STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York for Electric Service	Case 08-E-0539

DIRECT TESTIMONY AND

EXHIBIT

OF

TARIQ N. NIAZI

Dated: September 8, 2008
Albany, New York

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

A. Tariq N. Niazi, Chief Economist, New York State Consumer Protection Board ("CPB"), Suite 2101, Five Empire State Plaza, Albany, New York 12223.

Q. Mr. Niazi, please summarize your background and experience.

A. I passed my candidacy examination, completed all required course work and passed all comprehensive examinations in the Doctoral Program in Managerial Economics at Rensselaer Polytechnic Institute. I have a Master's Degree in Economics from the State University of New York at Albany. I also received a Master's Degree in Public Administration from Punjab University in Pakistan and a Bachelor's Degree in Economics and Political Science at Forman Christian College in Pakistan.

I have been employed by the CPB since March 1981, first as an economic consultant and then as a rate analyst. Later, I was promoted to the position of Principal Economist. I was appointed to my present position in October 1990. I have worked on numerous issues in electric, gas, telephone and water proceedings. My responsibilities are in the areas of economic and financial analysis, rate design, policy analysis, cost of service, tariff analysis and cost of capital.

I serve as the CPB's representative at the New York Independent System Operator ("NYISO"). The CPB has been designated by the NYISO as

the statewide consumer advocate and is a formal voting member of the NYISO's decision making committees. I also represent the CPB on the Natural Gas Reliability Advisory Group as a consumer representative. Finally, I also serve on the New York State Energy Research and Development Authority's System Benefit Advisory Group.

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

A. Yes. I have testified in numerous proceedings before the Public Service Commission ("PSC" or "Commission")

Q. What is the purpose of your testimony?

A. My testimony has two parts. In Part 1, I demonstrate that Consolidated Edison Company of New York, Inc.'s ("Con Edison" or the "Company") requested return on equity of 11.0% for its electric business is overstated and that the Company's current cost of equity is 9.91%. I also respond to several assertions made by the Company in support of its return estimate and identify several errors in its presentation.

In Part II, I address the Company's rate design proposal regarding customer charge increases to SC1 and SC 7, and recommend that these charges not be increased.

Q. Have you prepared an exhibit for your testimony?

A. Yes. I am sponsoring Exhibit ___ (TNN), consisting of two schedules.

PART I - RATE OF RETURN ON EQUITY

Q. What return on common equity is Con Edison requesting for its electric operations?

A. Con Edison is requesting a return on common equity of 11.0%. Its recommendation is based on averaging the results of multiple estimates from three different methods: 1) an average of 11.4% using the discounted cash flow method ("DCF") based on four different estimates ranging from 11.0% to 11.6%; 2) an average of 11.2% using the capital asset pricing model ("CAPM") based on two estimates of 11.0% and 11.4%; and 3) an average of 10.3% using the Risk Premium method based on two estimates of 10.5% and 10.1%. In addition, Con Edison is recommending a 0.3% premium for committing not to seek further rate increases for three years. As I discuss in my testimony, the equity returns based on the DCF and CAPM methods are overestimated and should be rejected, while equity returns based on the Risk Premium method should be discarded as the use of this method has been repeatedly rejected by the Commission. Finally, a premium for an extended stay out, as I discuss later in my testimony, should also be rejected at this time.

Q. What is your recommended rate of return or capitalization rate for Con Edison?

A. I recommend a total equity return of 9.91% for Con Edison. My equity cost estimate is based on application of the DCF and CAPM methods to a proxy group of electric and combination electric and gas companies with investment grade debt ratings by Moody's and Standard & Poor's ("S&P"). This rating criterion is different from the "A/A" rated proxy group for combination electric and gas companies reflected in the Recommended Decision in the Generic Finance Case (91-M-0509). As explained below, this change in the rating standard is appropriate and necessary to arrive at a proxy group of sufficient size to obtain reliable results. In other respects, my approach is consistent with the Recommended Decision in the Generic Finance Case.

The DCF approach applied to the proxy group results in a median equity cost estimate of 9.76%. The CAPM approach applied to the same proxy group produces an equity cost of 10.03% for the traditional CAPM and 10.37% for the zero-beta CAPM. The average of the two CAPM methods results in an equity return of 10.20%. The CAPM analysis is based on a 11.4% market return, a .81 proxy group beta, a risk free rate of 4.18% and a risk premium of 7.22%. Applying weightings of 2/3 to the median DCF result and 1/3 to the average of the CAPM results, in accordance with the Recommended Decision in the Generic Finance case and the Commission's decision in several recent

cases,[1] I arrive at an equity return of 9.91% for Con Edison's electric operations.

A. Proxy Group

Q. How did you select the proxy group companies for your analysis?

A. I used the following criteria in selecting the electric proxy group: 1) each company must be listed by Value Line as an electric utility company composed of electric or combination electric and gas distribution companies; 2) each company must have investment grade debt rated by Moody's and Standard & Poor's; 3) over 70% of each company's total revenues must be derived from regulated utility operations; and 4) the company should not be involved in merger/acquisition activity.

Based on the stated criteria, I started the selection of the proxy group by looking at all 59 electric and combination electric and gas companies listed by Value Line. I used the latest issues of the Value Line Investment Survey dated May 30, 2008, June 27, 2008, and August 8, 2008 listing electric utility companies in the Eastern, Central and Western states respectively. In step two, I discarded any company that was rated below investment grade by either

[1] See, most recently, Case 05-E-1222, New York State Electric & Gas Corporation, Order Adopting Recommended Decision with Modifications, August 23, 2006, Cases 02-E-0198 and 02-G-0199, Rochester Gas and Electric Corporation, Order Adopting Recommended Decision with Modifications, March 7, 2003, p. 72 and Case 07-E-0523, Consolidated Edison Company of New York, Inc., Order Establishing Rates for Electric Service, March 25, 2008.

Moody's or Standard & Poor's. As a result of this screen, 9 companies rated below investment grade were discarded, leaving 50 companies in the proxy group. Next, I reviewed the level of regulated operations of the 50 companies with an investment grade debt rating in the proxy group, discarding companies with less than 70% of total annual revenues derived from regulated utility operations. As a result of this criteria, an additional 15 companies were excluded from proxy group, leaving 35 companies. I further discarded 4 companies; Energy East Corporation from the proxy group as it is in the process of being acquired by Iberdrola SA, El Paso Electric since it is not paying any dividends, ITC Holding Corp. as it is a transmission only electric company and UIL Holding Corp. as its debt is rated only by Moody's and not Standard & Poor's. After discarding companies that did not meet the criteria for inclusion in the proxy group listed above, the proxy group I have used for my analysis is comprised of 31 companies as shown in Exhibit__ (TNN), Schedule 1.

Q. Why did you not follow the criteria established in the Generic Finance Case for the selection of the proxy group?

A. It has become virtually impossible to follow the criteria for selecting proxy groups established in the Generic Finance Case because there is not a large enough sample on which to establish a reliable estimate. Since the Return on

Equity Consensus Document [2] (dated June 2, 1993) and the Recommended Decision in the Generic Finance Case (dated July 19, 1994) were issued, significant changes have occurred in the electric industry in terms of debt ratings and the level of regulated utility operations. When the Return on Equity Consensus Document was issued, there were 33 electric and combination electric and gas companies that were rated "A/A" by Moody's and Standard & Poor's. That number has now dwindled to six companies, two of which have regulated revenues less than 70% of total revenues. In other words, only four companies would make the proxy group based on "A/A" rating as established in the Generic Finance Case. That is not a large enough sample on which to establish a reliable estimate of the cost of equity. In Con Edison's last proceeding (Case 07-E-0523), the Judges made the following observation:

> With respect to the use of proxy group results, it has become increasingly difficult to find representative firms, in sufficient numbers, for the electric combination and the natural gas utility companies that operate in New York.
>
> * * *
>
> As long as the Generic Finance Case approach can be sustained, we do not recommend that the Commission revert to the approach that it previously used that relied predominantly on the market data available for the company it was addressing in a particular rate proceeding (Recommend Decision, p. 135)

[2] Prepared by Signatory Members of the Electric and Gas Industry Group that included the Department of Public Service and all New York utilities including the Consolidated Edison Company of New York, Inc.

Q. Did the Generic Finance Case establish a level of regulated operations for inclusion in the electric proxy group?

A. No. The only criteria established in the Generic Finance Case for the electric company proxy group was that all companies included must have senior debt rated in the "A" category by Moody's and Standard & Poor's.[3] Presumably, most electric utilities at that time had exclusively regulated operations; hence, the level of revenues derived from regulated operations was not an issue. However, the Generic Finance Case did address the issue of regulated versus unregulated operations in regards to the establishment of the gas proxy group composed of "pure play" gas distribution companies. It required that over 96% of each company's total revenues must be derived from gas utility operations.[4]

The proxy group of 31 companies I used for my analysis has an average of 88.5% of its revenues coming from regulated operations. Con Edison in comparison has 82.5% of its revenues derived from regulated operations.

B. Discounted Cash Flow Model

Q. How did you arrive at your DCF equity return estimate for Con Edison?

A. I applied a two-stage DCF growth model to the proxy group. This is the same

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[3] Id., at 6.

[4] Id.

model that was developed in the Generic Finance Proceeding and was adopted by the ALJs in their Recommended Decision. It has been consistently relied upon by the Commission for over a decade, including the Company's last proceeding (Case 07-E-0523, Consolidated Edison Company of New York, Inc.). As shown in Exhibit__ (TNN), Schedule 1, page 3 of 3, this resulted in a median equity return of 9.76% for Con Edison.

Q. Could you please briefly describe the DCF method that you applied?

A. Yes. The DCF method is a market based approach that determines the return on equity from the investor's perspective. The familiar DCF formula is:

$$P_o = \frac{D_1}{k-g}$$

This fundamental equation states that a rational investor equates the current market price (P_o) of a stock to the expected future returns from that stock. Future returns from the stock are the expected stream of dividends discounted at the market-required return (k), net of the effect of growth (g). D_1 is the first year dividend.

Since the capitalization rate is not directly observable, the basic idea of the DCF approach is to derive the cost of equity from the observed share price and an estimate of investor expected future dividends. This is based on the

intuitive concept that dividends plus capital appreciation reflect the investor's total expected return.

The DCF formula can be rewritten by solving the above equation for the cost of equity (k).

$$k = D_1/P_o + g$$

In terms of the rewritten DCF formula, the cost of equity (k) is equal to the sum of the expected dividend yield (D_1/P_o) and the expected growth rate of future dividends (g).

Q. What is the first component of the DCF formulation [($k = D_1/P_o + g$)]?

A. The first component of the DCF formulation is the expected dividend yield (D_1/P_o). It is the quotient of the expected future dividends and the current stock price. A stock's dividend yield, in comparison with the dividend yield of other stocks, indicates whether it is an income or a growth asset. For example, bonds generally have high yields and low growth, and are hence considered income assets. Conversely, common stocks of growing firms have low yields and high growth, and are generally considered growth assets.

Q. What is the growth term (g) in the standard DCF formula?

A. The growth term in the DCF formula represents the growth in the value of the

firm's common stock as reflected through dividend and stock price increases. The DCF approach assumes that the firm is operating in a "steady state." If the steady state holds, the growth rates in earnings per share, dividends per share and book value per share are the same, and are a product of the retention ratio and the expected return on equity.

In reality, it is not possible to achieve a "true" steady state. Thus, book value per share, dividends per share and earnings per share generally grow at different rates that may all differ from the growth rate indicated by the retention ratio and expected return on equity.

Q. How did you estimate the two-stage proxy group DCF equity returns for Con Edison?

A. I estimated the two-stage proxy group DCF equity return, relying on the model used in the Generic Finance Proceeding by the Electric and Gas Industry Group. The six-month average prices for the companies in the proxy group are the average of the monthly high and low closing price of each stock. I used the period February 1, 2008 to July 31, 2008. The other data, including dividends per share, earnings per share, book value per share and the shares of common stock, are all taken from the May 30, 2008, June 27, 2008, and August 8, 2008, issues of the Value Line Investment Survey. As shown in

Exhibit__ (TNN), Schedule 1, page 3 of 3, the median equity return based on this method is 9.76%.

C. Capital Asset Pricing Model

Q. What were the results of your application of the CAPM methodology to estimate Con Edison's equity return?

A. The CAPM produced a required return on equity of 10.03% for the traditional CAPM and 10.37% for the zero-beta CAPM approach. The average of the two CAPM approaches resulted in an equity return of 10.20%. Exhibit__ (TNN), Schedule 2 provides a detailed explanation of the calculations used to determine the equity return under the CAPM.

Q. Have you used the same CAPM methodology that was adopted in the Generic Finance Case?

A. Yes. The only difference is the use of Merrill Lynch based expected return rather than one based on historic data from Ibbotson Associates. Once again, the Commission adopted this change from the Generic Finance methodology over a decade ago and has consistently relied upon it. In Case 05-E-1222, the Commission said the following:

> As for the CAPM, NYSEG's reliance on the historic Ibbotson data and a DCF of the S&P 500 to estimate the market return is

> rejected. The historic Ibbotson data is inconsistent with more recent forward-looking Ibbotson estimates and the S&P 500 DCF relies upon the single growth DCF model which the Commission has not employed for over a decade.
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> (Order Adopting Recommended Decision with Modifications, Issued and Effective August 23, 2006, at 96.)

Q. Please briefly describe the CAPM approach for estimating equity returns.

A. The CAPM formally describes the trade-off between risk and required return for securities. The equation below illustrates that the rate of return required by investors (Rc) consists of a risk-free return (Rf), plus a premium compensating investors for bearing the risk commensurate with the stock's market risk (Beta) and the market price of risk (Rm - Rf). The risk premium varies from stock to stock. The traditional CAPM formula is stated as:

$$Rc = Rf + Beta\ (Rm - Rf)$$

A basic premise underlying the CAPM is that there is less risk associated with an investment in a relatively stable stock than in the stock of a small speculative venture. As a result, investors in a speculative venture stock will require higher returns than investors in a stable stock, because they are assuming additional risk. The CAPM quantifies the additional return investors require for accepting this higher risk.

Q. Please describe Exhibit__ (TNN), Schedule 2.

A. Exhibit__ (TNN), Schedule 2 consists of two pages. Page 1 shows the traditional CAPM formula used to derive the required return for the proxy group, while page 2 shows the zero-beta CAPM application. The required return is the sum of the risk-free rate and the market-risk premium adjusted using the proxy group average beta.

Q. How did you determine the risk free rate, market return and beta used in this analysis?

A. To determine the risk-free rate, I used a six-month average ending July 31, 2008, of 30-Year and 10-year Treasury Bond Yields as reported by the Federal Reserve Board. (Federal Reserve Statistical Release, Historical Data) That average is 4.18%.

The beta of 0.81 used to adjust the market risk-premium was derived from the proxy group as the average of the individual company betas as reported by Value Line. These are the same electric and combination electric and gas proxy group companies used for the DCF analysis.

The market return of 11.4% I used is based on the August 11, 2008 issue of Merrill Lynch Quantitative Profiles - Monthly Insights for Equity Management. The 11.4% estimate is the implied return for a portfolio of 1,162 firms.

The risk premium was derived by subtracting the risk-free rate of 4.18%

from the market return of 11.4%, resulting in a risk premium of 7.22%.

Incorporating all variables in the respective formulas, indicates a required return of 10.03% for the traditional CAPM approach and 10.37% for the zero-beta CAPM approach, as shown in Exhibit__(TNN), Schedule 2, page 1 and 2 respectively. The average of the two CAPM approaches results in an equity estimate of 10.20% ((10.03% + 10.37%)/2).

D. Overall Recommendation

Q. What is your estimate of equity cost for Con Edison?

A. I estimated the cost of equity by applying the 2/3 DCF – 1/3 CAPM weighting consistently used by the Commission and also recommended by the Judges in the Generic Finance case. My median DCF estimate is 9.76% and my average CAPM estimate is 10.20%. With the DCF estimate given 2/3 weight and the CAPM estimate given 1/3 weight, the resulting return before any adjustment, is 9.91%.

Q. Did you make any adjustments to the estimated equity return for Con Edison?

A. Yes. I adjusted the estimated return of 9.91% for credit quality. Con Edison is rated A- by Standard & Poor's and A2 by Moody's. The median bond ratings of the proxy groups I have used are Baa2 by Moody's and BBB by Standard & Poor's, both in the middle of the "B" rating category. To account for the

differences in the bond ratings of the proxy group and Con Edison, I looked at the difference in A-rated and Baa/BBB-rated long term utility bond yields. Over the six-month period from February 2008 to July 2008, A-rated utility bond yields averaged 6.18%, while Baa/BBB-rated utility bond yields over the same period averaged 6.40%. I took 15 basis points or two-thirds of the 22 basis points difference between A-rated and Baa/BBB-rated long-term utility bond yields as the basis of my credit quality adjustment. I did not use the entire difference in bond yields between "A" and "Baa/BBB" rated utility bonds recognizing that the Standard & Poor's rating of Consolidated Edison is on the low end of the "A" rated category. Subtracting 15 basis points from my earlier estimate of 9.91% results in an equity return estimate for Con Edison of 9.76% after applying the credit quality adjustment.

Q. Are you proposing an issuance adjustment for the costs of equity issuance during the rate year?

A. Yes. Company Exhibit_ (AP-13), shows that the company will be issuing $477 million of equity during the rate year. Based on the method approved in the Generic Finance Case and relied upon by the Commission in subsequent proceedings, I estimated an equity issuance allowance of 15 basis points. Based on issuance costs of approximately 3.0% that is consistent with previous company equity financing, I have estimated an issuance cost of $14.3

million. The average common equity balance reported by the Company in Exhibit_ (AP-12), Schedule 1 as updated on July 25, 2008, is approximately $9.4 billion. The $14 million issuance cost is approximately 0.15% of the $9.4 billion common equity balance.

Adding 15 basis points to my equity return estimate after credit quality adjustment of 9.76% results in a final equity estimate of 9.91%. I recommend that the issuance adjustment be updated at the time of the Commission's Order, based on the approved capital structure and the actual amount of the equity issuance.

Q. Have you made an adjustment to your equity return recommendation for a multi-year rate plan?

A. No, not at this time. I recommend that the Commission establish an equity return for one year. The CPB is not willing to suggest a longer-term return rate based on Con Edison filed plan, which it does not support as presented, and cannot speculate about the duration of any plan that may ultimately result from this proceeding. Should a comprehensive and balanced multi-year rate plan be addressed in negotiations, the CPB would be willing to discuss the appropriateness of an adjustment to its calculated equity return for a multi-year stay out.

Q. Have you estimated the revenue impact of your 9.91% equity return recommendation as compared to the Company's 11.0% equity allowance request?

A. Yes. Based on the Company's response to CPB Interrogatory No. 8, an increase/decrease of 10 basis points in equity return has a revenue requirement impact of approximately $12 million. Since the difference between my equity return estimate of 9.91% and Con Edison's request of 11.0% is 109 basis points, Con Edison's electric customers would save approximately $131 million if my recommendation is adopted.

E. Analysis of Consolidated Edison's Equity Return Proposal

Q. Please briefly describe how the Company estimated its proposed cost of equity of 11.0%.

A. Company Witness Dr. Roger Morin recommends an equity return of 11.0% based on the use of three different methods. The three methods he uses are DCF, CAPM, and Risk Premium. As shown in Exhibits RAM-5, RAM-6, RAM-7 and RAM-8, Dr. Morin estimated four separate DCF equity returns using different combinations of proxy groups and growth rates. Dr. Morin's DCF calculations resulted in equity returns ranging from 10.7 % to 11.4%. He then added 20 to 30 basis points for flotation costs to his DCF estimates resulting in equity return estimates ranging from 11.0% to 11.6%. Second, he used the

CAPM approach that produced equity returns of 10.7% and 11.1% for the traditional and zero-beta CAPM, respectively. Dr. Morin then added 30 basis points for flotation costs, bringing his CAPM estimates to 11.0% and 11.4% for the traditional and zero-beta CAPM respectively. Third, Dr. Morin used two Risk Premium analyses, resulting in estimates of 10.1% and 10.5% equity return.

Q. Do you agree with the Company's approach in estimating its equity return?

A. No. Dr. Morin's estimates should not be relied upon. His DCF analysis is not consistent with the Recommended Decision in the Generic Finance Case, as well as the numerous PSC decisions based on that methodology, and results in estimates that are overstated. His CAPM estimate is based on the use of unrealistic market returns and is also overstated. Moreover, Dr. Morin's selection of proxy groups is arbitrary, flawed and inconsistent with the intent of the Generic Finance Case. Finally, the use of the Risk Premium method was rejected by the ALJs in the Generic Finance Case and has been repeatedly rejected by the Commission.

Q. Please briefly describe how Dr. Morin selected his proxy groups.

A. Dr. Morin utilizes two different proxy groups, the first based on companies designated as distribution utilities by S&P and the second based on Moody's

Electric Utility Index. The S&P list (Company Exhibit RAM-4, Page 1 of 4) includes all kinds of distribution utility companies, however, only about 20 are electric and combination electric and gas utilities, while the rest are gas only and water companies. The Moody's list also has 20 electric and combination electric and gas utilities. Next, Dr. Morin excludes companies from the lists provided by S&P and Moody's based on the following criteria: foreign companies and those with bond ratings below BBB-; companies without Value line coverage; and companies with less than 50% of revenues from regulated operations. As shown in Company Exhibits RAM-5 and RAM-7, after applying the criteria established by Dr. Morin, the S&P based proxy group is reduced to12 companies and the Moody's based proxy group is reduced to 15 companies.

Q. Please comment on Dr. Morin's selection of proxy groups.

A. Dr. Morin does not explain why he starts the selection of the proxy groups with lists of utilities provided by S&P and the Moody's. Moreover, he does not offer an explanation as to the criteria used by S&P or Moody's for inclusion in their lists. It appears that the selection of companies included in Dr. Morin's proxy groups is completely arbitrary. The proxy groups have included some utilities while excluding others without any proper basis. If Dr. Morin had applied his own criteria to all the electric and combination electric and gas utilities for

which Value Line provides data, he would have included an additional 30 electric and combination electric and gas utilities to his S&P based proxy group and 27 additional companies to his Moody's based proxy group. All the companies that were left out of his proxy groups meet his own criteria for inclusion in the proxy group; they all have investment grade rating, they all have Value Line coverage and they all have more than 50% revenues from regulated operations.

Q. Are you suggesting that Dr. Morin should have included all the 30 companies he left out of his S&P based proxy group and all the 27 companies he left out of the Moody's based proxy group?

A. Yes. Based on his own criteria, he should have included all these companies in his proxy group. However, some of the companies should not be included based on additional criteria that most analysts use. For instance, as discussed above, I excluded four companies that were either involved in a merger, did not pay a dividend, are a transmission only company or whose debt was not rated by both Moody's and S&P. Additionally, Dr. Morin and I have used different criteria regarding the level of revenues derived from regulated operations for inclusion in the proxy group. I have used at least 70% of revenues from regulated operations as a basis of inclusion in the proxy group, while Dr. Morin has used 50%.

Applying the additional criteria I have used in excluding companies from the proxy group (resulting in excluding an additional four companies discussed above) and applying a screen for regulated utility operations, similar to the one I used, i.e., exclude companies with under 70% regulated utility revenues, would still leave 20 companies meeting Dr. Morin's other two criteria and should be included in his S&P based proxy group. Similarly, 17 companies would still meet Dr. Morin's criteria, after applying the additional criteria I used and the 70% screen for regulated utility operations, and should be included in his Moody's based proxy group.

Q. Going back to Dr. Morin's original proxy groups of 12 S&P based and 15 Moody's based companies; did you find other problems with this selection?

A. Yes. Both of his proxy groups include Energy East Corporation which is potentially slated to be acquired by Iberdola SA and should be excluded from the proxy groups.

Q. What is your conclusion regarding Dr. Morin's proxy group selection?

A. As shown above, the selection of Dr. Morin's proxy groups is arbitrary. Instead of establishing a selection criteria and then applying it across the electric utility industry, he started with specified lists of companies used by S&P and Moody's that excluded more companies than they included based on his own

criteria of being investment grade, having Value Line coverage and meeting a threshold for revenues from regulated operations. In contrast, the process established in the Generic Finance Case and used by the CPB is based on the logic of starting with all electric and combination electric and gas utilities and than applying an agreed upon criteria to all those companies to arrive at a reasonable proxy group. There seems to be no rational basis for excluding certain utilities from Dr. Morin's proxy group. For instance FPL Group, Inc. with a very similar rating as Consolidated Edison ("A2" by Moody's and "A" by S&P for FPL Group, Inc. versus "A2" by Moody's and "A-" by S&P for Consolidated Edison) and a relatively similar percentage of revenues from regulated operations (76.1% for FPL Group, Inc. versus 82.5% for Consolidated Edison) was excluded from both of Dr. Morin's proxy groups. Similarly, NSTAR, another utility with relatively similar bond rating and level of revenues derived from regulated operations as Consolidated Edison, is included in the S&P based proxy group but excluded from the Moody's based proxy group. The only possible explanation for excluding these companies is that they were not included in the initial list provided by S&P and Moody's. This begs the question as to the criteria used by S&P and Moody's for inclusion in their lists. Since the formation of Dr. Morin's proxy groups are completely arbitrary and lacking in logical basis, the application of DCF and CAPM methods to these proxy groups leads to unreliable results.

Q. Please briefly describe Dr. Morin's DCF analysis.

A. Dr. Morin uses a single-stage model to perform four separate DCF analyses. He uses two different proxy groups and two different estimates of growth rates to perform these analyses. His first proxy group, based on companies designated as distribution utilities by S&P (S&P based proxy group), is composed of 12 electric utilities, while his second proxy group based companies in the Moody's Electric Utility Index (Moody's based proxy group) is composed of 15 companies. For both proxy groups, Dr. Morin estimates the DCF equity return alternatively using Value Line estimates of earnings per share growth and Zack's long-term earnings growth estimates. For the S&P based proxy group he estimates returns of 11.4% and 11.6% for the Value Line and Zack based growth rates respectively. For the Moody's based proxy group, Dr. Morin estimates DCF equity returns of 11.0% and 11.6% for the Value Line and Zack based growth rates, respectively. The average of his four different DCF equity cost estimates is 11.4%.

Q. Please comment on the Company's DCF analysis.

A. Dr. Morin's DCF analysis is similar to the one he presented in the Company's last proceeding (Case 07-E-0523). He relies on analysts' long-term forecasts of earnings growth instead of expected dividend growth. Alternatively applying Value Line and Zack's earnings growth forecasts to S&P and Moody's based

proxy groups, Dr. Morin arrives at four different DCF equity cost estimates. The Judge in rejecting Dr. Morin's approach in the Company's last proceeding said the following:

> We do not find any need in this case to adopt any alternatives or variants for the components [of] the DCF and the CAPM methods. We believe that the Commission should adhere to the calculation of these methods as specified in the Generic Finance Case. (Case 07-E-0523, Recommended Decision, p.134-135.)

The Commission in upholding the Recommended Decision said the following:

> We find no merit in Con Edison's claim that the DCF method and the Generic Finance Case approach are flawed and should not be used without an upward adjustment applied to the indicated equity return allowance.
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> * * *
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> We are satisfied that the DCF method remains a valid and proper method in these circumstances and we are not inclined to modify it for the reasons presented by Con Edison. (Case 07-E-0523, Order Establishing Rates for Electric Service, p.123.)

Q. Is Dr. Morin's DCF analysis consistent with that adopted in the Recommended Decision in the Generic Finance Case?

A. No. Dr. Morin's DCF analysis makes a major departure from the methodology specified in the Generic Finance Proceeding. Dr. Morin rejects the use of the two-stage DCF model as recommended in the Generic Finance Case and

consistently relied upon by the Commission and instead uses a single-stage, DCF model. He discusses at length why he uses analysts' forecasts of growth contained in Zack's Investment Research, Inc. and Value Line while rejecting other measures of growth like sustainable growth. The question of whether to use a single-stage or two-stage DCF model along with numerous other issues, many of which have been raised by Dr. Morin, were discussed in great detail in the Generic Finance Proceeding and a consensus methodology was agreed upon. After considering other methods, Dr. Stewart Myers of MIT concluded the following:

> Dr. Myers concluded that if dividend growth is expected to vary in the future, rather than remain constant, then the simplifying assumption that underlies the constant growth DCF model does not work. Hence, the single stage DCF model overestimates the cost of equity if immediate and near term growth is temporarily high, and underestimates the cost of equity if immediate and near term growth is temporarily low.
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> The Myers Report concluded that for companies that have not settled into steady state, there is no general rule for choosing the most accurate growth rate forecasting method. He did note, however, that the use of a two-stage DCF, or even a long form variable growth dividend discounting model could do a better job of capturing this type of situation than a single-stage model. Therefore, errors in estimated investors' forecasts of future growth are inevitable, and will occur even if all the DCF method's assumptions are satisfied.
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> (Return on Equity Consensus Document, issued June 2, 1993, Appendix A at 3, 4.)

Overall, all of Dr. Morin's DCF estimates are overstated and should be rejected.

Q. Please comment further on the Company's DCF approach.

A. I have previously discussed in detail the problems with the formation of the proxy groups used by the Company to estimate its cost equity. In applying the DCF method to these proxy groups, Con Edison enhances the problem by arbitrarily dropping more companies from its proxy group. The Company starts its DCF analysis based on the S&P based proxy group with 12 companies. While estimating the DCF return using the Value Line earnings growth rate it drops Northeast Utilities from the proxy group results because its growth rate is unsustainable. While using Zack's forecast of growth it drops Public Service Enterprise Group instead of Northeast Utilities from the proxy group because of unsustainable growth projections along with two more companies, CH Energy Group and East Energy Corporation, because of the unavailability of growth projections. Its final DCF estimate using the Zack growth forecast is based on a proxy group of only 9 companies. Similarly, it starts its DCF analysis based on the Moody's based proxy group with 15 companies using the Value Line's projection of earnings growth rate. However, in using the Zack's forecast of growth, it again drops two utilities, CH Energy Group and Energy East Corporation from its proxy group and also Public Service

Enterprise Group for an unsustainable growth rate. Its final estimate using the Zack growth forecast for the Moody's based proxy group has only 12 companies.

As a result of arbitrarily dropping companies, Dr. Morin's four DCF estimates are based on proxy groups of different sizes and composed of different companies. In some cases he drops companies based on unsustainable growth rates only to include them in another proxy group. In setting up his proxy groups, he used the availability of Value Line data as one of the criteria for inclusion. However, in his analysis using the Zack's based growth rates, he drops companies that have Value Line data. In sum, it appears that Dr. Morin's analysis is result driven rather than based on a logical criteria applied uniformly throughout the analysis.

Q. Please comment on Dr. Morin's flotation cost allowance.

A. Company witness Dr. Morin adds 20 and 30 basis points flotation cost adjustment to his four DCF equity cost estimates and 30 basis points to his two CAPM equity cost estimates. There are two problems with this approach. First, there is no reason why Dr. Morin computes two different amounts for issuance costs, i.e., 20 and 30 basis points added to the DCF estimates and 30 basis points added to the CAPM estimates. Second, issuance costs should be permitted when they are incurred based on the amount of issuance and not

on an on-going basis. The Commission in Cases 02-E-0198 and 02-G-0199 said the following:

> We agree with the Judge's recommendation to exclude a separate adjustment for selling and issuance costs, because our policy has been to allow recovery of such expenses when they are incurred ... (Order issued March 7, 2003, p. 71))

I recommend that the Commission not allow a flotation cost adjustment in the manner proposed by Dr. Morin.

Q. Please briefly describe Dr. Morin's CAPM analysis.

A. Dr. Morin estimates two sets of equity returns based on the traditional and zero-beta CAPM approaches. For risk premium, he uses 7.6% as an average of an Ibbotson Associates based calculation and a DCF analysis applied to the aggregate equity market using Value Line data. For the risk free rate, Dr. Morin uses the U.S. Treasury 30-year bond yield of 4.5% for April 2008. Finally, for beta he uses .82, the average of the two proxy groups that he has utilized for his DCF analysis. Based on these inputs, Dr. Morin computes a traditional CAPM of 10.70% and an empirical or Zero-Beta CAPM of 11.1%. He adds 30 basis points for flotation to these estimates to arrive at final estimates of 11.0% and 11.4% for the traditional and zero-beta CAPM with an average CAPM estimate of 11.2%.

Q. Do you agree with Dr. Morin's CAPM analysis?

A. No. Dr. Morin's risk premium of 7.6% is the average of a 7.1% Ibbotson Associates and an 8.1% DCF derived risk premium. His first risk premium of 7.1% is taken from the Ibbotson Associates study, Stocks, Bonds, Bills and Inflation, 2008 Yearbook, and is based on the spread between common stock returns and the income component of returns on long-term government bonds. Since risk premium is the difference between market return and the risk free rate, Dr. Morin's assumed market return is 11.6% based on the risk free rate of 4.5% he used in his CAPM analysis. Although I do not agree with the use of Ibbotson Associates study, the Company's assumed estimate of market return to derive the risk premium is not very different from the 11.4% market return reported by Merrill Lynch in its August 11, issue of Quantitative Profiles – Monthly Insight for Equity Management. In previous cases however, the risk premium derived by using this method has been too high indicating that it is based on an unreasonable assumed market return. For instance, the Company's estimate of market premium in its last proceeding was based on an assumed market return of 11.9% that was 100 basis points above the 10.9% market return reported by Merrill Lynch for both the S&P 500 and 1,168 firms as reported in its August 10, 2007 issue of Quantitative Profiles – Monthly Insight for Equity Management.

I recommend that even though the risk premium derived from the

Ibbotson Associates study is relatively close to the market risk premium based on the Merrill Lynch market return in this instance, that it not be relied upon. The Commission in Case 95-G-1034, Central Hudson Gas & Electric Corporation, said the following:

> ...the Judge's market return calculation based on Merrill Lynch estimate is a reasonable method of deriving a risk premium; and it avoids the problems of stale data in the Ibbotson estimate, or the circularity of the implied risk premium approach in relying on other commissions' return allowances (Opinion No. 96-28, October 3, 1996, p. 14)

Second, Dr. Morin estimates a risk premium of 8.1% based on a DCF analysis applied to the aggregate equity market using Value Line aggregate stock market index and growth forecasts. The assumed market return underlying Dr. Morin's 8.1% risk premium derivation is completely unrealistic. Given a risk premium of 8.1% and a risk free rate of 4.5%, the underlying market return assumed by Dr. Morin is 12.6%. As stated above, the market return reported by Merrill Lynch for 1,162 firms as reported in its August 11, 2008, issue of Quantitative Profiles – Monthly Insight for Equity Management is 11.4%. Merrill Lynch's estimate of market return for the S&P 500 is 11.5%. In other words, Dr. Morin's estimate of market return of 12.6% is 120 basis points higher than the estimate of 11.4% provided by Merrill Lynch. The inputs to the CAPM formula are clearly excessive resulting in equity returns that are also excessive and unrealistic.

Q. Are there other flaws in Dr. Morin's CAPM analysis?

A. Yes. Dr. Morin has not used the approach recommended in the Generic Finance Case and relied upon by the Commission for computing the risk free rate. The Generic Finance Case recommended an average of 10-year and 30-year Treasury bond yields over a six-month period as the basis for computing the risk-free rate. Dr. Morin used only the 30-year Treasury bond yield over a single month (April 2008) as the basis of his risk free rate. Although the risk free rate of 4.5% used by Dr. Morin is the same as my six-month estimate of 30-year bond yields, ignoring the 10-year bond yield of 3.82% instead of averaging the two estimates, as recommended in the Generic Finance Case, leads to an inflated estimate of the risk free rate. I recommend that the Commission reject his sole reliance on the 30-year bond yield.

Q. Please comment on the Risk Premium approach used by Dr. Morin.

A. The Commission has repeatedly rejected the use of the Risk Premium approach as used by Dr. Morin. In Cases 94-G-0885 and 93-G-0765, the Commission referenced the Recommended Decision and rejected the risk premium approach:

> ... the Judge rejected two additional methods: the company's risk premium approach (whose results he deemed too volatile), and comparable earnings (presented by staff because it was

included in the generic finance case consensus proposal).

Opinion No. 95-16, National Fuel Gas Distribution Corporation, issued September 15, 1995, page 44.

More recently, in Case 05-E-1222, the Recommended Decision that was adopted by the Commission said the following:

> To begin, we find that, to the extent that the Company had departed from the generally accepted approach produced by the Generic Finance Case, it has not advanced the consideration of such matters in this proceeding. We recommend that very little weight, if any, be given to NYSEG's risk premium analyses and comparable earnings analysis that clearly depart from the Generic Financing Case approach. We also recommend that the Commission continue to use the DCF and CAPM methods as its principal means to determine the allowed equity returns for the utility companies it regulates.
>
> (Recommended Decision at 62, 63.)

PART II – RATE DESIGN

Q. Please briefly describe the Company's proposal regarding the customer charge for Service Classification ("SC") 1 – Residential & Religious Electric Service and SC 7 – Residential & Religious – Space or Space and Water Heating.

A. Con Edison is proposing to increase the SC1 and SC7 customer charge for electric service by approximately 20 percent. Under the Company's proposal, the customer charge for SC 1 and SC7 will increase by $2.48 per month from the current charge of $12.42 to a proposed charge of $14.90. On an annual

basis, residential customers will pay an additional $29.76 for electric service as a result of this customer charge increase under the Company's proposal.

Q. Do you agree with the Company's proposal?

A. No. There is no reason why the customer charge should be increased. The current customer charge of $12.42 per month is above the customer cost for serving SC1 customers. According to the Company's latest Embedded Cost of Service (ECOS) study, the customer cost for SC1 is $12.20 per month.

If the Commission does not adopt my recommendation, I would alternatively propose that the Commission increase the SC1 and SC7 customer charge, other than that of low-income customers, by no more than the overall percentage increase that it grants the Company. This is what the Commission did in the Company's last proceeding.

Q. Isn't it true that the customer cost for SC7 is higher?

A. Based on the Company's ECOS, the customer cost for SC7 is $17.37 per month. This is higher than the Company's proposed customer charge of $14.90 per month for SC1 and SC7 customers. Although, there may be good reasons for having the same rates for both SC1 and SC7, since they are both residential customers, one cannot justify an increase to SC1 that has 2.6

million customers, based on the need for parity with SC7 that has only 16 thousand customers.

Q. What is your proposal regarding the SC1 and SC7 customer charges?

A. I propose that the SC1 and SC7 customer charge not be increased since the current charge of $12.42 is above the SC1 customer cost of $12.20.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT___(TNN)

SCHEDULES 1 and 2

CONSOLIDATED EDISON COMPANY OF NEW YORK

Two-Stage DCF Growth Model

(PROXY GROUP OF COMBINATION ELECRIC & GAS UTILITIES)

COMPANY NAME	BETA	6 MONTH PRICE *	Dividends Per Share 2008	2009	2010	2011	11-13 (=2012)	08/09	09/10	10/11	11/12
		(A)	(B)	(C)	(C')	(C'')	(D)	(D')	(D'')	(D''')	(D'''')
ALLETE, Inc.	0.90	40.75	1.72	1.80	1.86	1.93	2.00	1.76	1.83	1.90	1.97
Alliant Energy	0.80	35.87	1.40	1.53	1.65	1.78	1.92	1.47	1.59	1.72	1.85
Ameren Corporation	0.80	43.78	2.54	2.54	2.54	2.54	2.54	2.54	2.54	2.54	2.54
American Elec Power Co., Inc.	0.85	42.19	1.67	1.80	1.98	2.18	2.40	1.74	1.89	2.08	2.29
Avista Corp.	0.90	20.46	0.69	0.78	0.89	1.01	1.15	0.74	0.83	0.95	1.08
Cleco Corporation	1.00	24.03	0.90	0.90	1.07	1.27	1.50	0.90	0.98	1.17	1.38
Consolidated Edison, Inc.	0.75	40.91	2.34	2.36	2.38	2.40	2.42	2.35	2.37	2.39	2.41
DPL Inc.	0.80	26.90	1.10	1.16	1.22	1.28	1.34	1.13	1.19	1.25	1.31
DTE Energy Company	0.80	41.96	2.12	2.12	2.18	2.24	2.30	2.12	2.15	2.21	2.27
Duke Energy Corporation	NMF	18.01	0.90	0.94	0.98	1.02	1.06	0.92	0.96	1.00	1.04
Edison International	0.90	51.24	1.24	1.34	1.43	1.53	1.64	1.29	1.39	1.48	1.59
Empire District Elec. Co.	0.85	20.56	1.28	1.28	1.32	1.36	1.40	1.28	1.30	1.34	1.38
Entergy Corporation	0.85	112.79	3.20	3.60	3.96	4.36	4.80	3.40	3.78	4.16	4.58
FPL Group, Inc.	0.80	64.84	1.78	1.92	2.05	2.19	2.34	1.85	1.99	2.12	2.27
FirstEnergy	0.80	74.87	2.25	2.45	2.64	2.84	3.05	2.35	2.54	2.74	2.94
Hawaiian Elec. Industries, Inc.	0.75	24.47	1.24	1.24	1.26	1.28	1.30	1.24	1.25	1.27	1.29
IDACORP, Inc.	0.90	31.06	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
MGE Energy, Inc.	0.95	33.81	1.43	1.45	1.47	1.48	1.50	1.44	1.46	1.47	1.49
NiSource Inc.	0.90	17.81	0.92	0.92	0.95	0.97	1.00	0.92	0.93	0.96	0.99
Northeast Utilities	0.75	26.07	0.83	0.88	0.93	0.98	1.03	0.86	0.90	0.95	1.00
NSTAR	0.80	32.32	1.43	1.53	1.63	1.74	1.85	1.48	1.58	1.68	1.79
PG&E Corporation	0.85	39.11	1.56	1.68	1.79	1.91	2.04	1.62	1.74	1.85	1.98
Pinnacle West Capital Corp.	0.80	34.47	2.10	2.12	2.18	2.24	2.30	2.11	2.15	2.21	2.27
Portland General Electric Co.	0.80	23.46	0.97	1.01	1.07	1.13	1.20	0.99	1.04	1.10	1.17
Progress Energy	0.80	42.50	2.47	2.49	2.51	2.53	2.55	2.48	2.50	2.52	2.54
P.S. Enterprise GP.	0.90	46.86	1.29	1.41	1.49	1.57	1.65	1.35	1.45	1.53	1.61
Southern Company	0.70	35.83	1.66	1.73	1.82	1.91	2.00	1.70	1.77	1.86	1.95
Teco Energy, Inc.	0.95	17.93	0.80	0.82	0.85	0.87	0.90	0.81	0.83	0.86	0.89
Vectren Corporation	0.90	28.33	1.31	1.35	1.39	1.43	1.47	1.33	1.37	1.41	1.45
Wisconsin Energy Corp.	0.80	45.65	1.08	1.24	1.35	1.47	1.60	1.16	1.29	1.41	1.53
Xcel Energy	0.80	20.55	0.94	0.97	1.00	1.03	1.06	0.96	0.98	1.01	1.04
PROXY GROUP SUMMARY STATISTICS											
# of Companies	31	31	31	31	31	31	31	31	31	31	31
AVERAGE	0.81	37.40	1.50	1.57	1.65	1.73	1.82	1.53	1.61	1.69	1.78
STANDARD DEVIATION	0.16	19.07	0.60	0.64	0.72	0.77	0.78	0.66	0.70	0.74	0.80
MINIMUM	0.00	17.81	0.69	0.78	0.00	0.00	0.90	0.00	0.00	0.00	0.00
MAXIMUM	1.00	112.79	3.20	3.60	3.96	4.36	4.80	3.40	3.78	4.16	4.58

SOURCE: Value Line Investment Survey
May 30, 2008
June 27, 2008
August 8, 2008

* February 2008 to July 2008

COMPANY NAME	Earnings Per Share			BVPS			SHARES			DPS GROWTH	2012 RET
	2008	2009	11-13	2008	2009	11-13	2008	2009	11-13	08-12	RATIO
	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
ALLETE, Inc.	2.85	2.95	3.25	25.60	27.10	32.50	32.30	33.60	36.50	3.84%	38.46%
Alliant Energy	2.75	2.90	3.30	25.75	27.15	31.95	111.00	112.00	119.00	8.22%	41.82%
Ameren Corporation	3.10	3.25	3.55	33.20	34.05	37.40	210.00	212.00	222.00	0.00%	28.45%
American Elec Power Co., Inc.	3.30	3.50	4.25	27.35	29.20	35.00	404.00	407.00	415.00	9.49%	43.53%
Avista Corp.	1.45	1.55	1.75	18.20	19.00	21.25	54.00	55.00	56.50	13.62%	34.29%
Cleco Corporation	1.65	1.80	2.50	17.75	18.75	21.75	61.00	62.00	65.00	13.62%	40.00%
Consolidated Edison, Inc.	3.05	3.20	3.55	34.35	35.30	38.65	280.00	282.00	288.00	0.84%	31.83%
DPL Inc.	2.10	2.20	2.35	8.40	9.45	12.50	112.00	112.00	112.00	5.06%	42.98%
DTE Energy Company	2.65	3.20	3.75	36.70	37.80	41.75	163.25	163.25	163.25	2.06%	38.67%
Duke Energy Corporation	1.30	1.35	1.50	17.20	17.65	19.00	1262.00	1267.00	1285.00	4.18%	29.33%
Edison International	3.80	4.00	4.50	28.45	31.10	39.45	326.00	326.00	326.00	7.24%	63.56%
Empire District Elec. Co.	1.50	1.60	2.00	16.70	16.95	18.25	37.00	37.50	37.50	2.27%	30.00%
Entergy Corporation	6.60	7.20	9.00	42.20	48.00	62.25	187.00	193.00	199.00	10.67%	46.67%
FPL Group, Inc.	3.85	4.20	5.10	28.30	30.95	39.65	412.00	416.00	428.00	7.08%	54.12%
FirstEnergy	4.30	5.10	6.75	31.50	34.15	44.25	304.85	304.85	304.85	7.90%	54.81%
Hawaiian Elec. Industries, Inc.	1.10	1.65	2.00	15.10	15.40	17.00	85.50	87.50	89.00	1.19%	35.00%
IDACORP, Inc.	2.05	2.15	2.25	27.05	27.50	28.90	46.40	47.70	51.60	0.00%	46.67%
MGE Energy, Inc.	2.45	2.50	2.75	19.80	20.65	21.05	23.00	23.00	25.00	1.20%	45.45%
NiSource Inc.	1.25	1.25	1.50	18.45	18.80	20.25	275.50	276.00	277.50	2.11%	33.33%
Northeast Utilities	1.80	1.95	2.40	19.75	21.55	25.80	158.20	178.00	192.00	5.55%	57.08%
NSTAR	2.25	2.35	3.00	16.80	17.60	20.75	106.81	106.81	106.81	6.65%	38.33%
PG&E Corporation	2.95	3.20	3.50	24.10	25.70	28.95	381.00	384.00	393.00	6.94%	41.71%
Pinnacle West Capital Corp.	2.80	2.90	3.15	35.85	36.60	39.10	100.70	100.90	101.50	2.30%	26.98%
Portland General Electric Co.	1.80	2.00	2.25	21.90	23.05	26.00	62.60	71.00	76.00	5.46%	46.67%
Progress Energy	3.00	3.10	3.40	33.05	33.30	35.75	264.00	268.00	280.00	0.80%	25.00%
P.S. Enterprise GP.	2.90	3.15	3.45	16.10	18.00	23.75	510.00	512.00	518.00	6.35%	52.17%
Southern Company	2.35	2.50	3.00	17.30	18.45	21.75	777.00	793.00	815.00	4.77%	33.33%
Teco Energy, Inc.	0.95	1.25	1.50	9.75	10.20	12.00	212.00	213.00	216.00	2.99%	40.00%
Vectren Corporation	1.85	1.95	2.05	17.45	18.00	19.30	81.00	81.20	81.80	2.92%	28.29%
Wisconsin Energy Corp.	2.80	3.25	4.25	27.95	29.65	36.00	117.00	117.00	117.00	10.33%	62.35%
Xcel Energy	1.50	1.55	2.00	15.25	15.90	18.50	430.00	432.00	438.00	3.05%	47.00%
PROXY GROUP											
SUMMARY STATISTICS											
# of Companies	32	31	31	31	31	31	31	31	31	31	31
AVERAGE	2.44	2.73	3.21	23.46	24.74	28.72	244.75	247.56	252.77	5.12%	41.22%
STANDARD DEVIATION	1.19	1.23	1.55	8.19	8.78	10.90	250.88	252.33	256.36	3.75%	10.17%
MINIMUM	0.00	1.25	1.50	8.40	9.45	12.00	23.00	23.00	25.00	0.00%	25.00%
MAXIMUM	6.60	7.20	9.00	42.20	48.00	62.25	1262.00	1267.00	1285.00	13.62%	63.56%

COMPANY NAME	2012 AVE ROE (P)	B*R (Q)	GROWTH IN SHARES (R)	CURRENT MBR (S)	S FACTOR (T)	V FACTOR (U)	SV FACTOR (V)	SUSTAINABLE GROWTH RATE (W)	LONG FORM ROE (X)	LONG FORM SORTED (Y)
ALLETE, Inc.	10.30%	3.96%	3.10%	159.18%	4.94%	37.18%	1.84%	5.80%	9.89%	7.51%
Alliant Energy	10.61%	4.44%	1.76%	139.30%	2.44%	28.21%	0.69%	5.13%	9.54%	7.64%
Ameren Corporation	9.64%	2.74%	1.40%	131.87%	1.84%	24.17%	0.45%	3.19%	8.52%	7.72%
American Elec Power Co., Inc.	12.51%	5.45%	0.67%	154.26%	1.04%	35.17%	0.37%	5.81%	10.35%	7.74%
Avista Corp.	8.39%	2.88%	1.14%	112.42%	1.28%	11.05%	0.14%	3.02%	7.74%	7.85%
Cleco Corporation	11.78%	4.71%	1.60%	135.38%	2.17%	26.13%	0.57%	5.28%	10.09%	8.35%
Consolidated Edison, Inc.	9.32%	2.97%	0.71%	119.10%	0.84%	16.04%	0.13%	3.10%	8.51%	8.36%
DPL Inc.	19.68%	8.46%	0.00%	320.24%	0.00%	68.77%	0.00%	8.46%	12.29%	8.42%
DTE Energy Company	9.13%	3.53%	0.00%	114.33%	0.00%	12.54%	0.00%	3.53%	8.42%	8.51%
Duke Energy Corporation	7.99%	2.34%	0.45%	104.71%	0.47%	4.50%	0.02%	2.37%	7.72%	8.52%
Edison International	11.86%	7.54%	0.00%	180.11%	0.00%	44.48%	0.00%	7.54%	10.00%	8.82%
Empire District Elec. Co.	11.09%	3.33%	0.34%	123.11%	0.41%	18.77%	0.08%	3.41%	9.49%	9.43%
Entergy Corporation	15.08%	7.04%	1.57%	267.27%	4.19%	62.59%	2.62%	9.66%	12.72%	9.49%
FPL Group, Inc.	13.39%	7.25%	0.96%	229.12%	2.19%	56.35%	1.24%	8.48%	11.21%	9.54%
FirstEnergy	15.91%	8.72%	0.00%	237.68%	0.00%	57.93%	0.00%	8.72%	11.77%	9.74%
Hawaiian Elec. Industries, Inc.	11.96%	4.19%	1.01%	162.05%	1.63%	38.29%	0.63%	4.81%	9.43%	9.76%
IDACORP, Inc.	7.85%	3.66%	2.69%	114.82%	3.09%	12.91%	0.40%	4.06%	7.51%	9.89%
MGE Energy, Inc.	13.11%	5.96%	2.11%	170.76%	3.60%	41.44%	1.49%	7.45%	11.04%	9.90%
NiSource Inc.	7.50%	2.50%	0.18%	96.53%	0.17%	-3.59%	-0.01%	2.49%	7.64%	10.00%
Northeast Utilities	9.58%	5.47%	4.96%	132.00%	6.55%	24.24%	1.59%	7.06%	10.19%	10.09%
NSTAR	14.85%	5.69%	0.00%	192.38%	0.00%	48.02%	0.00%	5.69%	10.38%	10.19%
PG&E Corporation	12.33%	5.14%	0.78%	162.28%	1.26%	38.38%	0.48%	5.63%	9.90%	10.27%
Pinnacle West Capital Corp.	8.14%	2.20%	0.20%	96.15%	0.19%	-4.00%	-0.01%	2.19%	8.35%	10.35%
Portland General Electric Co.	8.83%	4.12%	4.97%	107.12%	5.32%	6.65%	0.35%	4.47%	8.82%	10.38%
Progress Energy	9.62%	2.41%	1.48%	128.59%	1.91%	22.24%	0.42%	2.83%	8.36%	10.60%
P.S. Enterprise GP.	15.20%	7.93%	0.39%	291.06%	1.13%	65.64%	0.74%	8.67%	11.34%	11.04%
Southern Company	14.17%	4.72%	1.20%	207.11%	2.49%	51.72%	1.29%	6.01%	10.60%	11.21%
Teco Energy, Inc.	12.84%	5.14%	0.47%	183.90%	0.86%	45.62%	0.39%	5.53%	9.76%	11.34%
Vectren Corporation	10.75%	3.04%	0.25%	162.35%	0.40%	38.40%	0.15%	3.19%	7.85%	11.77%
Wisconsin Energy Corp.	12.19%	7.60%	0.00%	163.33%	0.00%	38.77%	0.00%	7.60%	10.27%	12.29%
Xcel Energy	11.08%	5.21%	0.46%	134.75%	0.62%	25.79%	0.16%	5.37%	9.74%	12.72%
									MEDIAN	9.76%
PROXY GROUP										
SUMMARY STATISTICS										
# of Companies	31	31	31	31	31	31	31	31	31	31
AVERAGE	11.51%	4.85%	1.12%	162.36%	1.65%	32.08%	0.52%	5.37%	9.66%	9.66%
STANDARD DEVIATION	2.76%	1.91%	1.28%	55.95%	1.71%	19.55%	0.64%	2.14%	1.38%	1.38%
MINIMUM	7.50%	2.20%	0.00%	96.15%	0.00%	-4.00%	-0.01%	2.19%	7.51%	7.51%
MAXIMUM	19.68%	8.72%	4.97%	320.24%	6.55%	68.77%	2.62%	9.66%	12.72%	12.72%

CONSOLIDATED EDISON COMPANY OF NEW YORK

TRADITIONAL CAPM

Formula: Rc = Rf + b (Rm - Rf)

Where:

Rc = Required Return for the Company.

Rf = Risk Free Return = 4.18, six-month average ending July 2008 of 30-Year and 10-Year Treasury Bond Yields, Federal Reserve Statistical Release, (Historical Data).

Rm = Market Return = 11.4%, Quantitative Profiles-Monthly Insights for Equity Management, Merrill Lynch, (August 11, 2008).

b = Beta = .81, Proxy Group Average Beta for Combination Electric and Gas Utilities (The Value Line Investment Survey, Ratings and Reports, (May 30, 2008; June 27, 2008; August 8, 2008).

Required Return:

10.03% = 4.18 + .81(11.4 - 4.18)

CONSOLIDATED EDISON COMPANY OF NEW YORK

ZERO-BETA CAPM

Formula: Rc = Rf + 3/4(b) (Rp) + 1/4(Rp)

Where:

Rc = Required Return for the Company.

Rf = Risk Free Return = 4.18%, six-month average ending July 2008 of 30-Year and 10-Year Treasury Bond Yields, Federal Reserve Statistical Release, (Historical Data).

Rm = Market Return = 11.4%, Quantitative Profiles-Monthly Insights for Equity Management, Merrill Lynch, (August 11, 2008).

b = Beta = .81, Proxy Group Average Beta for Combination Electric & Gas Utilities. (The Value Line Investment Survey, Ratings and Reports, (May 30, 2008: June 27, 2008; August 8, 2008).

Rp = Risk Premium =7.22 Market Return minus Risk free rate.

Required Return:

10.37% = 4.18+ .75(.81) (7.22) + .25(7.22)