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:

Staff Electric Production Panel

Christine A. Carpio, Junior Engineer

Michael J. Rieder, Utility Engineer 3

Office of Electric, Gas, & Water
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Department of Public Service
Three Empire State Plaza
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Q. Please state your names, employer, and business address.

A. Christine A. Carpio and Michael J. Rieder. We are employed by the New York State Department of Public Service (Department) and located at Three Empire State Plaza, Albany, New York 12223.

Q Ms. Carpio, have you already discussed your educational background, professional and testimonial experience, and responsibilities?

A. Yes, I provided that information as of the Staff Shared Services Panel testimony in this proceeding.

Q. Mr. Rieder, have you already discussed your educational background, professional and testimonial experience, and responsibilities?

A. Yes, that information was in my individual testimony in this proceeding.

Overview

Q. What is the purpose of the Staff Electric Production Panel's (SEPP) testimony?

A. The purpose of this testimony is to address the electric production capital programs and operation and maintenance (O&M) expenditures for

Consolidated Edison Company of New York, Inc. (Con Edison or the Company) as presented by its Electric Production Panel (EPP). The Company's EPP testifies concerning electric production capital projects and programs for the calendar years 2008 through 2012. It also presents O&M expenses for the rate years ending March 31, 2009, 2010, 2011, and 2012. In this testimony, we recommend adjustments that reduce the Company's rate year plant in service levels by $5.428 million and reduce the Company's rate year O&M expenses by $1.667 million. While Staff is addressing only a one year case in this proceeding, we did review the Company's proposed capital and O&M spending plans beyond the rate year and will present our findings, including our proposed plant levels for the rate years ending March 31, 2011 and 2012, in this testimony.

Q. Please describe how this testimony will be presented.

A. We summarize our proposed adjustments to the Company's forecasted electric production plant accounts and our adjustments to the Company's proposed O&M expense levels. We then describe our review of the Company's electric production capital and O&M programs and the adjustments we are recommending for the Company's capital programs. We also present our support of a cap on net plant amounts and quarterly reporting of project cost variances, as sponsored by Staff witness Padula. Finally, we discuss our recommended adjustments to the Company's electric production O&M expenses.

Q. Please indicate if your analysis refers to, or otherwise relies upon, any information produced during the discovery phase of this proceeding.

A. Yes. We refer to, and have relied upon, two responses to Staff Information Requests, which we are sponsoring as Exhibit ___ (SEPP-1).

Summary of Adjustments

Q. Please summarize the impact your recommended adjustments to the Company's electric production capital budget will have on the amount of plant used for ratemaking purposes in this case.

A. As discussed in more detail by the Staff Infrastructure Investment Panel, we are not proposing changes to the Company's electric production capital budget. Rather, we are recommending an adjustment to the amount of electric production plant expected to be added to the Company's plant accounts during the rate year, thereby adjusting the amount of carrying charges to be recovered from customers. Our adjustments reflect the level of capital additions the Company has justified in its initial rate case presentation and during the discovery phase of this proceeding and, thus, the level of plant in service that is most appropriate to use in setting rates. The rates to be paid by customers will be set on, among other items, the level of forecasted plant we are recommending in this testimony. If Con Edison adds plant at levels that exceed the forecasted level rates are based upon, there are no provisions for automatically adjusting rates associated with that increased level of plant until the Company's next rate proceeding. However, as we will explain later in our testimony and as proposed by the Staff Infrastructure Investment Panel, Con Edison, in its next rate proceeding, should be required by the Commission to fully justify the need and cost associated with all electric production plant added to its plant accounts that exceeds the rate year levels approved by the Commission in this proceeding, thus protecting customers from potential inappropriate overspending by the Company.

Q. Please summarize the impact your recommended adjustments will have on the level of plant used for ratemaking purposes.

A. The Company proposes expenditures for electric production capital projects in the amount of $39.7 million, $39.7 million, $35.8 million, and $39.3 million in 2009, 2010, 2011, and 2012, respectively. Over the last few years, Con Edison has spent over $40 million per year on electric production capital improvements and we have no specific reason to believe the Company cannot or should not continue to spend at its proposed level. However, as we will explain in greater detail later in this testimony, when we questioned the timing and cost of the Company's proposed programs the Company responded with little evidence supporting the projections used in developing its electric production capital budget. The resulting capital budget appears to be more of a wish list. On their face, each of these projects and programs appears reasonable, however, customers should not be expected to fund projects that may not be completed or projects that have little evidence supporting the associated cost projections. As a result, we recommend electric production capital program adjustments to reduce the level of electric production plant added to plant in service by $5.428 million in the rate year ending March 31, 2010. We provided our capital adjustment to Staff Witness Randt. Ms. Randt incorporated the adjustment into the Company's plant in service forecast model to develop an average net plant amount to be used for ratemaking purposes and then provided the average net plant amount to the Staff Accounting Panel. The Staff Accounting Panel used the average net plant amount to develop the Company's overall revenue requirement.

Q. Please summarize the impact your recommended adjustments to the Company's electric production related O&M expenses will have on the Company's revenue requirement.

A. The Company's proposed electric production O&M program changes increase its O&M expenses by $3.1 million in the rate year ending March 31, 2010. The electric production O&M adjustments recommended in this testimony reduce the Company's proposed annual level of electric production O&M expenses by $1.667 million for the rate year ending March 31, 2010.

Q. Please explain how the level of electric production plant and O&M expenses are used for ratemaking purposes.

A. As discussed in more detail by the Staff Infrastructure Investment Panel, Con Edison presents its capital budgets on a calendar year basis, which reflects the level of spending it expects to incur on capital projects during that calendar year. The level of plant assumed for ratemaking purposes is the average amount of net plant in service expected to be included in the Company's rate base during the rate year. The amount of net plant forecasted is calculated by taking the existing amount of plant in service during the test year, per the Company's books, adding the amount of plant that is expected to be placed in service during each month of the bridge period and rate year, and subtracting an amount accruing for depreciation on that plant during each month. The average of the monthly net plant in service balances is the level that is reflected in rate base. The Company is allowed an opportunity to recover a return on its investment in plant in service and recover, via depreciation, this investment over the useful life of the plant. The amount included in rates to provide a return on the net cost of the plant, the depreciation of the plant, and property taxes related to the plant is often called the carrying charges on the investment. Regarding the level of O&M expenses used for ratemaking purposes, we are setting rates based on the forecast of costs proposed by Con Edison and adjusted by us.

<u>Extent of Staff's Review</u>

Q. Please explain the review that you performed in arriving at your adjustments.

A. We reviewed each electric production capital program for which the Company budgeted expenditures during the calendar years 2009, 2010, 2011, and 2012. Similarly, we reviewed each O&M program proposed by the Company for the rate years ending March 31, 2010, 2011, and 2012. Our review and evaluation of the capital and O&M programs resulted in our adjustments based on the need, timing, and cost of the programs. We submitted information requests seeking additional information and justification from the Company. In addition to these information requests, we interviewed Company personnel to discuss, clarify, and further investigate the proposed electric production capital and O&M programs. Subsequent to the interviews, we performed a site inspection of the East River Electric Production Station to investigate the status of its capital and O&M programs and assist our analysis of the timing, reasonableness of cost, and need of those programs.

Capital Adjustments

Q. Please describe the Company's electric production capital program.

A. Con Edison's electric production capital program is intended to upgrade and improve structures, systems, and components at its East River Station's electric generating Units 6 and 7 and the six gas turbine electric generators located at the East 74th Street, West 59th Street, and Hudson Avenue power plants. As the Company's EPP explains in its pre-filed testimony at pages 4 and 5, the electric production capital "program identifies capital expenditures for improvements in key functional areas of the station that are important for the reliable operation of electric generating equipment. Conditions that may affect the reliability of the station, pose risks to personnel safety or the environment and regulatory requirements, are identified during routine plant operations, inspections, system assessments or due to equipment failure or malfunction. Corresponding capital improvement projects to correct these conditions are then developed, prioritized and planned based on their relative contribution to safe and reliable operation of the station."

Q. Please indentify the key functional areas into which the capital projects are grouped.

A. Unlike the Company's T&D capital projects, which include the construction of new facilities, the Company's electric production capital projects are geared toward the continual improvement and support of its existing electric production facilities. Numerous capital projects are incorporated into each key functional area. The Company groups its capital projects into the following ten key functional areas or programs: 1) Environment, Health and Safety (EH&S); 2) Boilers; 3) Steam Turbines; 4) Mechanical Equipment; 5) Electrical Equipment; 6) Control Systems; 7) Structures; 8) Waterfront; 9) Roofs; and 10) Security.

Q. Has the Company provided justification for the necessity of these capital programs?

A. Yes. Based on responses to Staff information requests, interviews with Company personnel, and site inspections, the capital programs presented by the Company are needed to support and improve the existing electric generating facilities.

Q. Does each functional area have specific capital projects indentified for completion during the next five years?

A. Yes. In response to DPS-125, the Company provided its five-year plan, containing proposed capital projects, for its electric production facilities. However, as the Company's EPP explained on page 5 of its pre-filed testimony, "areas that need improvement are dynamic, and changing plant conditions often require reallocation of resources to address higher priority need, e.g., emergent conditions that may pose higher risks to personnel and public safety, the environment, plant reliability or are required to meet regulations. Accordingly, the Company adjusts the functional programs funding allocations when higher priority needs arise." Thus, while the Company does have a five-year capital plan, the specific capital projects it will undertake are subject to change based on current conditions.

Q. Based on your review of the Company's capital budgets and key functional areas, are you proposing any adjustments to the dollar amounts the Company is proposing be added to its plant in service during the rate year?

A. Yes. As the Company explains in its response to DPS-204, many of the Company's electric production capital projects, which comprise the capital programs it proposes to complete in 2009, are currently in the process of conceptual design and work scope development. The Company explains that "once the scope of work is defined, engineering prepares a preliminary cost estimate which will be included in the 2009 budget request." The Company further states that it "plans to complete detailed engineering, design and cost estimates for 2009 projects by the end of 2008 and early 2009. This is a yearly process; hence the information for 2010 will not be developed until the second half of 2009 and so on for the later years." If the costs are significantly greater than estimated, the projects may change in scope or be eliminated in lieu of a more cost effective alternative. Thus, the projected timing and cost of the Company's electric production capital projects are uncertain and subject to change.

Q. Please continue.

A. Because of this uncertainty, it would be unreasonable to fully recover carrying charges from customers based on the Company's claim that it will move forward with those projects.

Q. How much is the Company proposing to spend on its electric production capital programs in this proceeding?

A. The Company proposes spending $39.7 million, $39.7 million, $35.8 million, and $39.3 million during 2009, 2010, 2011, and 2012, respectively. On average, the Company proposes spending $38.6 million over the next four years. According to the Company's response to DPS-204, its historic spending levels for its electric production capital programs were $16.4 million, $20.6 million, $48.9 million, $36.8 million, and $44.3 million for the years 2003, 2004, 2005, 2006, and 2007, respectively. On average, Con Edison spent $33.4 million per year during the last five years. Since the Company has failed to meet its burden of proof that the specific capital projects will be completed at the cost projections provided, we recommend that the Company's revenue requirement associated with its electric production capital program be based on plant in service levels that reflect an annual electric production capital budget equal to the five-year historic average of the Company's electric production capital spending levels. If the Company chooses to go forward with the electric production capital projects it has proposed during the rate year, recovery of the incremental associated carrying charges would, therefore, not commence until a subsequent rate filing, at which time the justification and cost of the projects would be subject to Staff review.

Q. What is the effect of your recommended adjustment on the amount of plant used for ratemaking purposes?

A. The forecasted dollar amount of electric production plant to be added to plant in service should be reduced by $5.428 million, $7.102 million, and $2.715 million in the rate years ending March 31, 2010, 2011, and 2012, respectively.

Net Plant Cap and Cost Variance Reporting

Q. Staff witness Padula recommends a cap on net plant assumed for ratemaking purposes and cost variance reporting. Are you supportive of such mechanisms to ensure that the Company is effectively managing its capital investments?

A. Yes. The plant in service levels we propose in our testimony should be construed to be the cap, or maximum limit, on the amount of electric production plant that is used for ratemaking purposes. If, at the conclusion of the rate year, an amount less than those levels recommended in this testimony were actually added to the Company's plant accounts, the Commission should require Con Edison to refund to customers the incremental carrying charges associated with the reduced level of investment. If the amount of plant added to the Company's plant accounts during the rate year exceeds those levels recommended in this testimony, the Company should not be allowed to prospectively recover the associated carrying charges in its next rate case until it fully justifies the need and cost of the projects which caused the plant accounts to exceed the levels proposed in this testimony. With regard to the project cost variance reporting recommended by Staff witness Padula, we recommend that for every project addressed in its Electric Production Panel's pre-filed testimony that varies by 10%, plus or minus, from the current projected cost, Con Edison be required to indentify the causes of the variance and report such quarterly to the Director of the Office of Electric, Gas, and Water. This reporting requirement is recommended as it supports the on-going review of the Company's projects and programs to ensure the Company undertakes the projects it has identified in this proceeding at a reasonable cost. The Commission should direct Con Edison to also identify new electric production projects it has undertaken that were not addressed in its filing in this proceeding. Justification of the need and cost of these projects should also be provided. On this point, the Company should be aware of the fact that it would be subject to the previously discussed cap on its plant accounts for ratemaking purposes.

O&M Adjustments

Q. Are you proposing any adjustments to the Company's proposed O&M expense level for the rate year ending March 31, 2010?

A. Yes. We recommend a single adjustment to the Company's proposed O&M expense level for the rate year ending March 31, 2010.

Q. Please describe the O&M project for which you propose an adjustment.

A. The O&M project is identified in the Company's pre-filed Exhibit___(EPP-2) as Scheduled Overhauls - East River Unit 6 Generator Rewind. As described on page 5 of Exhibit___(EPP-2), a significant amount of work is needed to prepare a replacement rotor for installation in East River Unit 6. Work on the replacement rotor is currently scheduled to take place in 2009.

Q. How much does the Company propose expending on the project?

A. The total cost of the project is estimated to be

$2.5 million, which the Company proposes to expend during the rate year. We recommend that the cost of this project be spread over a three-year period, thus reducing the Company's proposed rate year O&M expenditure level by $1.667 million, and that the Company be allowed to accrue carrying charges on the actual remaining deferred balances, not to exceed $1.667 million, at the Commission authorized other customer capital rate. The recovery of the project's expenses over a three-year period better reflects the life-cycle of the equipment, which should be in service for more than ten years. The extended recovery period also helps mitigate the Company's rate request.

Q. Does this conclude your testimony at this time?

A. Yes, it does.