

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
Consolidated Edison Company of New York, Inc.
Case 08-E-0539
September 2008

Prepared Testimony of:

Michael J. Rieder
Utility Engineer 3

Office of Electric, Gas, & Water
State of New York
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 Electric Rates Section of the
8 Office of Electric, Gas, and Water.

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 in the Power
15 System Operations Section of the Power Division.
16 My responsibilities included oversight of the
17 operations of the New York Power Pool and of
18 each of the New York State utilities' bulk power
19 systems. In September 1993, the Department
20 reorganized and I moved to what is now the
21 Electric Rates Section. While with the
22 Department, I have prepared, analyzed, and
23 reviewed reports and studies involving operating
24 revenues, sales forecasts, operation and

1 maintenance (O&M) expenses, capital budgets,
2 marginal and embedded costs, mortality and net
3 salvage, revenue allocation and rate design. My
4 current duties include the review and evaluation
5 of electric utility capital and O&M budgets and
6 the engineering analyses of electric utility
7 rate, pricing, and tariff proposals.

8 Q. Have you previously provided testimony before
9 the New York State Public Service Commission
10 (Commission)?

11 A. Yes. I have testified before the Commission in
12 numerous proceedings on issues related to
13 electric utility sales, revenues, expenses, cost
14 studies, depreciation, revenue allocation, and
15 rate design.

16 Q. What is the purpose of your testimony in this
17 proceeding?

18 A. My testimony will address Consolidated Edison
19 Company of New York, Inc.'s (Con Edison or the
20 Company) proposals regarding book depreciation
21 rates and the depreciation reserve.

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

24 A. I recommend that the Commission approve the

1 change to a single life table as proposed by the
2 Company and that the Commission recognize that a
3 reserve deficiency existed as of December 31,
4 2007. However, as also proposed by the Company,
5 I recommend that delivery rates not be adjusted
6 at this time to begin the recovery of the
7 reserve deficiency, but instead the difference
8 between the book reserve and the computed
9 reserve be addressed in a future rate
10 proceeding. I am also recommending that no
11 other changes be made to the Company's
12 depreciation rates at this time.

13 Q. What is the purpose of depreciation?

14 A. According to the National Association of
15 Regulatory Utility Commissioners (NARUC),
16 Uniform System of Accounts for Class A and Class
17 B Electric Utilities, 1958, rev., 1962:
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 Depreciation accounting is the process of
7 charging this loss of service value to the
8 income over the property's useful life.

9 Q. Please summarize the Company's proposal
10 regarding changes to its depreciation factors.

11 A. In Case 07-E-0523, the Company's filing split
12 the book cost of meters into two pieces to
13 differentiate the Company's existing meters from
14 the meters it intends to use as part of its
15 Advanced Metering Infrastructure (AMI)
16 initiative. In that proceeding, the Company
17 proposed a life table of h1.0 as appropriate for
18 the AMI meters but did not specify a life table
19 for its non-AMI meters. In this proceeding, the
20 Company proposes the use of the same h1.0 life
21 table for non-AMI meters.

22 Q. Do you take issue with the Company's proposal?

23 A. No. I recommend acceptance of the single life
24 table for non-AMI meters.

1 Q. What effect does your recommended acceptance of
2 the single life table for non-AMI meters have on
3 the Company's annual depreciation expense?

4 A. Life tables are not used for the calculation of
5 depreciation expense, thus my recommendation has
6 no effect on the Company's annual depreciation
7 expense. However, life tables are used for the
8 calculation of the computed reserve, which is
9 used to measure the adequacy of the book reserve
10 and ultimately depreciation rates. Use of the
11 recommended life table results in a slight
12 reduction to Con Edison's computed reserve for
13 depreciation. Because the Company's book
14 reserve is less than its computed reserve, a
15 reduction in the computed reserve reduces the
16 existing reserve deficiency. Generally, having
17 a low reserve deficiency, or a slight reserve
18 surplus, indicates that depreciation rates are
19 adequately recovering the Company's depreciation
20 expense.

21 Q. Have you reviewed and analyzed the factors that
22 determine the annual depreciation expense for
23 the Company's electric and common plant?

24 A. Yes, I have. I began with Con Edison's

1 summarized property mortality study provided in
2 Exhibit ____ (CH-2). This exhibit is described
3 in Company witness Hutcheson's pre-filed
4 testimony, pages 12-13, as "computer generated
5 average service lives, equivalent "h" curves,
6 and other statistical data indicated by the
7 rolling and shrinking band analysis of the
8 Company's mortality experience with respect to
9 Electric Plant from 1938, or the earliest
10 available date, through 2006." The data is
11 organized into various groupings referred to as
12 rolling or shrinking bands. These retirement
13 bands are periods of years over which the
14 retirement experience is analyzed. Rolling
15 bands used in this study are retirement bands of
16 constant 10-year width (i.e., 1995-2004, 1996-
17 2005, 1997-2006). Shrinking bands are
18 retirement bands that initially aggregate all
19 retirement years and then subtract one year at a
20 time, beginning with the earliest year, until a
21 one-year retirement band is developed.
22 Normally, as the width of the shrinking
23 retirement band increases, the pattern exhibited
24 by the observed mortality data becomes more

1 uniform, i.e., the vintage variations are
2 smoothed out.

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

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

23 Q. Please continue.

24 A. With regard to net salvage factors, I started

1 with the Company's Summary of Historical Net
2 Salvage contained in Exhibit ____ (CH-3). This
3 exhibit, as described by Company Witness
4 Hutcheson, in his pre-filed testimony at page
5 15, contains "the historical net salvage in
6 dollar amount and as a percent of the book cost
7 of plant retired" for each of Con Edison's
8 depreciable Electric and Common Utility Plant
9 accounts. "The book cost of plant retired, cost
10 of removal and salvage is shown for the most
11 recent 25 years for the actual retirements in
12 the indicated calendar years. The exhibit also
13 provides totals for the full experience band
14 ending in 2007, rolling bands five years in
15 width, and a computation of the net salvage as a
16 percent of the book cost retired for the full
17 experience band, each rolling band, and each
18 shrinking band."

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

21 A. Similar to the mortality study, the data
22 contained in Company Exhibit ____ (CH-3) is
23 organized into rolling and shrinking bands. I
24 consider trends within the bands, range of

1 percentages, most recent percentages, and the
2 full experience percentage.

3 Q. Did you consider other factors that would lead
4 you to move away from the study results when
5 required?

6 A. Yes. I have also considered the size and scope
7 of Con Edison's proposed construction program,
8 which may have some effect on both the average
9 service lives and the net salvage factors.
10 However, it is difficult to determine just what
11 the associated long term impact may be on the
12 plant accounts. In addition, I considered the
13 fact that changes to the Company's depreciation
14 factors were recently approved in the
15 Commission's rate order in Case 07-E-0523 (2008
16 Rate Order).

17 Q. Why do Con Edison's construction program and the
18 depreciation rate changes in the 2008 Rate Order
19 influence your opinion as to the appropriateness
20 of the Company's depreciation factors?

21 A. Dramatic or continual changes to depreciation
22 rates could result in large swings in the amount
23 of depreciation expense being collected from
24 customers. In order to minimize large temporary

1 rate fluctuations, it is more appropriate to
2 move slowly toward the data results instead of
3 possibly overshooting them by moving too
4 quickly. Therefore, it is more appropriate to
5 take a conservative approach by considering more
6 than one year of additional data and by allowing
7 the effects of the recently approved changes to
8 take place.

9 Q. Are the recently approved changes in the 2008
10 Rate Order reflected in the Company's
11 depreciation reserve, as shown in Exhibit___(CH-
12 1)?

13 A. No. The changes to the Company's depreciation
14 rates, pursuant to the 2008 Rate Order, became
15 effective April 1, 2008. The Company's reserve
16 per books, as shown in Company Witness
17 Hutcheson's Exhibit___(CH-1), is only shown for
18 December 31, 2007. Thus, the impacts of the
19 recently approved changes are not reflected.

20 Q. What have you concluded from your review and
21 analysis?

22 A. I have concluded that the Company's proposed use
23 of life table h1.0 for non-AMI meters is
24 appropriate and that the other existing factors

1 used to calculate annual depreciation expense
2 and the computed reserve for depreciation should
3 not be changed at this time. The Commission
4 approved a number of changes to depreciation
5 factors in the 2008 Rate Order. Since that
6 time, only one year of additional retirement
7 data has become available for reflection in the
8 Company's mortality and net salvage studies.
9 Based on my review of the Company's mortality
10 and net salvage studies, the single additional
11 year of data does not materially change the
12 average service lives, life tables, or net
13 salvage factors indicated by those studies.

14 Q. Company Witness Hutcheson, at page 7 of his pre-
15 filed testimony, states that "trends toward
16 increased negative net salvage factors for many
17 of the accounts have continued, even with only
18 one additional year of data added to the study."
19 Do you agree?

20 A. Yes. In fact, numerous increases to net salvage
21 values were directed by the Commission in the
22 rate orders issued in Case 04-E-0572 and Case
23 07-E-0523. However, because the impacts of the
24 changes approved in Case 07-E-0523 have yet to

1 be reflected in the Company's reserve per books,
2 the difference between the reserve per books and
3 the computed reserve should be less than it was
4 as of December 31, 2007, as presented by the
5 Company. It would be premature, in my view, to
6 make additional changes to those net salvage
7 values without properly considering the
8 additional amount of depreciation expense being
9 collected by the Company. Rather, I recommend
10 that those accounts be reexamined in a future
11 rate proceeding and adjusted accordingly.

12 Q. Have you reviewed the difference between the
13 reserve per books and the computed reserve?

14 A. Yes. As I mentioned earlier, the change of a
15 single life table proposed in this testimony
16 results in a slight reduction to Con Edison's
17 computed reserve. However, a deficiency
18 continues to exist for the Company's electric
19 plant primarily resulting from the Commission's
20 decision in the 2008 Rate Order to limit the
21 recovery of the reserve deficiency to the
22 amounts outside the 10% tolerance band. This
23 deficiency is exacerbated by the fact that the
24 depreciation rate changes approved in the 2008

1 Rate Order are not reflected in the reserve per
2 books, as I previously discussed.

3 Q. Are you recommending that the reserve deficiency
4 be recovered from customers?

5 A. No, not at this time. I am acknowledging that a
6 deficiency existed as of December 31, 2007, but
7 recommend that delivery rates not be adjusted to
8 begin recovery of the reserve deficiency at this
9 time. I recommend that the difference between
10 book reserve and the computed reserve be
11 revisited in a future rate proceeding.

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

13 A. Yes, it does.