage investigations which revealed many areas in both the Company's underground and overhead networks that are in need of reinforcement work or equipment replacement. The Company proposes the following major programs to improve its distribution reliability.

Primary feeders

This program is similar in nature to that of the distribution primary feeder load relief work. This reliability program, however, deals with the emergency replacement of 4kV, 13 kV, 27 kV, and 33kV feeders that fail while in service. Based on review of the Company's system-wide 2005 and 2006 feeder failures, we found that 61% percent of the feeders failed from impaired cables and joints. Such failures must be repaired during emergencies to avert potential system-wide instability, leading to overload,

which could eventually lead to a complete system shutdown. We found that the Company's proposed budgeted amount is consistent with previous spending levels and recommend no adjustments to this program area.

Secondary Cables (Mains and Services)

This program involves the emergency replacement of secondary cables, including mains and services that are key components to the performance of the secondary network. Staff determined in its Long Island City Network outage investigation that the secondary cables revealed a high percentage of burnouts. In addition, a review of the Company's Annual Manhole Reports indicated that more than half of the Company's manhole incidents since 2001 were a result of secondary main burnouts, resulting in serious personal injury and property damage. One of the issues the Company faces is that the secondary open mains tend to occur at a greater rate than the number of repairs thereto. As a result, there is a constant repair backlog, and in an effort to reduce this backlog, the Company

has increased its spending each year since 2004. In 2007, the Company has thus far spent over $87 million further reducing the repair backlog. This program includes other cable programs related to Services. For example, temporary service hookups required while working on permanent repairs, as well as repairs on cables and associated conduits for street lights are important. For these reasons, we recommend no adjustments to the $92 million budget for the Secondary Cables (Mains and Services) programs.

Underground Secondary Reliability

This capital program addresses the reinforcement of secondary cables and mitigation of manhole events in Con Edison’s aging underground system. During its investigation of the Long Island City Network outage, Staff found that many of the secondary mains and service cables failed due to degradation and overloaded conditions. Overloaded secondary cables can cause manhole events such as explosions and carbon-monoxide conditions, both of which threaten public safety. In part, this program replaces solid

with vented service box covers as a way of mitigating explosions and carbon-monoxide buildup. Our review found that the Company has only been cursorily addressing its secondary system issues essentially in conjunction with emergency work done as part of the Secondary Open Mains program. Such work is inadequate to resolve the Company's problems with secondary mains and services. Because of this, Staff recommends no adjustments be made to the Company's proposed capital spending of $71 million on the Company's Underground Secondary Reliability Program.

Network Reliability (De-bifurcation)

This program involves the Company's attempt to relieve the loading on primary feeders through de-bifurcation, which increases the number of feeders available within a network. This is accomplished by splitting an existing feeder into two distinct feeders. The resulting redesign of the feeder positions allows for more balanced loading during normal conditions. In turn, the availability of more feeders during

multiple contingencies can mitigate cascading feeder failures. Because de-bifurcation of feeders will help prevent critical multiple contingencies during peak summer periods, we recommend that no adjustments be made to the Company's proposed capital spending of $18 million on the Network Reliability (Di-bifurcation) program.

Transformers

Con Edison is proposing transformer replacement programs for transformers operating at the following levels:

1. transformers operating above 125% of their normal and emergency ratings;
2. transformers operating between 115% and 125% of their normal and emergency ratings; and
3. transformers operating between 100% and 115% of their normal and emergency ratings.

Con Edison's proposed budget for the first two transformer replacement programs are appropriate, and based on historical spending we recommend no adjustments be made to those programs. We do not find that the Company's

budgeted amount for replacing transformers operating between 100% and 115% is justified. We do not find Con Edison's claim that it needs this program because of fewer numbers of required replacements for all transformers operating above 115% to be persuasive. The Company has provided no record of historical spending for replacement of transformers operating between 100% and 115%. Accordingly, we recommend that the budgeted amount for the transformers operating less than 115% be reduced to $25.733 million in labor and $31.215 million in purchases.

Remote Monitoring System (RMS)

This program involves Remote Monitoring System devices which are placed in a network protector to monitor critical transformer performance data. New generation RMS units can provide voltage readings, oil temperature, oil level, and tank pressure. Such data can better inform operators about the state of the transformers, allowing for better operating decisions regarding the network system. Upon our review,

we recommend no adjustments be made to the Company's budget amount of $20.6 million in the rate year.

PILC (Paper Insulated Lead Cover) Cable

Prior to its last rate case, 04-E-0572, Con Edison made minimal effort to remove the PILC cables remaining in its system. Staff did not find the Company's performance acceptable and the Company now proposes to accelerate its removal of PILC cables, resulting in the date of completion moving from 2024 to 2020. Con Edison proposes a budget of $39 million per year to achieve this goal, requiring it to remove 900 additional sections of PILC cables per year. Despite the Company's acceleration of the program, we do not find that the Company's proposed budget is justified and recommend a $9 million reduction to more appropriately reflect the increased number of PILC sections to be removed each year.

Public Safety & Environmental

Q. Have you reviewed the Company's proposal for addressing public safety?

A. Yes. As part of the Safety Standards directed in Case 04-M-0159, the Company has included proposals for its stray voltage testing and inspection programs. Under the Stray Voltage Testing program, Con Edison must inspect all of its electric facilities, streetlights, and metallic attachments for stray voltage. For the inspection program, Con Edison must conduct a visual inspection of its overhead and underground system on a five year cycle.

Q. Has the Company provide to Staff its analysis of stray voltage causes and implemented remedial measures to prevent such occurrences?

A. Yes. In fact, the Street Light Isolation Transformer program developed from the Company's analysis.

Q. What is the Street Light Isolation Transformer program?

A. The Street Light Isolation Transformer began as a pilot program handled jointly with New York City Department of Transportation (NYCDOT). This program was created due to the frequency of stray voltage cases associated with street

lights. An installed Isolation Transformer prevents the presence of stray voltage from faulty electrical wires.

Q. What is the Panel’s position on the Company’s proposal for this program?

A. The Company proposes to install these units in the base of street lights on a four year plan, which is expected to eliminate approximately 78% of the stray voltage conditions. This also enables NYCDOT to easily access the transformers for maintenance as described in DPS-323 and DPS-493. Our review found this program justified, however, we believe that the Company's program needs refinement. We recommend that the Company’s proposed funding be made available; however, it should be clarified that it is solely the Company’s responsibility to install these transformers in the service box and to maintain them for increased safety, not NYCDOT.

Q. Does the Company propose any other projects related to safety?

A. Yes. The Company has proposed a project to reduce the severity of manhole events. Under

this program, Con Edison replaces solid manhole covers with vented covers. This enables the release of combustible gases, which if not released, can elevate the danger of manhole events. The Company's program is scheduled to be completed during the first rate year. However, considering the planning, work, uncertainty, and time required to complete the remaining non-standard covers. (DPS-302 and DPS-458)

Q. What is Staff's position on the Security Enhancement program?

A. We believe that improving the security system of the utility is always of utmost importance. We encourage the Company to continually assess its security for any weakness. Our review of Con Edison's proposal reveals that from 2004 to 2006, of the $450,000 budgeted for security enhancements, no dollars were spent. (DPS-466) We do not find this to be acceptable; however, based on past performance we recommend that the $4.1 million requested by Con Edison be adjusted to $2 million. Additionally, any of the $2 million not spent towards security enhancements

should be returned as a credit to customers in the Company’s next rate case.

Q. Have you reviewed the Company's proposals under its Environmental category?

A. Yes. Our review found that, as with security enhancements, Con Edison’s actual expenditures were not aligned with budgeted amounts between 2004 and 2006 (DPS-466). Our recommended adjustments were determined by taking the average actual expense (2004 to 2006) and increasing it by half the difference between the proposed amount for the rate year and the average actual expense. This amount will allow Con Edison to pursue these projects over an extended period of time. We recommend that the Pumping Plant Improvement program be decreased to $5 million from the $8.5 million proposed, and that the Environmental Risk program be reduced to $2 million from the $3.5 million proposed.

Q. Are there any other capital adjustments under Public Safety and Environment?

A. We also recommend that the Company's Oil Minders environmental program be reduced to $500,000 from $600,000 to be more aligned with 2004 to 2006 actual expenditures (DPS-466).

Storm Hardening & Response

Q. What is the Panel's assessment of the Company's storm hardening and response proposals?

A. After recognizing the impact that storms can have on the distribution system and customers, especially over the past three years when the overhead system has been exposed to more frequent storms, we find it understandable that a majority of the capital investments under storm hardening and response is programmed towards improvements to the overhead system design, and equipment advancements to decrease recovery time after the storm has passed. Major projects under this section include installation of switches, splitting and upgrade of auto-loops, relocation of poles, advancement in monitoring capabilities, and transformer purchases.

Q. Are all these projects under storm hardening and

response justified by the Company?

A. Yes. Upon our review, we found them to be mostly justified. We do, however, have a concern regarding the level of implementation of all these programs based on actual expenditures compared with budgeted expenses for the past three years, and in the number of new programs proposed. (DPS-466) In addition to our recommendations detailed hereafter, we recommend that any funds not used be credited to ratepayers.

Q. What are your recommended adjustments to the storm hardening and response projects?

A. The Panel has made adjustments in the following areas:

1. Osmose Utility Services, Inc. (C-Truss under DPS-371). The Company proposes to change its 12 year cycle of pole inspections to 10 years to be in line with industry practices. From our review, the Company has forecasted a rejection rate for poles that is above the actual historical rejection rate. This has resulted in the Company budgeting for C-Truss

at levels that are not commensurate with past expenditure levels. We recommend an adjustment, which was derived by first taking the highest reported actual expense, found in 2006, and prorating for a 10 year cycle. Second, we increased this amount by half the difference between the calculated value in the first step and the proposed funding. The recommended amount is $1.3 million; a decrease from the proposed $1.7 million.

2. For the following programs we found that the actual historical expense was found to be lower than budgeted. Therefore, we recommend adjustments by splitting the difference between the average actual expense and the Company’s proposed funding.

   a. Auto-loop Reliability. (DPS-367 and DPS-466) This includes a plan to split seven existing auto-loops into 14 auto-loops and enlarge two smaller load capacity auto-loops. We recommend reducing the Company’s funding request from $7.9 million to $6 million.

b. #4, #6 Self Supporting Wire. (DPS-381 and DPS-466) This program covers replacement of these wires on a 20 year plan due to the aging and deterioration that occurs over that span. We recommend reducing the Company's funding request from the $3.4 million to $2.3 million.

3. Three Phase Gang Switch Replacement. (DPS-400) The Company plans to replace defective switches based on an estimated amount of old and mechanically deficient devices. Based on the past 10 years of replacement data, the number of switches that actually required replacement is not consistent with the Company's estimated 20% replacement. Therefore, we recommend splitting the difference between the average actual number of replacements and the 20% estimated rate of replacement. This results in an adjustment reducing the Company's proposed $400,000 to $300,000.

4. Rear-Lot Pole Elimination. (DPS 397) This program involves the elimination of poles

located in the rear of customer's homes. The Company plans to relocate such facilities over 20 years. We believe that this program does provide a benefit, although when compared to other programs we found it to be non-essential. Therefore, we recommend a reduction to half of the Company's proposal for a total of $1.2 million.

5. Enhanced 4 kV Grid Monitoring. (DPS-368) This program covers installation of a more advanced power quality and battery monitoring system at 4 kV Unit Substations to eliminate manual testing and inspection and provide enhanced monitoring and alarm functions. In January 2007, the Company submitted a budget estimate of $425,000 per year for this program in response to Staff's investigation of the Long Island City outage. (DPS-466) This has increased by $1 million for the first rate year. The Company has not provided sufficient basis for the need to increase funding by $1 million. We recommend an adjustment by splitting the difference

between the Company's January budget estimate and the proposed funding submitted for the rate year. Our adjustment results in a reduction to $1 million from the Company's $1.5 million requested.

6. Four kV UG Reliability. (DPS-379) Con Edison proposes a 15 year program to replace cables with failures, which the Company has estimated to be 62% of total current 4 kV primary risers. Our review of how the Company derived a failure rate of 62% was found to be mathematically incorrect based on the Company's explanation in DPS-379. Accordingly, we recommend reducing by half the funding for this program, resulting in a total of $600,000.

7. Overhead Secondary Reliability Program. (DPS-404) This program replaces old, bare, and undersized overhead secondary wires. Based on DPS-404, the average replacement cost has increased by 100% with no basis for this significant increase from 2006 cost. Therefore, we recommend an adjustment by

splitting the difference between the 2006 actual expense and the proposed funding. Our funding adjustment results in a reduction to $320,000 from $500,000.

8. Transformer Purchase. (DPS-364) This program covers transformers and other associated equipment used for a storm event. Because Con Edison did not track this item separately in the past, and because its necessity is dependent on the number of storm events, the amount of transformers to be purchased is uncertain. Based on the foregoing and prorated 2007 expense, we recommend an adjustment decreasing the Company's proposed funding to $8 million from $8.56 million.

Advanced Technology

Q. Have you reviewed all the projects and programs listed under the category Advanced Technology?

A. Yes. Our review included examination of all the exhibits and work papers associated with each project to get a better understanding of the Company's justification for each project. Additionally, through information requests, we

have requested and analyzed the Company's past budgets and actual dollar amounts spent on each project and compared that information to the future estimated expenditures identified within the Company's filing. (DPS-466) We conclude that each of the base programs is warranted and justified. We do, however, have a concern regarding the level of implementation of all these programs based on actual expenditures compared with budgeted expenses for the past three years, and on the number of new programs proposed. In addition to our recommendations detailed hereafter, we recommend that any funds not used be credited to the rate payers.

Q. Are there any projects or programs in the category Advanced Technology proposed by the Company that warrant expenditure adjustments compared to what the Company has requested?

A. Yes. After reviewing the proposed expenditures for the Advanced Technology programs over the three years proposed by the Company, several programs had much higher dollar amounts allocated to the first year, which then dropped

consistently over the next two years. Although we believe these programs are justified, because of the lack of historical expenditure data to compare with the Company's proposed budgets, we are not convinced that the Company's proposed expenditure trending is appropriate. Therefore, for the programs listed below, we recommend rate year levels arrived at by taking the average of the proposed expenditures for 2008 through 2010.

Secondary Visualization Model (SVM) program: We recommend an adjustment from the proposed amount of $5.2 million, down to $3.7 million.

Distribution Control Center Upgrades program: We recommend an adjustment from the proposed amount of $5.0 million, down to $2.67 million.

SCADA system program: We recommend an adjustment from the proposed amount of $1.5 million, down to $1.0 million.

Q. Are there projects or programs with which the Panel has identified concerns in terms of the Company being able to complete the proposed tasks within the rate year?

A. Yes. We are concerned about the Secondary Monitoring (Secondary Model Validation) and the Mapping System Upgrade programs. Staff found in its investigation of the Long Island City Network outages that Con Edison had not made measurable advances in secondary system monitoring programs as recommended after the 1999 Washington Heights outages. Since 1999, although the Company has apparently made efforts to develop secondary monitoring tools, it has little or no results to demonstrate from such efforts. The Company again is proposing a new secondary modeling system in an effort to put in place a useful and functioning secondary monitoring system. The Company has proposed a rate year budget of $10.4 million for secondary monitoring and $4.0 million for the mapping systems upgrade. (DPS-490) Both of these programs require a major effort to meet the schedules proposed by the Company. Additionally, the secondary monitoring remote transmitting units (RTU) are relatively untested and the Company is in the process of identifying

the best and most effective means of transmitting the data from the RTUs back to the control centers, which remains as the largest obstacle facing the Company to effective use of these devices. The Company is currently testing different RTU communication technologies with pilot programs in specific networks throughout their system. Additionally, the mapping system upgrade needs to be in place to ensure the information being received from the secondary monitoring RTUs is represented accurately to the control center operators. Although we think that both of these programs are warranted, given the Company's lack of results over the past years, the size of the tasks at hand, and the fact that the secondary monitoring technology is still in question at this time, we have serious concerns about the Company completing its proposed goals. Therefore, we request the Company provide Staff with detailed reports including schedules for each project, with specific milestones and deadline dates that they plan to meet in order to complete the programs

as proposed. Thereafter, the Company should provide quarterly update reports to Staff with the status of each program and any proposed changes to the schedule.

Process Improvement

Q. Have you reviewed all the projects and programs listed under the category Process Improvement?

A. Yes. We have reviewed all the exhibits and work papers associated with each project to get a better understanding of the purpose and justification of each project. Additionally, through information requests, we have requested and analyzed the Company's past budgets and actual dollar amounts spent on each project and compared that information to the future estimated expenditures identified within the Company's filing. (DPS-466) We have concluded that each of the base programs is warranted and justified. We do, however, have a concern regarding the level of anticipated expenditures particularly when we compared the Company's historic actual expenditures to what it had budgeted for many existing programs, as well as

for a number of new programs for which no historic expenditure data exists. In addition to our recommended adjustments, we also recommend that any funds not used be credited to the ratepayers, as we mentioned earlier in our testimony.

O&M Expenses

Q. Have you examined the Company's proposal for O&M expenditures in the areas of transmission, substations, and distribution?

A. Yes. We examined Con Edison’s proposed O&M program changes as outlined in Exhibits ___ (IIP-3), ___ (IIP-6), and ___ (IIP-8), with the exception of those changes related to interference. We also reviewed the details of program changes the Company identified in its responses to Staff Information Requests DPS-327, DPS-328 and DPS-329.

Q. And did you make any findings based on your review?

A. Yes. We found that Electric Operations O&M program expenditures have increased dramatically since 2006 because of increased activity in the

categories of Improve Reliability, Public Safety and Environmental, and Storm Hardening and Response. These programs are an outgrowth from the investigations into the Westchester and Long Island City Network outages and the Commission's Order on Safety Standards. In general, we found that the O&M expenses for the categories of Improve Reliability and Storm Hardening and Response are justified.

Q. What did you find to be the basis for the increase in Public Safety O&M expenses?

A. The Company, in response to the Commission's Safety Standards, established numerous programs which caused increases in the O&M costs for the category of Public Safety and Environmental. $63.8 million, of the $76.8 million projected by Con Edison for the rate year, can be attributed to programs related to the Commission's Safety Standards, which represents an increase of $42.5 million from the 2006 budget for these programs. The programs include the subcategories of Stray Voltage testing, Mobile Detectors and the Underground and Overhead Stray Voltage

Inspection programs.

Q. How did Con Edison justify such a substantial increase from its 2006 budget for these programs?

A. The Company claims that it needs a $23.9 million increase from its 2006 budget to maintain a five-year cycle for the underground inspection program. The Company states that such an increase is necessary based on the number of "unique inspections" it is required to make under this program. The Company also states that other increases are linked to manpower expense associated with handling the increased number of stray voltage cases discovered, as well as for unaccounted expenses not previously considered in its past budgets, such as quality assurance testing. Con Edison further attributes an increase of $7.4 million in O&M expenses for the Sarnoff device due mainly to stand-by costs. The Company has increased its budget for its Annual Stray Voltage Testing Program by $5.7 million, also based on what the Company claims are previously unaccounted

expenses.

Q. Does the Panel agree with Con Edison's alleged justification for these increases?

A. No. We find that the need for such a drastic funding increase has been caused by the Company's poor planning for these programs. We recommend that Con Edison schedule in "unique inspections" on a regular basis to prevent such inspections from causing uncharacteristic expenditures in any single year.

Q. Apart from Con Edison's projected cost increases, has the Company demonstrated a need for these actual programs?

A. Yes. The Company, in its 2006 Stray Voltage Detection and Electric Facility Inspection Report notes that it has identified over 1,400 stray voltage cases.

Q. Does the Panel recommend any changes in the Safety Standards or methods used to meet those Standards?

A. We make no recommendation here, because any changes to the operation of this program will be handled under Case 04-M-0159. If any such

changes result in a decrease in approved funding or elimination of a program approved in the rate case, the difference in funding should be credited to Con Edison's customers.

Q. What is Staff's position on the Sarnoff device?

A. Con Edison has already purchased 15 vehicles able to detect levels of electric fields (stray voltage) in its underground electric system more quickly than manual testing. The Company based the need for these 15 vehicles to enable a scan of the entire underground system in the week after a snow event. (DPS-327) The Panel finds that this is insufficient justification for such a high funding request. Overall, the frequency of vehicular usage found in DPS-327, is low. The standby cost, which accounts for more than 60% of the Sarnoff O&M funding requested for the upcoming rate year is unreasonably high considering the frequency of vehicular usage.

Q. Is there a proposed adjustment for the Sarnoff device?

A. No. We recommend, however, that Con Edison be required to file a report:

1. reassessing the expenses of this program to reduce the costs associated with stray voltage cases found, especially as related to the program's standby cost; and
2. reassessing its current operation to optimize utilization of its current fleet of vehicles;

The Company's report should be filed with the Department two months after the Commission's Order adopting a rate plan in this case. If the Company fails to reassess its costs adequately, funding for the program should be credited to the Company's customers. Additionally, any decreases in program costs resulting from the Company's reassessment should likewise be credited.

Reliability Performance Mechanism

Q. What is the Company's position on the reliability performance mechanism (RPM)?

A. Con Edison states that pre-determined sanctions are not needed for the Company to fulfill its responsibilities to the public. They are opposed to the RPM because negative rate adjustments deplete resources available to the Company to

address system needs; outages that trigger such adjustments can be a result of circumstances outside the Company's control or unpreventable occurrences; and superior performance results in higher standards and targets. The Company believes that adverse financial and public relations resulting from an avoidable event and good work ethics drive Con Edison's performance.

Q. What does the Company propose?

A. Con Edison requests that all existing negative rate adjustment mechanisms end without replacement. The Company proposes that performance standards and reporting requirements remain. The Commission can then take appropriate action on an individual basis where the Commission believes the Company was at fault. They also propose that the Commission should focus on investments in infrastructure and other programs aimed at improving reliability and safety.

Q. Does the Panel agree with the Company's position and proposal?

A. No. As the Commission stated in Opinion No. 96-12, it has a preference for performance-based regulation wherever a monopoly remains. So long as the Company's delivery service remains a monopoly, there needs to be clearly defined consequences to the Company for failing to provide good customer service. RPMs provide earnings consequences to shareholders for the quality of service provided to its customers. This is separate from the funds used to address system needs. Presently, RPMs are in effect at all of the major electric utilities that link earnings directly to their performance on specific measures of electric service reliability. Targets are set at levels that indicate problems or degradation in service. The Company is given the opportunity to justify on a case by case basis events that are out of its control and that they think should not hinder their performance level.

Q. Has the Panel prepared an exhibit that summarizes its proposed RPM?

A. Yes. Exhibit ___ (SIP-3) is a document entitled "Electric Service Reliability Performance Mechanism" which summarizes our recommendations for the proposed metrics, target levels, and potential negative revenue adjustments for failure to meet the targets.

Q. How is the RPM organized?

A. The RPM has three categories: overall reliability, restoration, and special projects. Each category contains individual measures which are used to monitor the Company's performance. Measures within the overall reliability category are based on the methodology used in Appendix E of the rate plan approved by the Commission in Opinion No. 00-14.

Q. What measures are used in the overall reliability category?

A. The overall reliability category uses the System Average Interruption Frequency Index (SAIFI or frequency) and Customer Average Interruption Duration Index (CAIDI or duration) measures. Targets will be set for the Company's network

and radial system annual performance. In addition, there is a major outage mechanism.

Q. What network and radial targets are proposed for frequency and duration?

A. The proposed frequency targets are 0.015 for network and 0.500 for radial. The duration target is 3.35 for network and 1.75 for radial. These targets have not changed from the previous reliability mechanism.

Q. Has a review been done of the appropriateness of these targets?

A. Yes. A review of Con Edison’s performance shows that under normal operation the Company has performed better than the targets set, and in cases where the Company is experiencing a serious problem, such as the Long Island City outage, the Company can not meet these thresholds. These targets are indicative of long-term trends, which is our primary focus.

Q. What is the revenue adjustment for the overall reliability category and how does this compare to the previous reliability mechanism?

A. The previous mechanism had an annual exposure of $48 million, of which $18 million is for frequency and duration and $30 million for major outages. The proposed mechanism has a maximum revenue adjustment of $20 million for frequency and duration bringing the total annual exposure to $50 million.

Q. What is the basis for the increased exposure?

A. The increased financial exposure under our proposed RPM is to ensure both frequency and duration has the same financial impact. This results a $5 million revenue adjustment for each network and radial for duration, as set for the frequency standard. The Company should place adequate attention and resources to meet the proposed target levels.

Q. What measures are used in the restoration mechanism?

A. This new mechanism uses Restoration time as the means to measure the Company’s performance. Thresholds are set for the Company’s overhead and underground emergency events for Upgraded to Full Scale emergency categories.

Q. What is the reason for adding this mechanism?

A. Throughout the calendar year, the utility Company may experience storms or other events that result in outages to customers served. For each outage event, an estimated restoration time should be derived by the Company. This information is the basis for determining the number of resources needed to complete a job, gauges the performance of the Company, and provides customers with an expectation of when electric service will be returned. Throughout Con Edison’s history, there have been many cases where restorations times were not derived in adequate time, not provided to customers, or not adhered to by Con Edison. The Company has failed to provide, adhere, and inform customers of restorations times during the recovery period of an emergency event. Restoration time is critical. The restoration targets are set based on location and storm category.

Q. What is the revenue adjustment for the restoration mechanism?

A. The rate adjustment for the proposed restoration mechanism is $5 million per event with unlimited exposure.

Q. What measures are used in the special projects category?

A. The previous set of special projects contains measures for completion of work associated with double poles, shunts, street lights, and over-duty breakers. A new addition to the special projects is the Remote Monitoring System.

Q. Why have the previous special projects remained as part of the measures?

A. These special projects are areas where the Company previously failed to complete work under its own initiative. The use of a rate adjustment for failure to complete this work in the future will continue exert pressure on the Company.

Q. What is the revenue adjustment for the previously installed special projects and how does this compare to the prior reliability mechanism?

A. The proposed RPM increases the rate adjustment by $1 million for special projects.

Q. What is the basis for this increase in exposure?

A. This increase was determined by increasing the revenue adjustment of “No Current Street Lights and Traffic Signals” to have an equivalent exposure as the level previously established for special projects.

Q. What is the reason for adding the Remote Monitoring System as a mechanism?

A. Prior to the Long Island City event, Con Edison’s operating procedure required that a minimum of 95% of total Remote Monitoring System is reporting properly in each network. This enables its control room operators to gain sufficient information about the status of the network system. It has been found that the Company has operated below this reporting rate resulting in Con Edison running its system with an increased level of uncertainty. In addition, it has taken the Company a long period of time to get their system at a state where the Remote Monitoring System can report at a 95% rate.

After the Long Island City event, a revision has been made to the Company's procedure from "minimum 95%" reporting rate to "a goal of achieving 95%". The network system is very complex and below ground, which makes it hard to monitor. It is critical that Con Edison set and meet the standards and not simply change the wording of its standards to make it easier to operate their system at a risk.

Q. What is the adjustment exposure for the Remote Monitoring System mechanism?

A. It is $10 million for each network not at a 95% reporting rate as required by the Company's specification.

Q. Does the Panel propose to continue the exclusion provisions of the RPM adopted in Opinion No. 00-14?

A. Yes. The exclusion provisions identified in Appendix E to Opinion No. 00-14 should continue to apply without change.

Q. Does the Panel's proposal have any positive revenue adjustments?

A. No. The purpose of this RPM is to ensure that an appropriate level of reliability is provided to customers and that the Company fulfills its commitment to capital improvements and O&M.

Q. Does this conclude the Panel’s testimony?

A. Yes.