

BEFORE THE  
STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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In the Matter of  
Consolidated Edison Company of New York, Inc.  
Case 07-E-0523  
September 2007

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Prepared Testimony of:

Michael J. Rieder  
Utility Engineer 3  
Office of Electricity and  
Environment  
New York State  
Department of Public Service  
Three Empire State Plaza  
Albany, New York 12223-1350

1 Q. Please state your name and business address.

2 A. Michael J. Rieder. Three Empire State Plaza,  
3 Albany, New York 12223.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by the New York State Department  
6 of Public Service (Department) as a Utility  
7 Engineer 3 in the Rates and Tariffs Section of  
8 the Office of Electricity and Environment.

9 Q. Please briefly state your educational background  
10 and professional experience.

11 A. I graduated from Clarkson University with a  
12 Bachelor of Science degree in Electrical  
13 Engineering in 1990. I began my employment with  
14 the Department in November 1991. While with the  
15 Department, I have prepared, analyzed, and  
16 reviewed reports and studies involving operating  
17 revenues, sales forecasts, operation and  
18 maintenance expenses, marginal and embedded  
19 costs, mortality and net salvage, revenue  
20 allocation, and rate design. My current duties  
21 include engineering analyses of electric utility  
22 rate, pricing, and tariff proposals.

23 Q. Have you previously provided testimony before  
24 the New York State Public Service Commission

1 (Commission)?

2 A. Yes. I have testified before this Commission in  
3 numerous proceedings on issues related to  
4 electric utility sales, revenues, expenses, cost  
5 studies, depreciation, revenue allocation, and  
6 rate design.

7 Q. What is the purpose of your testimony in this  
8 proceeding?

9 A. My testimony will address Consolidated Edison  
10 Company of New York, Inc.'s (Con Edison or the  
11 Company) selection of average service lives and  
12 net salvage factors for purposes of calculating  
13 annual depreciation expense and its proposal for  
14 system-wide deployment of Advanced Metering  
15 Infrastructure (AMI).

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

19 A. Yes. I will refer to, and have relied upon,  
20 several responses to Staff and other party  
21 Information Requests. They are attached as  
22 Exhibit \_\_\_\_ (MJR-1).

23 Q. Please briefly summarize your recommendations  
24 regarding depreciation.

1 A. Based on my proposed depreciation factors, I  
2 recommend that the Company's proposed increase  
3 of \$48.2 million to its annual provision for  
4 depreciation be decreased by \$10.2 million, to  
5 \$38.0 million. Using my depreciation factors,  
6 the theoretical reserve for depreciation for  
7 Electric Plant will be deficient by \$533.9  
8 million, or minus 14.38%, rather than the  
9 Company's proposed \$626.7 million or minus  
10 16.46%. I recommend the \$533.9 million  
11 deficiency be amortized and recovered over  
12 fifteen years, as proposed by the Company, which  
13 equates to an annual increase in depreciation  
14 expense of \$35.6 million rather than the  
15 Company's proposed annual increase of \$41.8  
16 million. The cumulative effect of my  
17 recommendations is an annual decrease in the  
18 provision for depreciation and amortization  
19 expenses of approximately \$16.4 million from  
20 that proposed by the Company.

21 Q. Please briefly summarize your recommendation  
22 concerning the Company's system-wide deployment  
23 of AMI.

24 A. The Company's proposal for AMI development and

1 deployment is currently under investigation in  
2 another Commission proceeding and should,  
3 therefore, be removed from this proceeding. The  
4 Company filed a plan for the development and  
5 deployment of advanced electric and gas metering  
6 infrastructure on March 28, 2007, in the  
7 Commission's AMI proceeding, under Case Nos. 94-  
8 E-0952, 00-E-0165, and 02-M-0514. Since the  
9 Company's AMI plan is already pending before the  
10 Commission, a more timely decision could be made  
11 in that proceeding rather than await the  
12 decision in this rate proceeding next spring.

13

14 Depreciation

15 Q. What is the purpose of depreciation?

16 A. As sanctioned by the National Association of  
17 Regulatory Utility Commissioners (NARUC):  
18 "[d]epreciation, as applied to depreciable  
19 utility plant, means the loss in service value  
20 not restored by current maintenance, incurred in  
21 connection with the consumption or prospective  
22 retirement of utility plant in the course of  
23 service from causes which are known to be in  
24 current operation and against which the utility

1 is not protected by insurance. Among the causes  
2 to be given consideration are wear and tear,  
3 decay, action of the elements, inadequacy,  
4 obsolescence, changes in the art, changes in  
5 demand, and requirements of public authorities"  
6 (Uniform System of Accounts for Class A and  
7 Class B Electric Utilities, 1958, rev., 1962).  
8 Depreciation accounting is the process of  
9 charging this loss of service value to the  
10 customers over the property's useful life.  
11 Regulatory depreciation differs in intent from  
12 tax depreciation since, for the former, a return  
13 is provided on the as yet unrecovered portion of  
14 the investment.

15 Q. Please summarize the Company's proposal  
16 regarding depreciation.

17 A. Company Witness Hutcheson proposes to change the  
18 average service lives of twelve of the Company's  
19 electric primary plant accounts or sub-accounts;  
20 eight toward shorter lives and four toward  
21 longer lives. He also proposes to change the  
22 majority of the Company's primary plant accounts  
23 or sub-accounts toward higher negative net  
24 salvage factors. Shortening service lives and

1 increasing negative net salvage factors  
2 increases the annual depreciation expense. The  
3 cumulative effect of Company Witness Hutcheson's  
4 proposed changes would increase the Company's  
5 annual depreciation expense by approximately  
6 \$48.2 million.

7 Q. Have you prepared an exhibit for this proceeding  
8 that summarizes your proposed changes?

9 A. Yes. I have prepared the attached exhibit  
10 titled "New York State Department of Public  
11 Service, Proposed Depreciation Rate Changes for  
12 Electric and Common Plant," Exhibit \_\_\_\_ (MJR-2).  
13 This exhibit summarizes the average service  
14 lives, net salvage factors and resulting  
15 depreciation rates for each electric and common  
16 plant account currently employed by the Company,  
17 proposed by the Company, and proposed in this  
18 testimony.

19 Q. What effect do your proposed changes to the  
20 average service lives and net salvage factors  
21 have on the Company's annual depreciation  
22 expense?

23 A. The proposed changes herein decrease the  
24 Company's proposed \$502.0 million provision for

1 annual depreciation expense by approximately  
2 \$10.2 million.

3 Average Service Lives

4 Q. Do you agree with Company Witness Hutcheson's  
5 proposed changes to the existing average service  
6 lives?

7 A. Of the eight electric plant accounts for which  
8 the Company proposes shorter lives, I agree with  
9 four. Two of the four accounts with which I  
10 disagree should have shorter lives, but not to  
11 the degree proposed by the Company. The other  
12 two accounts should remain at their current  
13 average service lives. I am in agreement with  
14 four electric plant accounts for which the  
15 Company proposes longer lives. However, I am  
16 proposing that the average service lives of two  
17 additional accounts or sub-accounts be extended.

18 Q. Please describe how you arrived at your  
19 conclusions.

20 A. I began with the Company's summarized property  
21 mortality study provided as Exhibit \_\_\_\_ (CH-2).  
22 This exhibit is described as "computer generated  
23 average service lives, equivalent "h" curves,  
24 and other statistical data indicated by the

1 rolling and shrinking band analysis of the  
2 Company's mortality experience with respect to  
3 Electric Plant from 1938, or the earliest  
4 available date, through 2005" (Hutcheson  
5 testimony, page 9). The data is organized into  
6 various groupings referred to as rolling or  
7 shrinking bands. These retirement bands are  
8 periods of years over which the retirement  
9 experience is analyzed. Rolling bands used in  
10 this study are retirement bands of constant 10-  
11 year width (e.g., 1994-2003, 1995-2004, 1996-  
12 2005). Shrinking bands are retirement bands  
13 that initially aggregate all retirement years  
14 and then subtract one year at a time, beginning  
15 with the earliest year, until a one-year  
16 retirement band is developed. Normally, as the  
17 width of the shrinking retirement band  
18 increases, the pattern exhibited by the observed  
19 mortality data becomes more uniform, i.e., the  
20 vintage variations are smoothed out.

21 Q. What factors do you consider when determining  
22 the most appropriate average service life?

23 A. The "degree of best fit" is an important factor  
24 to consider when determining the most

1 appropriate average service life for a plant  
2 account. Exhibit \_\_\_\_ (CH-2) contains a column  
3 labeled "Fit Index." The Fit Index is a measure  
4 of the test of fit in the least squares' fitting  
5 process. The degree of best fit is the column  
6 with the lowest fit index. This degree  
7 statistically contains the most mathematically  
8 reliable indications of average service lives.  
9 I also consider trends within the rolling and  
10 shrinking bands, as well as the results of the  
11 most recent rolling bands and widest shrinking  
12 bands. When the fit indices are not materially  
13 different, I compare the results and trends of  
14 those degrees to formulate an opinion of the  
15 most appropriate average service life.

16 Q. Did you rely on any other documents or studies  
17 to formulate your opinions regarding average  
18 service lives?

19 A. Yes. I also relied on the workpapers, entitled  
20 Electric ASL Analysis based on 2005 Mortality,  
21 supplied by Company Witness Hutcheson that  
22 contain his analysis, observations, and  
23 conclusions with respect to the average service  
24 lives for the plant accounts based on the 2005

1 Electric Plant Mortality Studies.

2 Q. Did you compare the results of the mortality  
3 studies with those of previous studies?

4 A. Yes. I compared the results of the 2005 study  
5 with the results of the Company's 2002 Electric  
6 and Common Utility Plant Mortality Study  
7 provided in Case 04-E-0572. I also considered  
8 Company Witness Hutcheson's observations with  
9 regard to comparisons to the previous mortality  
10 study. In addition, I also compared the two  
11 sets of studies provided in Exhibit \_\_\_\_ (CH-2),  
12 that is, I compared study numbers 055141,  
13 055161, 055241, and 055261 with study numbers  
14 055144, 055164, 055244, and 055264,  
15 respectively. The latter studies (the number 4  
16 studies) treat the large amount of production  
17 plant investment transferred from electric plant  
18 differently than in the past.

19 Q. Has the Company ever proposed or used the  
20 methodology employed in the number 4 studies?

21 A. Yes, the Company used the methodology employed  
22 therein in its recent steam rate case (Case 05-  
23 S-1376).

24 Q. Do you believe the number 4 studies should be

1 exclusively relied upon to determine the  
2 appropriate service lives or h-curves?

3 A. No. However, I do believe the number 4 studies  
4 provide a certain level of useful information  
5 and should be used as another tool in  
6 determining appropriate lives and h-curves.

7 Q. You stated that of the eight electric plant  
8 accounts that Company Witness Hutcheson proposes  
9 shorter lives, you agree with four of his  
10 proposed lives. Which four accounts do you  
11 agree with Company Witness Hutcheson's proposed  
12 shorter lives?

13 A. I agree with the shorter lives proposed for  
14 Account Numbers 9516 - Boiler Plant Equipment,  
15 9522 - Turbogenerator Units, 9524 - Accessory  
16 Electric Equipment, and 9565 - Underground  
17 Transformers.

18 Q. Please explain the four accounts that you  
19 disagree with Company Witness Hutcheson's  
20 proposed shorter average service lives.

21 A. Of the four accounts that I disagree with  
22 Company Witness Hutcheson's proposed shorter  
23 average service lives, the lives of two accounts  
24 should be shortened to a lesser degree than

1 proposed and the two other accounts should  
2 continue to have service lives at their current  
3 levels.

4 Q. Please continue.

5 A. Company Witness Hutcheson proposes that the  
6 average service life for Account 9514 -  
7 Structures and Improvements be lowered from 65  
8 years to 40 years. Based on the current study  
9 results and comparing those study results with  
10 the 2002 study results, I agree that the average  
11 service life for this account should be  
12 shortened, but not by 25 years as proposed. The  
13 most recent 3<sup>rd</sup> degree rolling bands of Study  
14 055144 show lives trending downward from 54  
15 years to 12 years. The shrinking bands show the  
16 3<sup>rd</sup> degree as best fit with all bands fitting and  
17 the 2<sup>nd</sup> degree as not materially different. The  
18 widest bands are 43 and 46 years, respectively,  
19 with a downward trend. The most recent bands  
20 range between 10 and 61 years. The most recent  
21 2<sup>nd</sup> degree rolling bands of Study 055141 show  
22 lives ranging between 11 and 75 years. This  
23 study's shrinking bands also show the 3<sup>rd</sup> degree  
24 as best fit with all bands fitting and the 2<sup>nd</sup>

1 degree as not materially different. The widest  
2 bands for both degrees are 43 years. Based on  
3 these study results, a shorter average service  
4 life could be considered as appropriate.

5 Q. Please continue.

6 A. I also compared the current (2005) study results  
7 with the 2002 study. The 2002 study shrinking  
8 band had the 2<sup>nd</sup> degree as best fit with the  
9 widest band at 54 years. I recognized that  
10 lower service lives were largely due to the  
11 divestiture of production plants and the  
12 transfers from Electric Plant to Steam Plant of  
13 the 59<sup>th</sup>, 74<sup>th</sup>, and Hudson Ave. stations. The  
14 remaining investment was made up of East River  
15 and Waterside. I recognized the lower lives  
16 indicated in the study and agreed to the  
17 Company's proposal to only decrease the life by  
18 a minimum amount due to the material impacts of  
19 the station transfers and divestiture. At this  
20 time, I see no need to significantly deviate  
21 from the approach taken in the last case and  
22 recommend decreasing this account's average  
23 service life by 10 years at this time, rather  
24 than 5 years as done in the last electric rate

1 case, or 25 years as recommended in the  
2 Company's filing.

3 Q. Please describe the other account that you  
4 believe Company Witness Hutcheson shortened the  
5 average service life by too much.

6 A. Company Witness Hutcheson proposes that the  
7 average service life for Account 9526 -  
8 Miscellaneous Power Equipment be shortened from  
9 50 years to 40 years. Based on the study  
10 results and comparing the current study with the  
11 2002 study, I agree the average service life  
12 should be shortened, but by only 5 years and not  
13 by 10 years as proposed by the Company. The  
14 most recent 3<sup>rd</sup> degree rolling bands of Study  
15 055264 show lives ranging from 16 years to 62  
16 years. The shrinking bands show the 3<sup>rd</sup> degree  
17 as best fit with all but the most recent bands  
18 fitting. The widest bands are at 33 years  
19 showing a downward trend. The rolling bands of  
20 Study 055261 show the 3<sup>rd</sup> degree as best fit but  
21 without 20 bands fitting. The most recent bands  
22 have average service lives that range from 15 to  
23 111 years with all but one of the 10 most recent  
24 bands over 45 years. The 1<sup>st</sup> degree is not

1 materially different and has only 3 bands not  
2 fitting. Its most recent bands range from 18  
3 years to 242 years with all but one of the 10  
4 most recent bands over 50 years. This study's  
5 shrinking bands also show the 3<sup>rd</sup> degree as best  
6 fit with all bands fitting and the widest band  
7 at 37 years. Based on these study results, a  
8 shorter average service life could be considered  
9 as appropriate.

10 Q. Please continue.

11 A. Again, I also compared the current study results  
12 with the 2002 study. The 2002 study had the 3<sup>rd</sup>  
13 degree as best fit with the widest band at 81  
14 years. A downward trend was apparent to 48  
15 years but then reversed upward. I agreed that  
16 the then current use of a 50-year average  
17 service life was appropriate in light of the  
18 plant transfers and divestiture, rather than  
19 increasing the average service life as would  
20 have been otherwise appropriate based on the  
21 study results alone. When considering the 2002  
22 study results in combination with the results of  
23 the current study, I believe a decrease of 10  
24 years is too aggressive. While recognizing the

1 lower lives suggested by the current studies, I  
2 recommend a less severe decrease of only 5 years  
3 at this time.

4 Q. Please explain the accounts for which you  
5 disagree with Company Witness Hutcheson's  
6 lowering of average service lives.

7 A. Company Witness Hutcheson proposes that the  
8 average service life for Account 9534 - Station  
9 Equipment be shortened from 50 years to 45 years  
10 and the average service life for the sub-account  
11 9565 - Line Transformers - Overhead be shortened  
12 from 35 years to 30 years.

13 Q. Please explain the first account for which you  
14 disagree with Company Witness Hutcheson's  
15 lowering of the average service life?

16 A. Company Witness Hutcheson proposes that the  
17 average service life for Account 9534 - Station  
18 Equipment be shortened from 50 years to 45  
19 years. This move is premature, and I propose  
20 that the average service life remain at 50 years  
21 at this time. The rolling bands show that the  
22 1<sup>st</sup> degree is best fit with only one of the 10  
23 most recent bands below the current 50-year  
24 average service life. For the shrinking bands,

1           the 3<sup>rd</sup> degree is best fit but is not materially  
2           different from the other degrees. The 1<sup>st</sup> degree  
3           has all bands fitting, and the 2<sup>nd</sup> and 3<sup>rd</sup>  
4           degrees have all but the most recent bands  
5           fitting. The widest bands are at 53 years, 52  
6           years, and 46 years, respectively, and show a  
7           relatively flat trend. The 2002 study shrinking  
8           bands indicate that the 3<sup>rd</sup> degree is best fit,  
9           but, it is not materially different than the 1<sup>st</sup>  
10          or 2<sup>nd</sup> degree. The widest bands average service  
11          lives range from 44 years to 49 years to 53  
12          years for 3<sup>rd</sup>, 2<sup>nd</sup>, and 1<sup>st</sup> degrees, respectively.  
13          Based on the 2005 study indications showing an  
14          increase in the average service lives when  
15          compared to the 2002 study, the relatively flat  
16          trends within each study, and the relatively  
17          close fit indices for the various degrees, each  
18          showing average service lives near the current  
19          50-year level, I disagree with the proposal to  
20          move toward a lower life at this time.

21    Q.    Please explain the second account for which  
22           Company Witness Hutcheson prematurely lowers the  
23           average service life.

24    A.    Company Witness Hutcheson also proposes to lower

1           the average service life from 35 years to 30  
2           years for the sub-account 9565 - Line  
3           Transformers - Overhead. For this sub-account  
4           the rolling bands indicate the 1<sup>st</sup> degree as best  
5           fit with all bands fitting. The most recent  
6           bands range between 27 years and 35 years with a  
7           slight downward trend. The shrinking bands show  
8           the 1<sup>st</sup> degree as best fit, by default, with all  
9           bands fitting. The widest band is at 34 years  
10          with varying trends, and all but the most recent  
11          band is between 30 years and 35 years. The 2002  
12          study shrinking band also had the 1<sup>st</sup> degree as  
13          best fit with its widest band at 34 years.  
14          Consistent with the 2002 study, the 2005 study  
15          continues to indicate that 35 years is an  
16          appropriate average service life. Because the  
17          lower indicated life from the current study, 34  
18          years, is only slightly lower than the current  
19          35-year average service life employed by the  
20          Company and higher than the 30-year life  
21          proposed, it would be premature to change the  
22          current average service life of 35 years.

23    Q.    Are you proposing that any of the average  
24          service lives be increased from their current

1 level?

2 A. Yes. As shown on Exhibit \_\_\_\_ (MJR-2), I am  
3 proposing the average service lives for two  
4 electric plant accounts each be increased by 5  
5 years.

6 Q. Please explain the first account for which you  
7 propose to increase the average service life.

8 A. I propose the average service life for Account  
9 9567 - Services - Underground be increased from  
10 70 years to 75 years. Rolling bands indicate  
11 the 2<sup>nd</sup> degree as best fit with most recent bands  
12 ranging from 82 years to 101 years. The 1<sup>st</sup>  
13 degree is not materially different with the most  
14 recent bands ranging from 104 years to 140  
15 years. The shrinking bands indicate a trend  
16 toward longer service lives, except for the most  
17 recent bands, with the 2<sup>nd</sup> degree being the best  
18 fit and not materially different than the 1<sup>st</sup>  
19 degree. The 2<sup>nd</sup> degree widest band is at 81  
20 years and all bands are over my proposed 75  
21 years. The 1<sup>st</sup> degree widest band is 86 years,  
22 with all bands over 80 years. The 2002 study  
23 shrinking bands had the 1<sup>st</sup> and 2<sup>nd</sup> degrees with  
24 similar fits with widest bands at 83 years and

1           79 years, respectively. Except for very recent  
2           trend toward slightly shorter average service  
3           lives, which are still longer than my proposed  
4           75 years, all indications, including comparisons  
5           with the 2002 study, show that an increase is  
6           appropriate. However, because of the most  
7           recent downward trend and the amount of  
8           underground work expected to be completed in the  
9           near term, only a 5-year increase is recommended  
10          at this time.

11   Q.    Please explain the other account for which you  
12          are proposing an average service life increase.

13   A.    I propose the average service life for Account  
14          9576 - Underground Street Lighting & Signal  
15          Systems be increased from 65 years to 70 years.  
16          The rolling bands indicate the 1<sup>st</sup> degree has all  
17          most recent bands fitting with live in excess of  
18          135 years. The 2<sup>nd</sup> degree has all but two most  
19          recent bands fitting with lives in excess of 87  
20          years. The shrinking bands indicate the 1<sup>st</sup>  
21          degree is best fit, by default, with all bands  
22          fitting and the widest band at 84 years. The  
23          trend is toward longer lives until the most  
24          recent bands where it begins to reverse. The

1 most recent band is 71 years. The 2002 study  
2 had the 1<sup>st</sup> degree as best fit, by default, the  
3 widest band at 81 years, and a trend toward  
4 longer lives with the most recent bands ranging  
5 between 177 and 282 years. I recommended a  
6 conservative 5-year service life increase for  
7 this account instead of the 10 years or 15 years  
8 indicated by the study results, primarily  
9 because of the amount of anticipated retirement  
10 and replacement work that was expected to be  
11 done on the underground infrastructure, which  
12 would tend to hold down the lives. The current  
13 study's most recent trend actually supports that  
14 conclusion and, therefore, I am recommending  
15 only a modest service life increase of 5 years  
16 at this time.

17 Net Salvage Factors

18 Q. Do you propose any changes to the Company's  
19 proposed net salvage factors?

20 A. Yes. I disagree with two of the Company's  
21 proposed negative net salvage factor increases.

22 Q. Before you explain your proposed net salvage  
23 factors for each of the accounts or sub-  
24 accounts, please describe how you reached your

1 conclusions.

2 A. I started with the Company's Summary of  
3 Historical Net Salvage in Exhibit \_\_\_\_ (CH-3).  
4 This exhibit, as described by Company Witness  
5 Hutcheson, contains "the historical net salvage  
6 in dollar amount and as a percent of the book  
7 cost of plant retired" for each of the Company's  
8 depreciable Electric and Common Utility Plant  
9 accounts. (Hutcheson testimony, page 16) "The  
10 book cost of plant retired, cost of removal and  
11 salvage is shown for the most recent 25 years  
12 for the actual retirements in the indicated  
13 calendar years. The exhibit also provides  
14 totals for the full experience band ending in  
15 year 2006, rolling bands five years in width,  
16 and a computation of the net salvage as a  
17 percent of the book cost retired for the full  
18 experience band, each rolling band, and each  
19 shrinking band" (Hutcheson testimony, page 16).

20 Q. What factors do you consider in determining the  
21 most appropriate net salvage factor?

22 A. Similar to the mortality study, the data  
23 contained in Exhibit \_\_\_\_ (CH-3) is organized  
24 into rolling and shrinking bands. I consider

1 trends within the bands, range of percentages,  
2 most recent percentages, and the full experience  
3 percentage.

4 Q. Did you rely on any other documents or studies  
5 in formulating your recommendations regarding  
6 net salvage factors?

7 A. Yes. I also relied on the document entitled  
8 Summary of Historical Net Salvage - Electric,  
9 which was provided in the workpapers of Company  
10 Witness Hutcheson. This document portrays  
11 Company Witness Hutcheson's analysis,  
12 observations, and conclusions with respect to  
13 the net salvage factors for the Company's  
14 depreciable electric and common utility plant  
15 accounts.

16 Q. Please explain the accounts for which you  
17 disagree with the net salvage factors proposed  
18 by Company Witness Hutcheson.

19 A. For Account 9534 - Station Equipment, I  
20 recommend the net salvage factor be increased by  
21 5% rather than 10% as proposed. The most recent  
22 one-year bands and shrinking bands suggest a  
23 trend toward higher negative salvage  
24 percentages. However, the full experience band

1 and 5-year bands support only a slight increase  
2 at this time from the current negative 20% net  
3 salvage value. The full-experience band is  
4 26.58% negative and the 5-year band has varying  
5 trends. For these reasons, I propose the net  
6 salvage factor be increased from negative 20% to  
7 negative 25% at this time.

8 Q. Please continue.

9 A. For Account 9554 - Station Equipment, again I  
10 propose that the net salvage factor be increased  
11 by 5% rather than 10% as proposed. The study  
12 indicates a slight trend toward higher negative  
13 percentages and the most recent 5-year bands are  
14 all above current percentages. However, the  
15 Full Experience Percentage is only 28.56%  
16 negative and only three most recent shrinking  
17 bands are over 25% negative. Thus, only a  
18 modest increase from 20% negative to 25%  
19 negative is warranted at this time.

20 H-curves and Reserve for Depreciation

21 Q. Are you proposing any changes to the h-curve  
22 selections proposed by Company Witness  
23 Hutcheson?

24 A. No, I am not. I reviewed the proposed h-curves

1 and concur with the Company's selections.

2 Q. Please describe the cumulative effect your  
3 proposed changes would have on the computed  
4 accumulated reserve for depreciation?

5 A. My proposed changes reduce the Company's  
6 proposed Electric Plant computed reserve  
7 deficiency by \$92.8 million. The resulting  
8 deficiency is \$533.9 million and the reserve  
9 variation percentage is minus 14.38%. Because  
10 the resulting reserve variation is outside a  
11 plus or minus 10% bandwidth, I propose that the  
12 deficiency be recovered from customers over a  
13 fifteen-year period, as proposed by the Company.  
14 My adjustments, however, will result in an  
15 overall net reduction to the Company's proposed  
16 annual amortization expense of approximately  
17 \$6.2 million.

18 Q. Do the annual depreciation and amortization  
19 expense adjustments reflect the full rate year  
20 changes to depreciation expense?

21 A. No. In an effort to illustrate the effect my  
22 adjustments to the proposed depreciation factors  
23 have on the Company's proposed annual  
24 depreciation and amortization expense, my annual

1 depreciation and amortization expense amounts  
2 are computed as of a single point in time,  
3 December 31, 2006, and the depreciation expense  
4 adjustment for the rate year, as described  
5 herein, is included in the exhibits of the Staff  
6 Accounting Panel.

7

8 Advanced Metering Infrastructure

9 Q. Please briefly summarize the Company's proposed  
10 AMI initiative.

11 A. Following the completion of three pre-deployment  
12 demonstration projects, the Company plans to  
13 implement AMI system-wide over a seven-year  
14 period. In addition to the 300,000 electric and  
15 gas meters already installed, the Company would  
16 begin installing or retrofitting 200,000 meters  
17 in 2008 and continue at a rate of about 800,000  
18 meters annually until its entire population of  
19 meters, both electric and gas, has advanced  
20 capability.

21 Q. Did the Company file a plan for AMI development  
22 and deployment in another Commission proceeding?

23 A. Yes, the Company filed its plan for the  
24 development and deployment of advanced electric

1 and gas metering infrastructure on March 28,  
2 2007 (AMI Plan), in Case Nos. 94-E-0952, 00-E-  
3 0165, and 02-M-0514 (AMI Proceeding). In that  
4 Plan, the Company identically proposes to  
5 undertake three pre-deployment demonstrations in  
6 order to evaluate "the performance of selected  
7 technologies, the integration of meter data  
8 derived from AMI into [the Company's] 'back-  
9 office' systems, and customer response to  
10 additional information about their utility  
11 usage." (AMI Plan, page 2) Because that plan is  
12 still pending before the Commission, it should  
13 be decided in that proceeding and not considered  
14 in this rate proceeding.

15 Q. Why is it more appropriate for the Company's AMI  
16 initiative to be decided in the Commission's AMI  
17 proceeding and not this electric rate  
18 proceeding?

19 A. AMI is being evaluated on a generic basis and it  
20 would be beneficial to review the Company's  
21 individual AMI plan in the context of the  
22 overall benefits and costs the Commission is  
23 considering with regard to AMI. Also, because  
24 AMI affects both electric and gas businesses, it

1 would be inappropriate to make decisions about  
2 moving forward with AMI in a proceeding that  
3 only considers electric matters. In the pending  
4 Con Edison gas rate proceeding, Case 06-G-1332,  
5 a Joint Proposal awaits Commission action on a  
6 recommendation that the Company's AMI initiative  
7 not be decided in the gas rate proceeding, but,  
8 rather in the Commission's generic AMI  
9 proceeding.

10 Q. If consideration of the Company's AMI initiative  
11 was removed from this electric proceeding, what  
12 impact would that have on the rate year?

13 A. As shown in response to New York City IR No.  
14 212, which I have included in Exhibit \_\_\_(MJR-  
15 1), the rate year revenue requirement would be  
16 reduced by approximately \$25 million. The Staff  
17 Accounting Panel's exhibits reflect the removal  
18 of the Company's AMI initiative from this  
19 proceeding.

20 Q. Does this conclude your testimony?

21 A. Yes, it does.