

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:

William Saxonis
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Department of Public Service
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1 Q. Will you please state your name, employer and
2 business address?

3 A. William Saxonis. New York State Department of
4 Public Service (Department), Office of
5 Electricity and Environment, Three Empire State
6 Plaza, Albany, NY 12223.

7 Q. Mr. Saxonis, what is your position at the
8 Department?

9 A. I am a Utility Analyst 3 in the Office of
10 Electricity and Environment.

11 Q. What is your education and professional
12 background?

13 A. I received a Bachelor of Arts degree in political
14 science from Salem State College in 1977 and a
15 Masters of Arts degree in political science from
16 the Nelson A. Rockefeller College of Public
17 Affairs and Policy at the State University of New
18 York at Albany in 1979. I have been employed by
19 the Department since 1995. From 1980 through
20 March 1995, I was employed by the New York State
21 Energy Office. For most of those years, I served
22 as the manager of the evaluation unit, which was

1 responsible for conducting comprehensive
2 evaluations on a wide range of energy efficiency
3 programs. My work on energy program evaluation
4 is recognized nationally. I have authored
5 numerous papers on various evaluation related
6 topics and have spoken at conferences throughout
7 the country. I currently serve on the Board of
8 Directors of the International Energy Program
9 Evaluation Conference.

10 Q. Please briefly describe your current
11 responsibilities at the Department.

12 A. My primary responsibility is monitoring and
13 analyzing the operation of the New York State
14 Energy and Research and Development Authority's
15 (NYSERDA) Energy Smart program portfolio. The
16 programs are funded with revenue collected from
17 the System Benefits Charge (SBC). I am also
18 actively involved with the Public Service
19 Commission's (Commission) Energy Efficiency
20 Portfolio Proceeding, Case 07-M-0548.

21 Q. Have you previously testified before the
22 Commission?

1 A. Yes. I provided testimony on demand side
2 management (DSM) programs in the electric and gas
3 rate cases filed by Consolidated Edison Company
4 of New York, Inc. (Con Edison or the Company),
5 Cases 04-E-0572 and 06-G-1332, respectively.

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

9 A. Yes. I will refer to, and have relied upon,
10 several responses to Staff Information Requests
11 (IR) and a New York City IR. They are attached
12 as Exhibit__(WS-1).

13 Q. What is the purpose of your testimony?

14 A. The purpose of my testimony is to address Con
15 Edison's proposal to administer a new DSM program
16 designed to achieve at least 500 megawatts (MW)
17 of permanent demand reduction by 2016. The
18 program was described in the testimony of Con
19 Edison witness Rebecca Craft.

20 Q. What is your overall view of the Company's
21 proposed DSM program?

1 A. I agree with the Company's strong endorsement of
2 energy efficiency programs. Increasing energy
3 efficiency is a major goal of New York State's
4 energy and environmental policy. In May 2007 the
5 Commission instituted a proceeding,
6 Case 07-M-0548, Proceeding on Motion of the
7 Commission Regarding an Energy Efficiency
8 Portfolio Standard, to establish an Energy
9 Efficiency Portfolio Standard (EPS) that calls
10 for a 15 percent reduction in electricity usage
11 below the 2015 forecasted level.

12 Q. What is the basis for the Company's 500 MW goal?

13 A. According to the testimony of witness Craft, the
14 500 MW goal is based on an analysis of the New
15 York Independent System Operator's (NYISO) 2007
16 Reliability Needs Assessment. This analysis
17 indicates that statewide reliability needs could
18 be partially addressed with 1,000 MW of new
19 supply in the New York City area by 2016. Con
20 Edison's position is that half of the 1,000 MW
21 should be met through DSM and the remaining half
22 through "new clean and efficient supply."

1 Q. Has the EPS Proceeding provided an estimate of
2 the level of reduction in electricity consumption
3 required in the Con Edison service territory to
4 meet the goal of reducing forecasted electricity
5 demand by 15 percent by 2015?

6 A. In June 2007, Staff prepared a preliminary
7 analysis of the benefits and costs of reaching a
8 15 percent electricity reduction target by 2015.
9 This report titled, "Preliminary Staff Analysis,
10 Benefits and Costs and Bill Impacts of Energy
11 Efficiency Programs for 15 percent Reduction in
12 Electricity Usage by 2015," estimated statewide
13 energy reduction goals, but did not illustrate
14 these goals by service territory. Based on
15 energy forecasts provided in the EPS Proceeding
16 by Con Edison in response to a request by
17 Administrative Law Judge (ALJ) Eleanor Stein, and
18 load factor data from NYSERDA, I have calculated
19 estimated energy reduction goals specific to the
20 Con Edison territory. Assuming a capacity
21 reduction on a 57% load factor for energy
22 efficiency projects, approximately 2,000 MW and

1 approximately 9,752,000 Megawatt hours (MWh) of
2 cumulative reduction will need to be achieved in
3 the Con Edison service territory by 2015. This
4 estimate reflects the energy savings that will be
5 needed from Con Edison full service, Retail
6 Choice, and New York Power Authority (NYPA)
7 electricity customers.

8 Q. What is the goal of the Company's DSM program by
9 2015?

10 A. The goal of the Company's proposed DSM program is
11 to achieve 428 MW of permanent demand reduction
12 by 2015.

13 Q. Is it possible that the Company could exceed its
14 MW goal?

15 A. The Company notes that it could exceed its MW
16 goal and that additional energy savings are
17 expected to result, during 2008 and beyond, from
18 energy efficiency programs funded under the
19 current rate plan.

20 Q. What role could the Con Edison program play in
21 meeting the ambitious EPS goal?

1 A. Con Edison's contribution could play an important
2 role, but the proposed program would represent
3 only a relatively small component of the
4 initiatives needed to achieve the EPS goal.

5 Q. Please briefly summarize Con Edison's DSM
6 proposal.

7 A. The 500 MW DSM program is premised on receiving
8 approximately 150 MW from a continuation of the
9 Company's current program which is designed to
10 target energy efficiency initiatives to provide
11 load relief in certain transmission and
12 distribution load areas (Targeted Program). The
13 remaining 350 MW would come from energy programs
14 to be offered by Con Edison throughout its
15 service territory (territory wide program).

16 Q. What evidence does the Company provide to
17 indicate that it is qualified to administer the
18 proposed DSM program?

19 A. The Company maintains that its strong long-term
20 record of successfully implementing energy
21 efficiency programs, positive relationships with
22 trade associations and local outreach groups,

1 understanding of load relief options, access to
2 proprietary account, customer and facility
3 intelligence, and capable customer orientated
4 staff makes it ideally suited to administer DSM
5 programs.

6 Q. What is the Company's budget for the DSM program?

7 A. Over the Company's proposed three-year rate plan,
8 the Company is proposing a total DSM program
9 budget of \$122.3 million. Program costs would be
10 recovered through the Monthly Adjustment Clause
11 (MAC) as they are actually incurred. In
12 addition, the Company proposes to recover program
13 costs from and offer program services to NYPA
14 customers as a method of maximizing program
15 potential.

16 Q. What is your opinion of the Company's proposal to
17 offer services to NYPA customers and collect
18 program costs from them?

19 A. It is critical that NYPA and the Company work
20 cooperatively to encourage energy efficiency, and
21 I support efforts to enhance their working
22 relationship. The additional information I would

1 need to adequately assess the Company's proposal
2 to provide DSM services to, and collect fees
3 from, NYPA customers has not been provided by the
4 Company. Because the Company has offered little
5 detail on these proposed fees, on the advice of
6 counsel, we cannot assess the legal implications
7 of this proposal at this time.

8 Q. Please elaborate on why you found the Company's
9 NYPA proposal lacking in detail.

10 A. The Company appears able to offer only limited
11 insights into the business arrangements, the
12 financial impacts, and the degree of additional
13 energy savings opportunities that will result
14 from expanding its programs' reach to NYPA
15 customers. In response to Staff IRs DPS-113 and
16 114, the Company indicated that, upon Commission
17 approval of this rate plan, it would need to meet
18 with NYPA management "to develop and implement a
19 coordination process for all DSM initiatives."
20 Moreover, the Company explained, "prior to any
21 work with NYPA, we can not predict the DSM
22 potential from including NYPA customers."

1 Q. Do you have any other comments?

2 A. Yes. It is important to note that NYPA currently
3 administers a highly regarded energy efficiency
4 program for its customers. The annual budget for
5 the program is over \$100 million. NYPA reported
6 in its 2006 annual report that it has engaged in
7 a number of projects in the Con Edison service
8 territory. These efforts include: replacing
9 boilers and hot water pipes at the North River
10 Wastewater Treatment Plant in Upper Manhattan (a
11 \$37 million project); installing fuel cells at
12 the Bronx Zoo; and implementing energy efficiency
13 improvements at nearly 40 police stations in New
14 York City.

15 Q. Please discuss the specific programs Con Edison
16 plans to administer in order to achieve its 500
17 MW goal.

18 A. The Company asserts that programs to be offered
19 through its proposed territory wide program will
20 result in approximately 350 MW of energy savings
21 by 2016. According to witness Craft, this
22 component of the 500 MW program, "will be based

1 upon Con Edison's highly successful 'Enlightened
2 Energy' initiative in the 1990's." The Company's
3 energy savings goal for the territory wide
4 program, over the proposed three-year rate case
5 period, is 75 MW and the budget will be
6 approximately \$66.5 million, comprised of \$56
7 million for program funding and \$10.5 million to
8 cover administration and labor related expenses.
9 In response to Staff IR DPS-102, inquiring about
10 the efficacy of basing programs on initiatives
11 that were at their peak approximately 15 years
12 ago, witness Craft explained that, "Enlightened
13 Energy" would not necessarily serve as a
14 blueprint for future programs, but was cited to
15 demonstrate the Company's "ability to
16 successfully implement energy efficiency
17 programs." She noted that "Enlightened Energy"
18 could be used as a model for implementation of
19 "certtain programs" and that the program types and
20 priorities would be based on the results of
21 market research and analysis to be performed by
22 the Company. Con Edison also noted that it will

1 explore "the development of new initiatives" such
2 as those involving advanced metering
3 infrastructure (AMI) and green buildings. In
4 response to Staff IR DPS-104, Witness Craft
5 indicated that these new initiatives are not yet
6 fully developed and the expected energy savings
7 potential cannot be quantified at this time.

8 Q. Do you have any concerns regarding the Company's
9 plan to conduct market research and analysis to
10 serve as the basis for selecting program types
11 and establishing program priorities?

12 A. Yes. The use of market research and analysis to
13 help select program types and establish program
14 priorities is a reasonable strategy. I am
15 concerned, however, that the opportunity for
16 involvement in the planning process accorded by
17 the Company to interested parties, such as Staff,
18 New York City, and NYSERDA, may be inadequate.
19 In its response to Staff IR DPS-102, the Company
20 only committed to "consult" with the interested
21 parties. It is essential that the interested
22 parties have an active and more defined role in

1 the development of the program portfolio and the
2 setting of program priorities. A formal
3 collaborative process should be employed.

4 Q. What is your opinion of the proposed territory
5 wide program?

6 A. Simply stated, the Company failed to put forth
7 any concrete program plans or proposals for the
8 territory wide program. In order to analyze the
9 effectiveness of the Company's proposal,
10 including its value to ratepayers, it is
11 necessary to have an understanding of the
12 programs the Company plans to implement. As I
13 have documented, the Company's proposal lacks
14 sufficient detail, such as projected program
15 specific costs, energy and demand savings and a
16 cost benefit analysis, which would enable me to
17 offer a complete and meaningful assessment.

18 Q. According to the Company, the remaining 150 MW of
19 the 500 MW proposal goal would be derived from a
20 continuation of the Targeted Program. Please
21 briefly describe the Targeted Program.

1 A. The Targeted Program is an ongoing effort by Con
2 Edison to defer specific transmission and
3 distribution (T&D) load relief projects by
4 implementing energy efficiency projects. The
5 program was initiated by the Commission under the
6 current Rate Plan and to date, resulted in 86 MW
7 of permanent targeted demand reduction (pursuant
8 to contract) and the Company is anticipating
9 identifying additional energy reductions by the
10 end of 2007. According to the testimony of
11 witness Craft, while the Company has received
12 commitments of 86 MW, and aims to reach the goal
13 established in the current rate plan of 150 MW by
14 March 2008, no energy curtailment measures have
15 actually been installed to date. The
16 installation schedule is coordinated with the
17 need date for relief for the relevant networks.
18 The Company expects that about 9 MW will be
19 installed by December 31, 2008 and the balance,
20 77 MW, by 2011. Based on the terms of the
21 current rate plan, the cost of the Targeted
22 Program could reach as high as \$112 million, not

1 including administration and evaluation fees and
2 the present value of the construction revenue
3 requirement reductions achieved by the deferral
4 of the planned T&D reinforcements. To date, Con
5 Edison has informally indicated to Staff that
6 most of the proposed measures have involved
7 lighting upgrades in the residential and
8 commercial sectors.

9 Q. What is your opinion of the Targeted Program?

10 A. Conceptually, it is a sound strategy because of
11 the program's ability to target system relief to
12 the areas with the highest needs. While the
13 program has demonstrated some success in securing
14 project commitments, there is insufficient
15 evidence that the program is cost effective and
16 being effectively administered. The program has
17 not undergone formal program evaluation to
18 quantify program performance. As a result, I
19 cannot endorse the program at this time, but I do
20 recommend that the program undergo an independent
21 evaluation in the near future.

1 Q. What funding is the Company proposing for the
2 Targeted Program over the next three years?

3 A. The Company is proposing a three-year budget of
4 \$55.8 million for the Targeted Program, \$47
5 million in program funding and \$8.8 million for
6 administration and labor costs. The energy goal
7 over this period is 63 MW.

8 Q. You have expressed concerns about the lack of
9 specificity regarding the Company's proposed DSM
10 programs and the lack of independent evaluation
11 results to attest to effectiveness of the
12 Targeted Program. Do you have an alternative
13 proposal?

14 A. Yes.

15 Q. Please explain.

16 A. The EPS Proceeding is examining a variety of
17 energy programs, strategies, and delivery
18 mechanisms to optimally achieve the goal of
19 reducing forecasted electricity consumption by 15
20 percent by 2015. A Staff proposal (Staff
21 Proposal) titled, "New York Department of Public
22 Service Staff Preliminary Proposal for Energy

1 Efficiency Program Design and Delivery" was
2 issued on August 28, 2007 and is currently being
3 reviewed by the parties to the EPS Proceeding.

4 Q. Please provide a brief overview of the EPS Staff
5 Proposal.

6 A. The Staff Proposal begins with an overview of the
7 EPS proceeding and explains why the Commission is
8 well suited to serve as the coordinator for the
9 planning, implementation, and evaluation of
10 programs that will be administered within the EPS
11 framework. The Staff Proposal also contains:

12 (A) Eighteen general principles intended to
13 provide a foundation for the development and
14 implementation of programs to achieve the EPS
15 goals; (B) A review of the current energy program
16 delivery mechanisms in New York and descriptions
17 of potential changes for the future (a key goal
18 is to achieve the EPS goals without duplicating
19 efforts, causing customer confusion, or
20 abandoning successful programs);

21 (C) Identification of 16 new programs and
22 enhancements to existing programs, which can be

1 implemented on a fast track in 2008 to accelerate
2 deployment of energy efficiency resources; (D) A
3 recommendation to initiate an on-going multi-year
4 collaborative energy efficiency planning process
5 which would be focused on updating the statewide
6 program portfolio on a two or three year planning
7 cycle to achieve state-wide efficiency goals and
8 targets; (E) A discussion of evaluation and
9 monitoring issues, including benefit cost tests,
10 program reporting, and strategies to conduct
11 effective and comprehensive programs evaluation,
12 all of which are designed to ensure a high degree
13 of accountability; and (F) Staffs' view on
14 establishing a natural gas energy efficiency
15 goal.

16 Q. Does the Staff Proposal offer suggestions
17 regarding the role of utilities in the
18 administration of energy efficiency programs?

19 A. Yes. The report indicates that there is a
20 potentially valuable role for utilities as
21 "gateways" for customers to learn about and take
22 advantage of energy efficiency opportunities.

1 Specific examples include advertising the
2 availability of energy efficiency programs,
3 promoting energy efficiency by example within
4 their own operations, and packaging energy
5 efficiency services. In addition, the Staff
6 Proposal suggests several possible fast track
7 program areas for which utilities could be well
8 suited as program implementers. The program
9 areas identified include those targeting specific
10 commercial sectors, for example: offices,
11 restaurants, hotels, residential central air
12 conditioning, and small businesses. In fast
13 track program areas where utilities are not
14 suggested for the role of primary administrator,
15 they are often identified as candidates to play a
16 major role in program marketing.

17 Q. What are the implications of the EPS Proceeding
18 on the Company's proposed DSM program in this
19 rate case?

20 A. It is important to place the scope and importance
21 of the EPS Proceeding in the context of this rate
22 case.

1 Q. Please explain.

2 A. The EPS Proceeding is one of most ambitious
3 efforts undertaken by the Commission in recent
4 years. Chairwoman Acampora stated in May 2007,
5 that "renewing an aggressive energy efficiency
6 program is of critical importance for future
7 State energy policy." Moreover, the EPS
8 represents the most ambitious energy reduction
9 goal, in terms of total energy savings, of any
10 program in the nation.

11 Q. What is the timing of the EPS Proceeding relative
12 to this rate case?

13 A. It is anticipated that the EPS Proceeding will
14 conclude in 2008 and will ultimately endorse the
15 establishment of a portfolio of energy efficiency
16 programs. I can not predict whether the
17 Commission will make a final determination in the
18 EPS proceeding before ruling on this rate case.

19 Q. What is your recommendation regarding a proposal
20 for a Con Edison DSM program?

21 A. The EPS Staff Proposal noted that, "Clearly, the
22 EPS Proceeding will be a complex undertaking and

1 will require thoughtful planning, communication,
2 and extensive coordination among many entities
3 that are or will be delivering energy efficiency
4 programs and among inter-related proceedings."

5 As a result of the ongoing EPS Proceeding, it is
6 premature for me to recommend a specific DSM
7 program portfolio for Con Edison at this time. I
8 cannot guarantee that my recommendations would
9 effectively synchronize with the guidance that
10 will result from future Commission EPS rulings.

11 Q. Do you have a recommendation for the Company,
12 which would enhance its commitment to energy
13 efficiency?

14 A. I recommend that the Company's energy policy in
15 general, and the DSM portfolio in particular,
16 support the goals and objectives of the EPS and
17 that the Company continue to be an active
18 participant in the EPS Proceeding. ALJ Stein, on
19 August 24, 2007, distributed a letter to the
20 interested parties seeking participants for four
21 working groups as part of the EPS Proceeding.
22 One of the working groups focuses on the overall

1 EPS structure, including the respective roles of
2 NYSERDA, utilities, and other energy service
3 providers. I encourage Con Edison to participate
4 in this and the other working groups.

5 Q. What if the EPS proceeding is not concluded prior
6 to the conclusion of this rate case?

7 A. If a specific DSM program is not approved in this
8 rate case, and the EPS Proceeding is not
9 concluded, there would be a period of time where
10 the Company would no longer have a major role in
11 the implementation of new DSM measures and would
12 face, at least in the short term, uncertainty
13 regarding its DSM programs. Considering the
14 importance of DSM to State policy objectives and
15 the aggressive EPS goals, this scenario is not
16 desirable.

17 Q. Do you have a recommendation for dealing with
18 this scenario?

19 A. Yes. I recommend that a collaborative be
20 established to explore options for a "bridge
21 program" to continue the momentum for improving
22 energy efficiency in the Company's service

1 territory. A similar concept was used in Case
2 06-G-1332, Con Edison-Gas Rates.

3 A. Please elaborate on the role of the
4 collaborative.

5 A. The role of the collaborative would be limited to
6 making recommendations for a bridge program based
7 on one or a combination of four options. These
8 options include: 1.) Implementation of programs
9 selected from the fast track energy efficiency
10 programs as summarized in EPS Staff Proposal.
11 These programs are based on programs with a
12 proven ability to produce cost effective energy
13 savings and can be implemented quickly or can
14 target under-served markets; 2.) The continuation
15 of the Con Edison System wide Program for a
16 period of time beyond the conclusion of the
17 current rate plan on March 31, 2008. This energy
18 program, funded by Con Edison through the MAC,
19 and administered by NYSERDA, is expected to
20 exceed its 150 MW goal and at cost per MW lower
21 than anticipated. The program's annual report,
22 released in June 2007 and reflecting activity

1 through March 31, 2007, reported that the first
2 year of the program resulted in an annual
3 reduction of 129 MW at a cost of \$325 per kW;
4 3.) The continuation of the existing Con Edison
5 Targeted Program for a period of time beyond the
6 conclusion of the current rate plan on March 31,
7 2008. As discussed earlier, I recommend an
8 independent evaluation of this program before
9 considering additional investment in this
10 initiative; 4.) Enhancing the Company's efforts
11 at marketing energy efficiency in general, and
12 energy efficiency programs in particular.

13 Q. Why limit the scope of options to be considered
14 by the Collaborative?

15 A. It is important that the bridge program focus on
16 program efforts that have the ability to be
17 implemented quickly and cost effectively. The
18 program must also be consistent with the goals,
19 objectives, and guidance emanating from the EPS
20 Proceeding. Care must be taken to ensure that
21 any new energy efficiency programs that are
22 initiated through a Con Edison specific bridge

1 program collaborative process do not complicate
2 the ultimate transition to the anticipated
3 approval of an EPS state-wide energy efficiency
4 program portfolio and create confusion in the
5 marketplace among customers and service
6 providers.

7 Q. Witness Craft's testimony also focuses on the
8 Company's proposals for incentives for
9 administering DSM programs. Do you have any
10 comments on the Company's incentive proposals?

11 A. Yes.

12 Q. Please explain.

13 A. The Company proposes three separate incentives.
14 First, the Company says that it should receive 20
15 percent of net resource benefits associated with
16 the demand reduction achieved under its DSM
17 program, up to its annual energy savings goal.
18 For savings exceeding the annual goal, the
19 Company proposes to receive 30 percent of net
20 resource benefits. Net resource benefits reflect
21 the present value of the estimated avoided costs,
22 including energy and capacity, over the service

1 lives of DSM measures installed each year as
2 result of the Company's programs, minus DSM
3 program costs.

4 Q. What is the potential cost of the incentive to
5 Con Edison ratepayers?

6 A. Considering the uncertainty surrounding the
7 factors required to estimate net resource
8 benefits, (e.g., measure lives and forecasted
9 future energy and capacity costs), it is
10 impossible to determine the financial impact of
11 the proposed incentives. It is, however,
12 possible to illustrate the potential value of the
13 incentives using conservative assumptions
14 provided by the Company.

15 Q. Please provide such an estimate.

16 A. In response to Staff IR DPS-106, witness Craft
17 provided an illustrative calculation of net
18 resource benefits indicating that a "typical DSM
19 measure installed in 2008 and having an average
20 measure life of 12 years would have a value of
21 approximately \$4,060/kw." If the cost for

1 installed measures is assumed to equal \$1,000/kW,
2 the net resource benefit would equal \$3,060/kW.

3 Q. Please relate this estimate to the three year MW
4 goal advocated by the Company.

5 A. For the Company's proposed three year rate plan,
6 its proposed DSM program goal equals 138 MW.

7 Using a sample calculation provided by witness
8 Craft in response to New York City's IR 244, she
9 indicates that achieving the 138 MW goal would
10 result in an incentive to the Company of
11 approximately \$92 million.

12 Q. Please discuss the impact of this incentive.

13 A. The incentive of approximately \$92 million
14 represents about 90 percent of the three-year
15 program budget of \$103 million. This incentive
16 could prove much higher if, for example, longer
17 measure life estimates and higher energy price
18 forecasts are used in the net resource benefits
19 calculation. It is relevant to note that the mix
20 of energy measures installed under NYSERDA SBC
21 funded programs tend to have a longer estimated
22 life than the 12-year average used by Con Edison

1 in its sample calculation. Moreover, the Company
2 proposes that it should be eligible for 30
3 percent of the net resource benefits for savings
4 above the 138 MW goal.

5 Q. Do you see any flaw in how this incentive is
6 awarded?

7 A. Yes. Under the Company's proposal, it would
8 receive an incentive even if it falls far short
9 of the goal. For example, if the Company
10 achieves only one MW of its 500 MW goal, it would
11 receive 20% of the net resource benefit of the
12 one MW. Customers would be placed in a position
13 of providing an incentive to the Company, albeit
14 a small incentive, for underperforming. This is
15 unacceptable.

16 Q. The Company also proposed two specialized
17 incentives. Please discuss these incentives.

18 A. The Company requests a continuation of the
19 incentive for its role in encouraging enrollment
20 in demand response programs administered by
21 NYSERDA, Con Edison, and the NYISO.
22 Specifically, the Company proposes payment of

1 \$22,500 per MW (adjusted for inflation) for
2 incremental enrollment in these programs during
3 the rate case period.

4 Q. What is the per MW amount of the incentive
5 adjusted for inflation?

6 A. The Company did not specify how the inflation
7 adjustment should be calculated, but converting
8 2004 dollars into 2007 dollars using the Consumer
9 Price Index increases the incentive amount per MW
10 from \$22,500 to \$24,811.

11 Q. Do you have any concerns about this incentive
12 scheme?

13 A. Yes. Adding this incentive to the incentives
14 already proposed for Con Edison's 500 MW program
15 increases my concern that incentive package
16 advocated by the Company is overly generous.
17 Moreover, unlike in the current rate plan, Con
18 Edison does not place a cap on the maximum amount
19 that can be collected under this incentive. The
20 current cap is \$15,187,500. The Company did
21 indicate in response to Staff IR DPS-111 that it
22 would not request this incentive for MWs achieved

1 under its Targeted Program. Under its proposal,
2 if Con Edison achieved its three-year 75 MW goal
3 for the proposed territory wide program, the
4 Company would be due an incentive payment of
5 approximately \$1.9 million. In addition, the
6 Company would be eligible to receive incentives
7 for the MWs achieved from NYSERDA and NYISO
8 energy programs. Under the existing Rate Plan,
9 the Commission, on July 16, 2007, received a
10 request from Con Edison for an incentive payment
11 of approximately \$9.5 million for supporting
12 "incremental MW participation" in NYSERDA and
13 NYISO programs as of March 31, 2007. It is
14 likely that under the EPS, the potential MW
15 benefits attributable to NYSERDA and NYISO
16 programs will increase, driving incentive
17 payments even higher if the same incentive
18 mechanism were to remain in place after the
19 current rate period ends.

20 Q. Do you favor eliminating this incentive?

21 A. Yes. This incentive needs to be reconsidered.

22 As a result of the EPS Proceeding, I anticipate

1 significantly increased awareness and activity
2 surrounding energy efficiency programs, with
3 utilities possibly playing a bigger role as
4 marketers of energy efficiency concepts and
5 programs. As a result, any marketing-related
6 incentive should be considered in the context of
7 the EPS Proceeding.

8 Q. What other incentives did the Company propose?

9 A. The Company proposed a greenhouse gas reduction
10 market credit. If the energy saving documented
11 by the Company results in a greenhouse gas
12 reduction, the Company proposes that it be
13 allowed to retain the value of the associated
14 credits.

15 Q. What is your view of this incentive?

16 A. It is impossible to determine the financial
17 impact and the merit of Con Edison retaining the
18 rights to credits from a market that currently
19 does not exist.

20 Q. What do you recommend?

21 A. In view of the lack of information regarding the
22 greenhouse gas reduction market, I am opposed to

1 the Company's proposal. The Company's request is
2 premature. If a greenhouse gas reduction market
3 develops, the Company could then develop a
4 specific proposal, including a discussion of the
5 financial impacts for Commission consideration.

6 Q. Overall do you find the three incentive proposals
7 advocated by Con Edison to be reasonable?

8 A. No. Overall, I found them to be excessive and
9 not in the customer's interest.

10 Q. Why do you think the Con Edison incentive
11 proposals are excessive?

12 A. I have reviewed a report issued in October 2006
13 by the American Council for an Energy-Efficient
14 Economy (ACEEE), titled "Aligning Utility
15 Interests with Energy Efficiency Objectives: A
16 Review of Recent Efforts at Decoupling and
17 Performance Incentives" that surveyed recent
18 performance incentive programs in several states.
19 The report found that, while details varied, the
20 performance incentives generally ranged from
21 about 5 to 10 percent of the program budgets.
22 Moreover, many of the states with incentive

1 programs lack revenue decoupling (RDM) and lost
2 revenue recovery mechanisms (LRRM). Incentives
3 were sometimes used as an alternative to these
4 mechanisms.

5 Q. Is the Company advocating a RDM or a LRRM?

6 A. Yes, Con Edison is proposing a RDM it calls a
7 Revenue Accounting and Rate Incentive Mechanism
8 (RARIM). According to the testimony of Company
9 witness Rasmussen, a goal of the RARIM "is to
10 decouple the impact of sales and revenue growth,
11 and thereby provide an alternative means of
12 removing a financial disincentive that the
13 Company might otherwise have to promoting
14 increased energy efficiency, through demand
15 reduction programs, conservation efforts and the
16 wise use of energy."

17 Q. You have expressed numerous concerns about the
18 Company's incentive proposals. Are you opposed
19 to all incentives for the Company?

20 A. No. Properly designed incentives can play a role
21 in better aligning the financial interests of a
22 utility with the goals of DSM programs. It is

1 important that incentives be carefully
2 constructed based on the program designs and the
3 role of the program administrator. For example,
4 the incentives designed for a challenging program
5 with a long term objective of increasing market
6 penetration of energy efficient appliances might
7 be different than for a program with a limited
8 short term objective, such as distributing
9 brochures featuring energy saving tips. The role
10 of the utility could also be a factor. For
11 example, is the utility the primary program
12 administrator or is it assisting another entity
13 in administering the program?

14 Q. Are you proposing an alternative to the incentive
15 plan proposed by Con Edison?

16 A. I am, at this time, not proposing a specific
17 incentive plan for the Company.

18 Q. Why not?

19 A. Without knowing the specifics of the Company's
20 proposed energy efficiency program portfolio, it
21 is impossible to properly design and propose an
22 incentive plan. Moreover, the EPS Staff Proposal

1 has raised incentives as a possible strategy to
2 encourage energy efficiency programs. Like
3 energy program design, implementation, and budget
4 priorities, incentive strategies would be more
5 appropriately addressed in the EPS Proceeding.
6 Incentives could be considered as part of the
7 bridge program collaborative, but only as they
8 relate to the bridge program initiatives.

9 Q. What does the EPS Staff Proposal say about
10 incentives?

11 A. It does not provide a specific incentive plan but
12 does offer elements of a properly designed
13 incentive policy. These elements include:
14 1) A focus on encouraging exemplary performance;
15 2) Incentives linked to program goals at the high
16 end of the expected range to encourage long-term
17 commitment; 3) An incentive level that is
18 sufficient to encourage high performance, but not
19 as high as to burden ratepayers with an
20 unnecessary expense; 4) A structure that is
21 simple to understand, administer, and monitor;
22 5) A design tailored to meet the needs of

1 specific program types; 6) Scaled incentive
2 benefits for meeting or exceeding goals in order
3 to avoid the disincentive of "all or nothing"
4 achievement; and 7) Downside provisions to
5 protect against poor performance.

6 Q. Do you agree with these guidelines?

7 A. Yes.

8 Q. Does this conclude your testimony at this time?

9 A. Yes, it does.