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 Staff Rate Panel
Testimony of:

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Q. Please state your name, title, employer, and business address.

A. Marco L. Padula, Utility Supervisor, Stephen A. Berger, Utility Consumer Program Specialist 4, Liliya A. Randt, Utility Engineer 1. We are employed by the New York State Department of Public Service (Department). Our business address is Three Empire State Plaza, Albany, New York 12223-1350.

Q. Mr. Padula, please briefly state your educational background and professional experience.

A. I received a Bachelor of Science Degree in Electrical Engineering from Northeastern University in 1990 and Master of Business Administration from Rensselaer Polytechnic Institute in 1998. From 1990 to 1994 I was employed by IBM as an Electrical Engineer responsible for the design and development of high performance power/thermal control systems for mainframe computers. In 1994 I joined the Department.

Q. Please briefly describe your current responsibilities with the Department.

A. My current responsibilities include electric and steam utility revenue allocation and rate design, computer simulation of electricity production, transmission and pricing, and wholesale electric market issues. I also serve as Staff co-leader on the Con Edison electric and steam rate cases.

Q. Have you previously testified before the New York State Public Service Commission (Commission)?

A. Yes. I have testified on operating and maintenance expenses in Cases 94-G-0885 and 03-S-1672 and on embedded cost of service studies and rate design in Case 04-E-0572, Case 05-S-1376 and the Stand-by Service proceedings.

Q. Mr. Berger, please briefly state your educational background and professional experience.

A. I received a Bachelor of Science degree from the Rensselaer Polytechnic Institute in Troy, New

York (RPI) in 1975 and a Master of Science degree from RPI in 1987. I am a member of the national mathematics honor society, Pi Mu Epsilon. From 1979 until 2001, I was employed by the New York State Consumer Protection Board in various positions, ultimately as Associate Utility Rates Analyst. From 2001 through the present, I have been employed by the Department.

Q. Please briefly describe your current responsibilities with the Department and previous responsibilities with the Consumer Protection Board.

A. In my work with the Department of Public Service I have been responsible for analyzing a number of policy issues: including stand-by rates for distributed resources, utility commodity hedging portfolios, renewable portfolio standards, purchase of receivable (POR) programs, advanced and competitive metering, cost allocation and rate design, unbundling of utility services, unbundled utility bill formats, and implementation of changes to the Home Energy

Fair Practices Act (HEFPA). In my previous position with the Consumer Protection Board, I was responsible for analyzing issues related to competitive energy and telecommunications policy, cost recovery, sales forecasts, revenue allocation, rate design, consumer protections, as well as other miscellaneous issues.

Q. Have you previously testified before the Commission or other regulatory agencies?

A. I have submitted testimony in over 50 energy-related proceedings before the Commission on numerous topics including, revenue allocation, rate design, standby rates, unbundling and other issues related to retail competition. I also served as co-chair of one of the four main committees in the 00-M-0504 Competitive Markets Proceeding and participated in and contributed to the other three committees.

Q. Ms. Randt, please briefly state your educational background and professional experience.

A. I graduated magna cum laude from the State University of New York Institute of Technology

at Utica with a Bachelor of Science degree in Mechanical Engineering Technology in May 2004. I also received a Master Degree in Civil Engineering from Poltava Technical University, Ukraine in 1997. I began my employment with the Department in April 2005 and currently hold the title of Utility Engineer 1. While with the Department, I have prepared, analyzed, and reviewed reports and studies involving operating revenues, sales forecasts, operation and maintenance expenses, embedded costs, revenue allocation, and rate design. My duties include engineering analyses of utility rate, pricing, and tariff proposals.

Q. Have you previously testified before the New York State Public Service Commission?

A. Yes, I testified in the Consolidated Edison Company of New York, Inc. steam rate case (05-S-1376) regarding the embedded cost of service study, rate design, and other revenue requirement issues and in the Freeport Electric rate case (06-E-0911) regarding capital

expenditures, depreciation, and rate design. I also testified in the recent Orange and Rockland, Inc. electric rate case (06-E-1433) regarding the delivery revenue forecast.

Q. What is the scope of your testimony in this proceeding?

A. Our testimony will address the following: (1) the Company's Embedded Cost of Service (ECOS) study; (2) revenue allocation; (3) rate design; (4) price out of Staff’s sales forecast; (5) unbundling of competitive services; and (6) the Monthly Adjustment Clause (MAC) and the Market Supply Charge (MSC).

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

A. Yes. We will refer to, and have relied upon, responses to Staff Information Requests and responses to Information Requests from the City of New York. Copies of those are attached as Exhibit__(SRP-1).

Q. Is the panel sponsoring any other exhibits?

A. Yes. We are sponsoring Exhibit__(SRP-2), Exhibit__(SRP-3), Exhibit__(SRP-4) and Exhibit__(SRP-5).

Embedded Cost of Service Study

Q. Did the Panel examine the ECOS study submitted by the Company?

A. Yes.

Q. Please briefly describe the purpose of the ECOS study.

A. The ECOS study allocates the Company's costs to the full service, New York Power Authority (NYPA) and Economic Development Delivery Service (EDDS) service customer classes based on an analysis of the rate base and operating expenses for the calendar year 2005. There are three major steps in an ECOS study: (1) the functionalization of costs, such as to production, transmission and or distribution; (2) the classification of costs among demand, energy, or number of customers; and (3) the allocation of each classified function to the individual service classes based on selected

characteristics. The final output of the ECOS study is a summary of the overall system and individual class rates of return. This provides an indication of the extent to which each class contributes to the total system rate of return.

Q. Please describe the functional classifications used in the Company's study.

A. The Company's primary functional classifications are Production, Procurement, Transmission, High Tension, Low Tension - Demand, Low Tension - Customer, Services, Meter Service Provider, Meter Installation, Meter Ownership, Utility Metering, Street Lighting, Customer Accounting and Collecting and Customer Service, Meter Data Service Provider, Printing and Mailing a Bill, Receipts Processing and Uncollectibles. Certain of these primary functions are further broken down into sub-functions such as Underground Low Tension - Customer, Overhead Low Tension – Customer, Underground Low Tension - Demand and Overhead Low Tension - Demand.

Q. Do you accept the Company's classification and functionalization of costs?

A. Yes. The Company has expanded the traditional list to include those that have allowed it to separately determine the embedded cost of competitive functions such as procurement, meter service provider, and meter ownership. In addition, the Company has reflected the methodology agreed to in the Memorandum of Understanding on Embedded Cost of Service Study, dated March 17, 2006, that resulted from the ECOS collaborative that was held under the Company's current rate plan.

Q. What class characteristics does the Company use to allocate the costs, in each of the defined functions, to each class?

A. The Company's specific allocation factors are presented in Table 7 of its Exhibit__(ERP-1). The general characteristics that it used are: the summer system peak responsibility (based on the highest five day, four-hour averages); the annual kWh send-out, the class maximum non-

coincident (non-coincident with the system peak) demand (NCP), the class sum of individual customer billing demands (ICMD), the number of services installed for each class, the number of customers in each class.

Q. How does the Company determine which of these class characteristics to apply to the various costs?

A. The Company describes this process in response to NYC Information Request #88. The Company groups its entire transmission and delivery system into three sub-systems; 1) the secondary delivery (low tension) system, 2) the primary delivery (high tension) system and 3) the transmission system. Each of these sub-systems, starting with the secondary system, is progressively further electrically removed from the direct customer connection. To align cost allocation with cost causation, the Company selects the appropriate allocation factor for each sub-system that best reflects how that part of the system is designed. The general approach

is that those facilities that are in closest electrical proximity to a customer's site are sized and installed to serve the individual customer loads, so they are allocated to the classes on the basis of the sum of the individual customer maximum demands, of the class. Delivery system facilities located further away from customer sites are considered shared facilities and, therefore, tend to be designed (sized) to meet the aggregate coincident peak of the connected customers. These costs are allocated to each class based on the coincident peak of the class. Finally, the transmission facilities are designed to meet the summer system peak demand and, therefore, these costs are allocated using each class' contribution to the summer system peak demand.

Q. Does the panel generally agree with this approach?

A. Yes. This approach is supported by the NARUC Electric Utility Cost Allocation Manual which states at page 97 that "[t]he load diversity at

distribution substation and primary feeders is usually high. For this reason, customer-class peaks are normally used for the allocation of these facilities. The facilities nearer the customer, such as secondary feeders and line transformers, have much lower load diversity. They are normally allocated according to the individual customer's maximum demands."

Q. Please explain the "tolerance band" that the Company applies to the results of the ECOS study.

A. The class revenue responsibilities have historically been measured within a +/-10% tolerance band around the total system average rate of return. Classes were considered deficient or surplus if the class return falls outside of this bandwidth. The Company's proposal applies the traditional +/-10% tolerance band approach. The use of a tolerance band is appropriate because the Company's ECOS study can only be considered an approximation of cost responsibilities. Like all cost-of-service

studies, it is comprised of judgments (some from the result of other studies) relating to the proper functionalization, classification and allocation of plant costs and expenses. Allocating revenues in an attempt to achieve class rates of return which are exactly equal to the system average fails to acknowledge the ECOS study's inherent inability to portray rate year circumstances in a mathematically exact manner. Use of a tolerance band recognizes that the results of the ECOS study should not simply be mathematically applied.

Q. What are the results of the Company's ECOS study in this case?

A. The study concluded that the NYPA delivery service class was found to be deficient by $30,202,161 and the Con Edison full service and retail access and the EDDS service classes in total were determined to produce a revenue surplus of $44,241,293.

Q. What is meant by describing a class as producing either a surplus or a deficiency?

A. This means that for the historical test period, in this case calendar year 2005, those classes that were deficient underpaid their share of the costs to serve them and classes that were found to be in surplus, paid more than their share, as measured by each classes contribution to the total system rate of return.

Q. Does the Panel accept the Company's ECOS study results?

A. No, not completely.

Q. With what aspect of the study do you take issue?

A. We take issue with the Company's allocation of the Overhead and Underground Low Tension - Demand costs to the SC1 and SC7 rate classes, specifically the D08 and D09 allocation factors as presented in the ECOS.

Q. Please continue.

A. The D08, Low Tension-Overhead, and D09, Low Tension-Underground, allocation factors were calculated by averaging the NCP and ICMD for the summer and winter season, effectively resulting in a 50% NCP and 50% ICMD weighting. The

Company then made a special adjustment to the SC1 Residential and the SC7 Residential Heating classes. The D08 and D09 allocation factors for those particular classes were calculated by applying a 75% weighting to the non-coincident demand and a 25% weighting to the individual customer billing demand. The Company claims that the 75% NCP / 25% ICMD weighting is intended to recognize the higher load diversity (customers less likely to peak at the same time) of these classes. The Company claims that the SC1 and SC7 classes consist predominately of individually metered customers living in large multiple dwelling buildings which makes it more unlikely that the distribution system would ever see the sum of the individual customer loads at the connection to the multiple dwelling building (hence a high load diversity).

Q. Does the Panel agree with this special adjustment to the SC1 and SC7 classes?

A. No. Although we do recognize that the NARUC Electric utility Cost Allocation Manual states

"the customer-class load characteristic used to allocate the demand component of distribution plant (whether customer class NCPs or the summation of ICMDs) depends on the load diversity that is present at the equipment to be allocated" and, therefore, some recognition of the unique diversity of the SC1 and SC7 customer class is necessary, we do not think that the Company has adequately justified this specific 75% NCP / 25% ICMD adjustment. The averaging of the NCP and ICMD, as is done for all other classes, does recognize the existence of load diversity on the low-tension system and the Company's special adjustment is an attempt to further refine this allocation, but with no related study or calculation. In response to DPS-74, the Company claims that the year 2000 census data shows that approximately 70% of New York City residential dwelling units are located in buildings containing three or more dwelling units. This appears to be the only data source

the Company relied on to justify its special adjustment.

Q. Does the Company offer a diversity of load study specifically for the SC1 and SC7 classes?

A. No. In response to NYC-93, which asked if the Company had a diversity of load study, the Company responded that no diversity studies are available.

Q. Do the Company's distribution design specifications take into account the special load diversity of individually metered residential customers living in multiple unit dwellings?

A. No, in response to DPS-78, which requested copies of the Company's procedures, system design specifications, guidelines, or other documents and materials that make reference to the consideration of individual customer loads in multiple dwellings, the Company replied that it has no specifications regarding the diversity of loads in multiple dwelling buildings. The Company also notes that based on its experience,

the building peak of a multiple dwelling unit building is not the aggregate sum of all individual apartment loads.

Q. Do you agree that the peak load of a multiple dwelling unit building is not the aggregate sum of all individual apartment loads?

A. Yes. It would be very unlikely that each individually metered customer in a multiple dwelling unit building would experience its peak billing demand at the same time. Therefore the building peak demand that the system would see would be something less than the sum of the individual billing demands. A load diversity study would need to be performed to specifically quantify this difference.

Q. What does the Panel recommend?

A. Due to the lack of supporting evidence for the Company’s proposed special adjustment (75% NCP / 25% ICMD) for the two specific service classes, Staff recommends that a 15% tolerance band be applied to the ECOS study and that the Company be required to submit a study that justifies the

75% NCP / 25% ICMD or some other ratio to apply when calculating the D08 and D09 allocator for the SC1 and SC7 class in future ECOS studies.

Q. Using your proposal regarding a 15% tolerance band, how do the results of the ECOS study change?

A. Staff Exhibit__(SRP-2) presents the results of the Staff adjusted ECOS study. In summary, using a 15% tolerance band reduces the NYPA delivery service class deficiency by $8,395,266 to $21,806,895; eliminates the EDDS $129,213 surplus and reduces various Con Edison full service and retail access class deficiencies and surpluses resulting in a total revenue surplus of $32,842,720.

Revenue Allocation

Q. Have you reviewed the Company's proposed Transmission and Delivery revenue allocation?

A. Yes. The Company first adjusts the surplus revenue amounts for those classes that were found to be surplus on an across-the-board percentage basis, in order to bring total

surplus revenues equal to the total deficient revenues amount, thus ensuring that the Company is revenue neutral in this regard. The next step re-aligns the Rate Year T&D revenues, at the current rate levels, to reflect the ECOS surpluses and deficiencies. It then allocates the proposed T&D revenue increase, excluding gross receipts taxes, to each class based on the proportion of each class' respective re-aligned rate year delivery revenues to the total rate year delivery revenues. The class deficiency or surplus is then added or subtracted to the revenue increase allocated to each class to arrive at the total revenue increase for each class.

Q. Do you agree with this approach?

A. Yes. This approach recognizes the results of the ECOS and balances the rate increase to all classes. This approach has been used by the Company in prior cases and has been accepted by the Commission.

Q. Has the panel prepared a revenue allocation?

A. Yes, we have performed a revenue allocation using the same general approach as described above, but using Staff's inputs for the sales forecast provided by Staff witness Liu; the revenue requirement increase provided by the Staff Accounting Panel; and the results of the ECOS based on our recommended changes described above. We note that the revenue requirement increase provided to us by the Staff Accounting Panel is an overall revenue requirement increase which includes the rate changes related to the Company's Monthly Adjustment Clause (MAC) and Purchased Power Working Capital. Due to time constraints, the Staff Accounting Panel was unable to calculate the effect of its proposed adjustments on the MAC and Purchased Power Working Capital rate changes. Therefore, we used the same MAC and Purchased Power Working Capital rate changes proposed by the Company in determining the net increase to the bundled T&D revenue requirement, the effect of which is a slightly lower net increase to the bundled T&D

revenue requirement than would otherwise have resulted.

Q. Is Staff’s revenue allocation provided herein as an Exhibit?

A. Yes, it is presented in Exhibit__(SRP-3) and Exhibit__(SRP-4). Exhibit__(SRP-3) shows the class revenues re-aligned to reflect the results of the modified ECOS. Exhibit__(SRP-4) shows the resulting approximate recommended increases for each service class. As shown, the SC1, SC2, SC7, SC8, and the EDDS delivery service classes receive average increases of approximately 17.5% while the SC6, and the NYPA delivery service classes receive above average increases and the SC4, SC5, SC9, SC12 and SC13 classes receive below average increases.

Q. Did you need to make a mitigation adjustment to insure that no class receives an increase greater than 150% or less than 50% of the system average increase?

A. Yes, there were three classes (SC5 Rate I, SC5 Rate II and SC9 Rate II) that were adjusted to

bring the classes' increase to 50% of the system average. We increased the share of the overall rate increase to those three classes and reduced it for all other classes. Our adjustments are based on the ratio of the individual class revenue to the total revenue of those classes receiving the reduction. The resulting adjusted rate year proposed percentage increases are shown in Exhibit__(SRP-4) Column 13.

Q. Did the Company's proposal recognize the full effect of the surplus and deficiencies of the ECOS?

A. Yes it did, but the Company also stated in testimony that in the context of a multi-year plan, it would be amenable to phasing in the elimination of the revenue deficiencies.

Q. Does the Panel have a similar view?

A. We certainly recognize that attempts to improve the inter-class equity by recognizing the return deficiencies and surpluses exhibited by the ECOS study will create bill impacts. We therefore have provided an alternate revenue allocation

proposal for the Commission to consider if it sees the need to further ameliorate potential bill impacts of the overall rate increase in this case. Staff's alternate revenue allocation essentially addresses only 1/3 of the total deficiency exhibited by the ECOS (as modified using a 15% tolerance band), the results of which are provided in Exhibit__(SRP-5).

Rate Design

Q. Please summarize the Company's proposed rate design.

A. Using its 2005 ECOS, the Company first determines the embedded costs associated with the competitive services. The embedded competitive service costs are then increased to reflect the increased rate year revenue requirement. The Company then subtracts the now increased total rate year competitive services revenue requirement for each class from the total rate year revenue requirement increase allocated to each class, to arrive at what it refers to as the rate year "non-competitive

delivery revenue increase" for each class. The non-competitive delivery revenue increase was then restated back to an historic period, being the twelve months ended December 31, 2005. This is the period for which the Company has detailed billing determinants. It then uses these historic billing determinants to apply the restated delivery revenue increase to, ultimately resulting in the proposed rate year rates. A similar process is used in designing the NYPA and EDDS rates with the exception that the first step of determining the competitive services revenue requirement is not performed since the Company is not proposing competitive services rates for those classes.

Q. Do you agree with the Company's methodology used to determine the rate year competitive services rates and the corresponding rate year non-competitive delivery revenue increase?

A. Yes, this is reasonable. The method recognizes that the unbundled embedded competitive services costs, which are based on 2005 data, should be

increased to reflect the rate year revenue requirement.

Q. Do you agree with the Company's method of using the historical period billing determinants and restated rate year revenues to develop the proposed new rates?

A. Yes, this methodology has traditionally been used by the Company in the past. The historic period billing determinants provide a reliable basis on which to design the proposed rates.

Q. Have you examined the Company's class-specific rate design guidelines as presented beginning on page 54 of the Company's Electric Rate Panel Testimony?

A. Yes. We find them to be reasonable.

Revenue Forecast

Q. Have you reviewed the Company's forecasted rate year revenues at current rate levels?

A. Yes. As reflected in Company Exhibit__(FP-3), the Company forecasts collecting $6.6 billion in retail T&D revenues during the rate year at current rate levels and based on its sales

forecast of 58,541 GWhrs.

Q. Does Staff propose a different level of sales for the rate year?

A. Yes. Staff witness Liu is proposing adjustments that will increase the level of sales reflected in the Company's forecast by 223 GWhrs. Staff’s increased sales level will increase the level of projected revenues the Company would collect at current rates, thereby reducing the need for rate relief otherwise being requested by the Company.

Q. Have you developed an adjustment to the rate year revenue requirement based on Staff's forecast of increased sales?

A. Yes. We estimate the rate year revenue requirement requested by the Company should be reduced by $18.4 million.

Q. Please explain how you arrived at your adjustment.

A. In response to DPS-6, the Company provided a model that priced out the rate year revenues at current rates based on its forecasted customer

and sales levels. Staff used this model to calculate the level of rate year revenues that would be collected at current rates based on Staff's increased sales levels. Our adjustment does not reflect taxes.

Q. Please explain how you calculated the billable demands for Con Edison’s commercial customers?

A. In response to DPS-94, the Company provided a spreadsheet that calculates billable demand which is based on the ratio of the forecasted energy volumes and the average hours use.

Q. Would this adjustment normally be updated?

A. Yes. The level of sales is dependent on price elasticity. As the price of electricity goes up or down, so does the expected customer usage level. Since the sales forecast takes into consideration the Company's revenue requirement, which is subject to change during the course of this proceeding, the level of sales, and the resulting revenues, will also be subject to change. Therefore, we propose that this adjustment be updated when Staff files its final

brief in this proceeding.

Unbundling of Competitive Services

Q. Have you reviewed the Company unbundling of competitive services?

A. Yes. We have examined the Company's proposals for unbundling and find them generally sound, with some adjustments we will discuss below.

Q. Generally describe how the Company arrived at the competitive services rates?

A. The Company essentially followed the unbundling orders and policy of the Commission and also continued some adjustments that had been part of its current rates.

Q. Do you take issue with any of the unbundled competitive services rate components proposed by the Company?

A. Yes. In Con Edison's Electric Rate Panel testimony, the Company proposes to continue a bifurcated merchant function charge (MFC) where the "credit and collection related MFC component" would be paid by all customers billed by Con Edison, regardless of commodity supplier.

The other portion of the MFC contains commodity procurement; information resources (IR), education and outreach, and uncollectibles associated with commodity and would only be paid by customers purchasing their commodity from Con Edison.

Q. Why does the Company propose to maintain a two part MFC?

A. When Con Edison bills for both its delivery service and the commodity of another provider (energy services company or ESCO), it does so under a purchase of receivables (POR) of the ESCO at a discount. That POR discount currently does not include an adjustment for credit and collections, even though the Commission's unbundling orders and policy call for the MFC to contain credit and collection expenses related to commodity supply. To recover these expenses from ESCO customers, Con Edison split the MFC into two parts, both of which are merchant related, but only one of which is not charged to ESCO customers on Company consolidated bills.

Q. Do you agree with this MFC split and its consequences on the POR discount?

A. No. We propose that Con Edison merge the two MFCs into a single charge, and that the single MFC and POR discount both be calculated by including the commodity-related credit and collection costs.

Q. Why should the Company's MFC and POR discounts be treated as you propose?

A. The basic premise underpinning the retail provision of commodity is that the ESCO is providing all the services and performing all of the functions of a retail merchant, including billing and payment processing, customer care, and credit and collections and assumes all risk for failure to collect billed revenues. For this reason, the price or rate charged by retail commodity ESCOs should reflect the full cost and related risks of providing these services. By only charging full service customers the "credit and collection related MFC component," along with the other costs contained in the remainder

of the MFC, the ESCO becomes responsible for addressing these costs. In the POR process, the ESCO is subcontracting with the utility to perform certain functions that otherwise would be performed by ESCO back office personnel, including credit and collections activities. Therefore, the POR discount should be calculated to reflect all the commodity-related activities that the utility will be performing on behalf of the ESCO. This is designed to fully reimburse the utility for the costs that would otherwise be borne by the ESCO to do these functions for themselves.

Q. Would it be appropriate to keep credit and collection costs within Con Edison’s delivery rates to be recovered directly from the customer, rather than include them in the utility commodity supply costs and then recover them from the ESCOs in a POR discount?

A. No. To do so would distort the price to customers of the commodity, which has been artificially lowered to exclude credit and

collection expenses. Moreover, it would create problems for Suppliers who chose to develop their own systems because their commodity prices would appear to be above those of Suppliers who relied on the utility to do this work for them.

Q. Is Con Edison willing to implement these changes to its pre-filed proposals?

A. Yes. In the recent Joint Proposal for the Company's natural gas service and in collaborative work with Staff on its unbundled bill format, the Company has already supported the adjustment of its treatment of the MFC and POR discount in the manner we propose. Further, in response to DPS-410.1, Con Edison indicated that it is amenable to adopting the same resolution in this proceeding that it agreed to in the Company's recent gas case.

Q. Are there additional reasons for adopting the approach taken for Con Edison's gas operations in this proceeding?

A. Yes. Conforming the MFC and POR discounts for both electric and gas service in the Company's

service territory will simplify customer bills and reduce confusion. A two-part MFC, both parts containing supply-related merchant costs, only one portion of which would be avoided by most ESCO customers is inherently confusing. Having two different treatments of the MFC on a single bill for an electric and gas customer would exacerbate that confusion.

Q. Do you have any other concerns related to Con Edison's unbundling and customer bills?

A. In examining the Company's response to DPS-410.3 and the referenced proposed tariff leaves, it is unclear whether Con Edison plans to correctly bill customers for bill issuance and payment processing (BIPP) charges.

Q. What policy has the Commission established for BIPP charges?

A. The Commission has addressed this issue twice, once in regard to billing credits in the Billing Proceeding (Cases 98-M-1343 and 99-M-0631, order issued and effective May 18, 2001) and again in the Competitive Opportunities Case – Unbundling

Track (Case 00-M-0504, order issued and effective February 18, 2005). In both cases, the Commission ruled that the customer should only pay a utility for BIPP service when receiving both commodity and delivery from the utility for all commodity services taken. When the customer receives a consolidated bill from the utility (a bill that includes ESCO charges), the utility should collect a billing fee equal to the amount of the BIPP charge from the ESCO or ESCOs. Where a single ESCO serves the customer for either all commodity or one of two commodities taken, it still is required by the Commission to pay the entire BIPP fee. In this instance the customer should not be charged by the utility for billing services (See specifically, Case 00-M-0504, Proceeding on Motion of the Commission Regarding Provider of Last Resort Responsibilities, the Role of Utilities in Competitive Energy Markets and Fostering Development of Retail Competitive Opportunities - Unbundling Track, Commission

Order (issued February 18, 2005)). Where there are two ESCOs serving the customer, one for electricity and one for natural gas, the ESCOs would each pay half of the BIPP fee and again the customer should not be charged by the utility for billing services.

Q. How does Con Edison treat these BIPP service charges?

A. It is unclear from the information request response and tariff leaves whether a combined electric and gas customer which takes only one commodity from an ESCO would be required to pay a BIPP charge. According to the chart on tariff leaf 106-D (Exhibit__(SRP-1)), it appears that Con Edison intends to charge customers half of the BIPP amount under four scenarios where the Company provides one commodity service and an ESCO provides the other. Con Edison's tariff leaves imply that when an ESCO provides a single commodity service to a dual commodity customer, it is only required to pay half the BIPP fee and the customer is charged the balance. As we have

previously stated, this is not in compliance with Commission orders and policies on the application of these charges and fees.

Q. What do you recommend?

A We recommend that if Con Edison is in compliance with the orders and customers are charged for BIPP only when receiving their entire commodity from the Company that the tariff leaves be clarified to accurately reflect that. If, on the other hand, Con Edison actually proposes that dual commodity customers with a single ESCO serving only one of those commodities, be charged half the BIPP charge, the tariff should be amended to state that customers are only assessed a BIPP charge when taking all commodity from Con Edison. The Company’s billing service agreement with ESCOs should be similarly amended to state that ESCOs taking consolidated billing service from Con Edison are responsible for paying the BIPP fee, either in full or as split with any other ESCO also serving that customer on the same consolidated bill.

Q. Will the proposed rates for competitive services need to be reviewed and possibly revised based on the final revenue requirement approved by the Commission?

A. Yes, the Company will need to reflect the final rate year revenue requirement approved by the Commission in its revisions to rates for all services, including those for competitive services.

Monthly Adjustment Clause and Market Supply Charge

Q. Do you agree with the Company's proposal to move several supply-related cost components from the Monthly Adjustment Clause (MAC) to the Market Supply Charge (MSC)?

A. Yes, we believe the proposed changes to the MSC and MAC are appropriate. However, in making these changes, the MSC, as presented on customers' bills, will continue to deviate from the true market value of supply. We propose that the MSC reflect the market value of supply and the Company's Adjustment Factor-MSC be used to reconcile the differences between the actual

market values and the Company's cost of electric supply.

Q. Please explain the Company's MSC and Adjustment Factor-MSC.

A. The MSC is a cost recovery mechanism designed to reimburse the Company for the supply-related cost components incurred on behalf of full-service customers. The Company estimates the MSC for a three-month period based on forecasted sales and forecasted supply-related costs. The Adjustment Factor-MSC reconciles the difference between the estimated MSC and actual supply-related costs on a one month lag.

Q. Under the Company's proposal, will the MSC reflect the actual market price of electric supply?

A. No, it will not. As proposed, the MSC, as presented to the customer, includes non-market value components such as costs and benefits from financial hedging; New York Independent System Operator (NYISO) commodity related re-bills; total supply costs, rather than only market

value costs, associated with specific energy and capacity contracts; and certain Transmission Congestion Contract (TCC) costs and revenues.

Q. Why do you propose that the MSC reflect only the market value of supply?

A. Customers should have an opportunity to see actual market prices so that they can make informed consumption decisions and decisions on competitively priced alternative supplier offers. We believe a rate mechanism that separates the representation of actual market prices from the hedging gains and losses and other supply service reconciliations is a more functional rate form for presenting commodity service on customers' bills.

Q. The Company's proposal essentially continues its current practice of forecasting and posting the MSC for three months in advance. Is this the optimal solution to representing the actual market price?

A. No. Optimally, actual day-ahead market prices that are in effect during the customer's

specific billing period, rather than forecasted market prices, should be used in pricing out a customer’s consumption. This would eliminate the need to later reconcile the forecast MSC values to actual market prices, which can produce relatively large over and under-collections through time. We recommend that the Company file a plan within 60 days of a Commission order in this proceeding to revise its MSC charge so that it reflects actual day-ahead market prices that were in effect during each customer’s billing period. In this plan, the Company should identify specific issues that will need to be resolved and include a proposed schedule of implementation.

Q. Does this conclude your testimony at this time?

A. Yes.