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 Infrastructure Investment Panel

Kin Eng, Utility Analyst 3

Leka P. Gjonaj, Power Transmission Planner 4

Nicola Jones, Utility Engineer 2

Patrick J. Maher, Utility Engineer 2

Michael J. Rieder, Utility Engineer 3

William D. Wade, Utility Engineer 3

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Q. Please state your names, employer, and business address.

A. Kin Eng, Leka P. Gjonaj, Nicola Jones, Patrick J. Maher, Michael J. Rieder, and William D. Wade. We are all employed by the New York State Department of Public Service (Department). Mr. Eng and Ms. Jones are both located at 90 Church St., New York, New York 10007. Messrs. Gjonaj, Maher, Rieder, and Wade are located at Three Empire State Plaza, Albany, New York 12223.

Q Mr. Eng, what is your position at the Department?

A. I am a Utility Analyst 3 assigned to the Electric Distribution Systems Section in the Office of Electric, Gas, and Water.

Q. Please describe your educational background.

A. I graduated from New York Technical College with an Associate in Applied Science Degree in Electrical Technology in 1986.

Q. Please describe your responsibilities with the Department and professional experience.

A. I joined the Department in 1981. I supervise the Electric Distribution Systems Section in the Office of Electric, Gas, and Water in New York

City. My current responsibilities include: monitoring utility operations to determine if facilities are operated and maintained in accordance with appropriate codes and safe operating practices; ensuring that utilities are adequately prepared to respond to emergencies by reviewing utilities' electric emergency plans and attending annual emergency drills; and, monitoring utility operation and maintenance activities to ensure acceptable electric service reliability. I have been involved in many investigations of electric utility service disruptions, including the Westchester Outages in January 2006, the Long Island City Network outages in 2006, the Jodie Lane Fatality Investigation, the August 2003 Blackout, the September 11th terrorist attack in 2001, and the Washington Heights outages in 1999.

Q. Have you previously testified before the Commission?

A. Yes. I testified in Case 04-E-0572 regarding infrastructure investment and Case 07-E-0523 regarding infrastructure investment, reliability performance mechanism, and emergency management.

Q. Mr. Gjonaj, what is your position in the Department?

A. I am employed as a Power Transmission Planner 4 in the Bulk Transmission Section of the Office of Electric, Gas, and Water.

Q. Please state your educational background and professional experience.

A. I hold a Bachelor of Science degree in Mechanical Engineering from Clarkson University and a Master of Science in Mechanical Engineering degree from Rensselaer Polytechnic Institute. I am also a licensed Professional Engineer in New York State. Before joining the Department in November 1990, I was employed by General Electric as a Manufacturing Engineer in its Defense Systems Division. I was responsible for designing, implementing, and recommending manufacturing and quality control equipment needed for the production of highly specialized components and systems for the United States Navy.

Q. Please describe your duties with the Department of Public Service.

A. My areas of responsibility include and have

included conducting electric system computer simulations and the review and analysis of proposed power plant siting projects under Public Service Law Article X, wholesale market matters, cyber security, utility fuel budgets, purchased power contracts, depreciation, capital budgets, operating and maintenance expenses, rate design, cost allocation, and cost of service determinations.

Q. Have you previously testified before the Commission?

A. Yes. I have testified in Commission proceedings on a broad range of topics including: review of construction budgets; depreciation expense and rate base; rate design matters; purchased power and utility fuel budgets/targets; independent power producer contracts; and, electric production computer simulations.

Q. Ms. Jones, what is your position at the Department.

A. I am a Utility Engineer 2 assigned to the Electric Distribution Systems Section in the Office of Electric, Gas, and Water.

Q. Please describe your educational background.

A. I graduated from Rensselaer Polytechnic Institute with a Bachelor of Science Degree in Civil Engineering and a Bachelor of Science Degree in Management in 2003.

Q. Please describe your responsibilities and professional experience with the Department.

A. I joined the Department in 2005. My responsibilities include: monitoring electric utility safety and reliability; investigating the causes and utility response to emergency events; monitoring electric distribution infrastructure projects; and monitoring utility compliance with electrical codes and with electric service and safety standards.

Q. Have you previously testified before the Commission?

A. Yes. I testified in Case 07-E-0523 regarding infrastructure investment and reliability performance mechanism.

Q. Mr. Maher, what is your position in the Department?

A. I am employed as a Utility Engineer 2 in the Safety, Electric, Gas & Steam Section of the Office of Electric, Gas & Water.

Q. Please state your educational background and professional experience.

A. I hold a Bachelor of Science degree in Electrical Engineering from the University of Missouri. Before joining the Department, I was a Field Engineer with Stone & Webster Engineering Corporation and a Senior Engineer with Galson Corporation in Syracuse.

Q. Please describe your duties with the Department of Public Service.

A. I am currently involved with ensuring that the electric utilities adhere to the Commission's Electric Safety Standards.

Q. Have you previously testified before the Commission?

A. Yes, I have testified in the Iberdrola - Energy East Merger Case 07-M-0906 and the NYSEG Rate Case 05-E-1222 regarding electric reliability performance mechanisms.

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

A. Yes, that information is included in my individual testimony submitted in this

proceeding.

Q. Mr. Wade, what is your position in the Department?

A. I am a Utility Engineer 3 assigned to the Gas Rates Section in the Office of Electric, Gas, & Water.

Q. Please state your educational background and professional experience.

A. I graduated summa cum laude from Union College, Schenectady, New York with a Bachelor of Science degree in Civil Engineering in 1979. I also received a Master of Engineering degree from Union College in 1983 and a Bachelor of Arts degree in Secondary Education from Trinity College, Burlington, Vermont, in 1990. I joined the Department of Public Service in 2003, coming from the New York Department of Transportation where I held a civil engineering position. My professional experience includes eighteen years in engineering, seven and a half years in business, and three and a half years in education. My engineering experience includes project, facilities, process, and quality engineering positions with General Electric and

IBM. My business experience was with MKW Enterprise Incorporated, a specialty valve supply company that I co-founded in 1992 and sold in 1999. At MKW, I oversaw the day to day operations and was responsible for the company's finances and accounting. My educational experience involved teaching mathematics and engineering to students at both the high school and college level.

Q. Please describe your duties with the Department of Public Service.

A. My duties with the Department of Public Service have been the analysis of various regulatory concerns, including rate design, the forecast of gas delivery volumes and revenues, depreciation rates, rate base, capital budgets, operation and maintenance expenses, rate unbundling, and revenue decoupling.

Q. Have you previously testified before the Commission?

A. Yes. I have testified in numerous Commission proceedings with respect to rate design, sales and revenue forecasts, depreciation rates, and rate unbundling.

Overview

Q. What is the purpose of the Staff Infrastructure Investment Panel's (SIIP) testimony?

A. The purpose of this testimony is to address Consolidated Edison Company of New York, Inc.'s (Con Edison or the Company) transmission and distribution (T&D) capital projects and operation and maintenance (O&M) expense programs as presented by the Company's Infrastructure Investment Panel (IIP). Other aspects of the Company's capital programs, including electric production and shared services, will be separately discussed by other Staff in panel testimony. However, those Panels will refer to concepts discussed throughout this testimony. The Company's IIP presents capital projects and programs for the calendar years 2008 through 2012. It also presents O&M program expenses for the rate years ending March 31, 2009, 2010, 2011, 2012, and 2013. We are recommending adjustments that cumulatively reduce the Company's rate year T&D plant in service by $125.769 million and expense adjustments that reduce the Company's rate year T&D O&M expenses

by $22.528 million. While Staff is addressing only a one-year case in this proceeding, the rate year ending March 31, 2010, we did review the Company's proposed capital and O&M spending plans beyond the rate year. As such, we will discuss our findings, including our proposed plant levels, for the rate years proposed by Con Edison ending March 31, 2011 and 2012.

Q. Please describe how you plan to discuss the Company's T&D capital projects and O&M expense programs.

A. First, we will summarize our proposed adjustments to the Company's forecasted net T&D plant accounts and our adjustments to the Company's proposed O&M spending. Second, we will explain the extent of our review of the Company's T&D capital and O&M projects and programs and describe the general nature of our adjustments. Third, we will explain in detail our recommended adjustments for each project and program by operational area. In so doing, we will first present our adjustments to the Company's capital projects for System Operations, continue with Transmission

Operations, Substation Operations, and conclude with Electric Operations. Fourth, we will present our adjustments to the Company's O&M programs by operational area in the same order as we did for the Company's capital projects. We will then discuss our support for a cap on net plant amounts and quarterly reporting of project cost variances, as sponsored by Staff witness Padula. Finally, we will discuss issues related to a generator interconnection project and discuss our proposal to increase the current productivity imputation.

Q. Does your analysis refer to, or otherwise rely upon, any information obtained during the discovery phase of this proceeding?

A. Yes, we will refer to, and have relied upon, several responses to Staff Information Requests (IR), which we are sponsoring as Exhibit ___ (SIIP-1).

Summary of Adjustments

Q. Please summarize the impact your recommended adjustments to the Company's T&D capital budget will have on the level of electric plant to be

used for ratemaking purposes in this case.

A. First and foremost, we are not proposing changes to the Company's T&D capital budget. The Company is entitled to spend at whatever level it deems appropriate to provide safe and adequate service. Rather, we are recommending adjustments to the amount of plant forecasted to be added to the Company's plant in service balances during the rate year and, thereby, adjusting the amount of carrying charges allowed to be recovered from customers. These 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.

Q. If the Company completes projects, which it deems appropriate to provide safe and adequate service, at higher spending levels than forecasted, won't customers be exposed to higher electric rates than this testimony would otherwise recommend?

A. No. The rates to be paid by customers will be

set in accordance with the level of forecasted net plant that the Commission adopts in this proceeding, as well as other cost of service items. If the Company adds plant at levels in excess of the forecasted level that rates are based upon, there are no provisions for automatically adjusting rates associated with that increased level of plant. The rate impact will be addressed in the Company's next rate proceeding. However, as we will explain, the Company, in its next rate proceeding, should be required by the Commission to fully justify the need and costs associated with all plant added to its plant accounts in excess of 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 amount of electric T&D plant used for ratemaking purposes.

A. The Company's proposed T&D capital program increases the amount of electric plant added to plant in service by $1.35 billion, $1.82 billon,

and $2.04 billion over the three rate years ending March 31, 2010, 2011, and 2012, respectively. The T&D capital adjustments we recommend will reduce the amount of electric plant added to plant in service by $125.769 million in the rate year ending March 31, 2010. Our adjustments would further reduce the amount of electric plant added to plant in service by $494.261 million in a second rate year ending March 31, 2011. Assuming a third rate year, our adjustments, however, increase the amount of electric plant expected to be added to plant in service during the rate year ending March 31, 2012 by $290.184 million, as result of slipping closure of a major project into a third rate year rather than a second rate year as proposed by the Company. We provided our specific capital adjustments, which are made on a calendar year basis, to Staff Witness Randt. Ms. Randt incorporated these adjustments into the Company's plant in service forecast model to develop an average net plant amount to be used for ratemaking purposes for the rate year 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 O&M program adjustments will have on the Company's revenue requirement.

A. The Company's proposed T&D O&M program changes increase its annual O&M expenses by $40.0 million for the rate year ending March 31, 2010 and by $6.1 million and $4.9 million if a second and third year ending March 31, 2011, and 2012, respectively, are added to the rate plan. The T&D O&M adjustments recommended by us reduce the Company's proposed annual T&D O&M level by $22.528 million for the rate year ending March 31, 2010.

Q. Please explain what you mean in saying the "level of T&D plant and T&D O&M expenses to be used for ratemaking purposes."

A. The Company presents its capital budgets on a calendar year basis, which reflects the amount of spending it expects to incur on capital projects during that calendar year. For many of

its large capital projects, the Company budgets expenditures over several years. When the project is completed, and thus is used and useful, the total dollars expended on that project are added to the Company's plant accounts. The Company's net plant accounts, that is to say the total amount expended to complete the Company's capital projects minus depreciation charged to those plant accounts, is the primary component of the Company's rate base. The Company's rate base is one component used in calculating the Company's revenue requirement for a rate year by applying a rate of return on the amount of net rate base. Thus, the level of T&D 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 forecast 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 link period and the 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 for the rate year is the level that is reflected in rate base.

Q. How is the amount of plant to be placed in service during the rate year determined from the Company's capital budgets?

A. Capital projects are added to the Company's plant accounts using two different methods; at a single point in time or ratably. When a large capital project, like a substation, is completed, it is added to the Company's plant accounts at that single point in time. For instance, if a substation is expected to be completed and placed into service in May 2009, the total amount expended on that project will be added to the Company's plant accounts in May 2009. For projects with specific in-service dates, the amount of plant expected to be placed in service during the rate year is determined from the Company's capital budgets over a number of years by properly indentifying the total cost of the project and the month it will be used and useful for customers.

Q. Please continue.

A. For capital projects that result in the addition of many pieces of plant into service throughout the year, such as the installation of vented manhole covers, it would be impractical to add the cost of every individual vented manhole cover to the Company's plant accounts each time a cover is placed in service. Rather, the total amount of capital dollars to be expended by the Company on that capital project over the course of the year is added to the plant account in specific monthly amounts reflecting historical seasonal construction patterns, which is said to be done ratably. Thus, for projects that are flowed into the plant accounts ratably, the amount of plant expected to be placed in service during the rate year is determined from the Company's capital budgets by properly identifying the most likely level of cost the Company will incur for that project during the year and distributing that amount to its plant accounts accordingly on a monthly basis throughout the forecasted rate year. The Company is allowed the opportunity to recover a

return on, and the depreciation of, the investment over the useful life of the plant. The amount included in rates to recover the cost of the plant, the depreciation of the plant, and property taxes related to the plant is generally referred to as the carrying charges on the investment. With regard to the level of O&M expenses used for ratemaking purposes, we are setting rates based on the forecast of costs proposed by the Company and adjusted by us.

Extent of Staff's Review

Q. Now that you've summarized your adjustments' impact on the Company's revenue requirement, please briefly describe the electric infrastructure investment Con Edison proposes undertaking during the next several years.

A. Con Edison identifies numerous projects designed to increase its electric system capacity to address load growth within its service territory, reinforce its T&D system, and enhance public safety related to the Company's electric facilities. In addition, it also presents numerous ongoing programs that address the

Company's aging electric system infrastructure.

Q. Please briefly explain the need to address the Company's system capacity and its aging infrastructure.

A. In order to continue to provide its customers with a safe and reliable electric system, Con Edison is obligated to provide sufficient electric delivery capacity to not only meet current needs, but also to meet projected future needs. The load growth within Con Edison's service territory has been steadily increasing over the past twenty years, as shown in Exhibit___(SIIP-2). The increasing demand from growing customer usage increasingly stresses the electric system as it is currently configured. Without the proposed upgrades and reinforcements, the older equipment in its substations, such as transformers and feeders that supply the secondary system, will eventually exceed their design criteria and could potentially break down over time. As a result, the electric system may become less reliable, thereby providing inadequate and unsatisfactory electric service to customers.

Q. Please continue.

A. Con Edison, therefore, needs to continue to maintain and improve its aging infrastructure. The Company should proactively replace its old, and in some cases undersized, overhead and underground equipment. The average age of its switching stations and area substations are over 45 and 35 years, respectively. Similarly, its primary and secondary distribution cables have average ages of over 24 and 37 years, respectively. If the Company only replaces equipment in response to an outage or equipment failure, as opposed to following a well planned improvement schedule, older equipment will begin to fail with increasing frequency.

Q. What other projects has the Company proposed to improve its electric infrastructure?

A. The Company also proposes projects that will mitigate the effects of storm and heat-related events, enhance its computer technology programs to assist in making operating and engineering decisions, and improve operating efficiencies by streamlining its processes.

Q. Please continue.

A. To better address public safety issues and respond to customer outages, Con Edison has proposed projects to replace distribution equipment, increase mitigation of hazardous facilities, and implement new processes and procedures to improve its emergency response.

Q. Please explain the review that was performed to develop your recommended adjustments.

A. For each operational area (System, Transmission, Substation, and Electric Operations) we analyzed each capital project or program for which the Company has budgeted expenditures during the calendar years 2009, 2010, 2011, and 2012. Similarly, we reviewed each O&M program proposed by the Company's proposed rate years ending March 31, 2010, 2011, and 2012. Our analysis and evaluation of the need, timing, and cost of the projects and programs resulted in our proposed adjustments. Information requests were submitted for every project and program. Approximately 300 IRs were propounded on the Company, many of which were multi-part questions for a combined overall total of over 1,100 requests for information. We reviewed and

evaluated the information provided by the Company in response to each of these requests. Additionally, over the course of several weeks we interviewed the Company personnel directly responsible for the individual projects and programs from each operational area. These interviews were conducted to discuss, clarify, and investigate each capital project and O&M program proposed by the Company. Subsequent to the interviews, numerous site inspections were conducted to investigate and confirm the status of major on-going and conceptual capital projects and to assist our analysis of the timing, reasonableness of cost, and need for those projects.

Q. Please explain the process by which you identified or selected specific capital projects to inspect.

A. Because it would not have been possible to physically inspect every capital project within the Company's programs, our field investigations focused on major capital projects scheduled to be completed or that entailed a significant amount of spending during the next few years.

For capital programs related to System Operations, we toured the new energy control center and inspected the East Control Room, which is scheduled for renovation. During this inspection, we discussed other capital projects that are proposed by Con Edison to upgrade its energy control center facilities and enhance the operation of the Company's bulk power system. The major transmission projects inspected included the M29 line, which will provide a 345 kV transmission line from Sprain Brook, located in Westchester County, to the Academy station, located in northern Manhattan, and also the structure reinforcement project for the two Hudson River crossing towers. Other transmission projects discussed during our site inspections related to the construction of transmission feeders connecting major transmission stations to area substations either proposed or already under construction. Our investigation of substation work included site inspections at the following substations: York, Astor, Woodrow, Fresh Kills, Academy, Rainey, Newtown, and Vernon. During each of these site

inspections, interviews were conducted with the project managers to further explore the Company's project management and cost control measures and to confirm the in-service dates for those projects. Projects undertaken by Electric Operations were also inspected in order to ascertain the work involved with the Company's largest distribution capital programs. We inspected capital project work sites related to secondary main repairs, transformer and primary cable replacements, and network protector repairs. During these Electric Operations field inspections, we observed the working conditions and system design considerations that exist in Con Edison's service territory.

Q. Did you interview, or gather information from, Company personnel beyond those individuals engineering and directing the work associated with the actual projects?

A. Yes, we also submitted IRs to and interviewed Company personnel responsible for the Company's capital and O&M budgeting process. These interviews focused on the Company's cost estimation process, starting from initial order

of magnitude estimates through and including current working estimates, which cost out a project once it has been fully engineered. These interviews also focused on the Company's budgeting process, from a project's initial inclusion in the Company's five-year plan to its reflection in the annual budget for the prospective year, when final appropriations are made and money is actually expended on the project. We also discussed cost control measures that the Company utilizes to ensure that its proposed projects are completed in a cost effective manner, including the Company's bid check process and its use of competitively bid contractor services. The interviews and requests for information related to the Company's budgeting processes were intended to provide us with information to better understand and analyze the need, timing, and cost of the projects and programs proposed by the Company. It should be noted, however, that our review was not aimed at specifically or comprehensively evaluating the budgeting processes and procedures, and thus, we make no recommendations

in that regard in this testimony. Issues related to the Company's capital budgeting and cost control processes and procedures are subject to a more rigorous review in both the on-going review of the Company's T&D capital spending in Case 07-E-0523 and the on-going Management Audit of the Company in Case 08-M-0152.

Q. Please continue.

A. Overall, we made a significant effort to fully investigate the Company's proposed T&D capital spending plan and O&M budgets. During the course of that review, however, we were mindful that the Company has the burden of proof to support its proposed investments in electric plant and the costs to operate and maintain its electric T&D, production, and shared services infrastructure, which, except for T&D plant, is discussed in other Staff Panel testimony. To that end, and based on our extensive review, we are proposing a number of adjustments to the Company's forecasted net T&D plant accounts and its proposed O&M spending levels.

General Nature of Staff's Adjustments

Q. Before you explain your specific T&D related adjustments, please describe the general nature of your adjustments.

A. Our review and adjustments focused on the need, timing, and cost of the Company's T&D projects and programs. With regard to need, we reviewed the justification provided by the Company in its pre-filed testimony and exhibits, conducted several related interviews, and analyzed its responses to information requests for each project and program in order to assess the project's necessity for the provision of safe and adequate service. For those projects that were not sufficiently justified or imminently necessary, we recommend that the cost of the project be excluded from the Company's rate base for the purpose of setting rates in this proceeding.

Q. Please continue.

A. In addition to assessing the need for each project and program, we determined if the timing of that project's inclusion in the Company's plant in service was consistent with the

expected completion of the project's becoming used and useful to customers. Finally, we made a determination of the reasonableness of the costs associated with the projects and programs. Specifically, we determined if the expected level of funding for each program appeared reasonable. Where we conclude otherwise, we propose and will discuss the appropriate adjustments.

Staff Adjustments

Q. Please describe your proposed adjustments to the Company's capital and O&M projects and programs.

A. With regard to our review of the level of spending Con Edison proposes for its projects and programs, we made adjustments to the Company's proposed T&D capital and O&M spending levels to reflect historic spending levels and historic hiring practices for the staffing of new and existing O&M programs.

Q. Please explain your proposed adjustments based on historic spending levels.

A. The Company's response to DPS-40 provided historic spending levels for each line item in

the Company's pre-filed Exhibits__(IIP-2, 3, 4, 5, 6, 7, and 9) showing the amount the Company budgeted and actually expended from 2003 through April 2008. This data shows that the Company, in the calendar years 2004 through 2007, spent 6.7% and 14.8% more than budgeted in capital and O&M, respectively. On a line by line item basis in a given calendar year, the Company's overspending occurred either on projects for which there was no budgeted amount for the particular line item or on projects for which the budget was under forecasted. For those projects for which no budget line item existed in a calendar year, a budget line item was created in the following year. For pre-existing budgeted projects, Con Edison increased the budget to reflect the previous year's under forecast. We made our adjustments to those proposed increases where the historical expenditure levels did not fully support the proposed level of increase.

Q. Did you forecast any expenditure level for non-budgeted items?

A. No, our analysis was limited to the line items

presented in the Company's pre-filed testimony. We did not consider projects and programs that are not in the budget but could be initiated within the rate year as a result of unforeseen events. As explained elsewhere in this testimony, if the Company ultimately decides to undertake a project that is not currently contemplated, it will have the opportunity to justify and prospectively recover the associated, reasonable cost via its next electric rate filing.

Q. Please continue.

A. Our analysis was performed using the data provided in the Company's response to DPS-40 for each line item. We compared historical budgets to historical expenditures in order to determine an appropriate forecasted level of expenditures for the calendar year 2009 for capital projects and in the rate year, April 2009 through March 2010 for O&M programs. An adjustment was made to the amount budgeted by the Company in the rate year to reflect our forecasted expense levels for each line item. This type of adjustment was made to several projects and

programs contained in both the capital and O&M budget.

Q. Why is an adjustment based on historic spending levels reasonable and/or appropriate?

A. The Company's annual budget is a projection of what the Company plans to expend in order to execute its capital and O&M programs. Actual expenditures, conversely, provide a measure of how well the Company forecasts project costs and construction schedules and ultimately is able to execute its capital and O&M program proposals. The budgets for the capital and O&M programs presented in this case are essentially forecasts. Our objective here is to set rates that recover, as closely as possible, the reasonable costs of the capital and O&M programs that we have reviewed and that Con Edison is most likely to execute during the rate year. The historical relationship between budgeted and actual expenditures provides a reasonable guide as to what the Company will likely expend on its capital and O&M projects and programs rather than relying strictly on its budget forecasts.

Q. Please explain the Panel's cost adjustments that

are based on historical hiring practices for the staffing of new and existing O&M programs.

A. The Company's response to DPS-45 provides the Company's staffing level, through the end of July 2008, for the 346 positions approved as a result of O&M program changes for the current rate year ending March 2009. Through the first third of the rate year, 96 positions were actually filled. At this rate, 288 (3 x 96) of the 346 positions, or 83.2%, will be filled by the end of the rate year. Of the positions filled thus far, 22 of the 96 positions, or 22.9%, were filled by existing employees. Unfilled positions translate to lower expenses than reflected in the budgets, which assumes all positions are filled from the beginning of the rate year and in place for the entire year. We therefore applied a 60% reduction in labor and associated costs for the first year of these program changes based on the Company's recent experience in staffing new programs and changes to existing programs.

Q. How was the reduction of 60% developed?

A. Assuming a linear rate for filling the new

positions, actual expenditures for the rate year would be about half of the rate year ending level (83.2%), or 41.6%. This 41.6% figure was rounded to 40% for the actual expenditures, which results in a 60% reduction in the labor and associated expenses for the first year of a program. We consider 60% to be a conservative number since it does not consider the time needed to backfill positions filled by existing employees and the 83.2% figure is based on all O&M programs. It is unlikely that the Company will backfill these positions any faster than the program change positions and, excluding positions for non-infrastructure investment-related programs, such as the law department, would have produced an even lower rate and higher concomitant reductions in first year program costs.

Q. How did you apply the 60% reduction in the first year?

A. We performed an analysis of the data provided in the Company's pre-filed Exhibits___(IIP-2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, and 25), and the

Company's responses to DPS-40, DPS-45, and DPS 165 to estimate where the planned and actual staffing levels would be at the beginning of the rate year. Our analysis indicates that $10.431 million of the $34.505 million in program change staffing was planned to be filled by the beginning of the rate year with the current fill rate indicating an actual staffing level of $6.328 million ($2.1093 million / 1/3 year) at the beginning of the rate year. This represents a $4.103 million adjustment to the staffing at the beginning of the rate year. A first year general adjustment of $3.098 million, consisting of $2.462 million (60% of $4.103 million) in labor and $0.636 million (25.82% of $2.462 million) in associated costs, was made for the projected shortfall in staffing from the planned staffing as detailed in the Company's pre-filed exhibits and IR responses. The $0.636 million in associated costs was calculated using the same ratio of associated costs to labor costs in our specific line item by line item adjustments. We then proceeded to make line item by line item adjustments for those programs where additional

staffing was projected during the rate year and, where applicable, additional adjustments for associated costs. Exhibit___(SIIP-3) shows the summary of our adjustments based on both historical costs and hiring practices.

Q. Please explain associated cost adjustments.

A. Associated costs include material and supplies, environmental cleanup, vehicles and equipment costs that are incurred as a result of the work being performed by the additional employees. We assumed that these costs are proportional such that if only 40% of the employees were actually hired, then only 40% of the associated costs would be incurred.

Q. Are there any cost adjustments based on historical hiring practices for the staffing of new and existing O&M programs that are attributable to the Company's July 25 update?

A. Yes. On July 25, 2008, Con Edison provided an update to its original filing which included an additional $4.865 million in labor, $0.836 million in contract labor and $0.183 million in materials and supplies for maintenance related to capital expenditures. We recommend a first

year adjustment of $3.024 million ($2.920 million in labor costs and $0.104 million in materials and supplies) using the 60% reduction based on the historical hiring practices.

Q. Please summarize your adjustments based on historical costs.

A. We recommend adjustments based on historical costs of $44.613 million in capital expenditures and $2.865 million in O&M program expenditures. For substation operations, the adjustments total $32.6 million in capital. There are no adjustments based on historical costs to O&M programs for substation operations. For system and transmission operations, the adjustments total $0.15 million in capital and $1.465 million in O&M programs. For electric operations, the adjustments total $11.863 million in capital and $1.400 million in O&M programs.

Q. Please summarize your adjustments based on historical hiring practices for the staffing of new and existing O&M programs.

A. We recommend adjustments based on historical hiring practices to staff O&M programs of

$16.658 million. Of this total, $13.629 million is labor cost related and $3.029 million is related to associated costs. Included in this adjustment is a general adjustment of $2.462 million in labor costs and $0.636 million in associated costs to reflect lower staffing levels at the start of the rate year versus the planned staffing levels and the adjustment to the July 25, 2008 Company update of $2.920 million in labor costs and $0.104 million in materials and supplies. For substation operations, the adjustments total $0.374 million in labor costs and no adjustments for associated costs. For system and transmission operations, the adjustments total $1.191 million in labor costs and $0.816 million in associated costs. For electric operations, the adjustments total $6.682 million in labor costs and $1.473 million in associated costs.

Q. Does the Panel have other adjustments as a result of its investigation?

A. Yes, we will now discuss our adjustments to specific projects and programs that are not included in the foregoing discussion.

Capital Adjustments

System Operations

Q. What level of capital expenditures has the Company proposed for this area?

A. For System Operations, as shown on the Company's pre-filed Exhibit___(IIP-9), for years 2009, 2010, and 2011, projected capital expenditures total $16.8 million, $9.75 million, $3.25 million, respectively.

Q. Are you proposing adjustments in this area?

A. Yes, we propose adjustments for years 2009 and 2010 totaling $2.5 million and $2.0 million, respectively.

Q. Please identify the project or program and the level of the proposed adjustment.

A. For the Operation Requirements (On-Line Systems) project, we propose reductions of $2.0 million in 2009 and $1.5 million in 2010. For the Bulk Power Improvements project we propose reductions of $0.5 million in 2009 and $0.5 million in 2010.

Q. Please provide a brief description of the Operation Requirements (On-Line Systems) project.

A. As shown on the Company's pre-filed Exhibit___(IIP-22), page 1 of 21, this category comprises a number of projects. One of the projects entitled "EMS for Electric/Steam Operation," more fully described on page 15 of the same exhibit, is to replace the Company's steam system Energy Management System (EMS) that is co-located within the Company's transmission and distribution EMS in its Energy Control Center (ECC).

Q. What did your review find for this program?

A. Based on our ECC site investigation and discussions with the Company, it is clear that the steam system EMS capital replacement costs should be borne by steam customers and not the Company's electric customers. If, however, the Company can demonstrate that some portion of the steam system EMS function benefits electric customers, a different allocation method could be proposed by the Company for Staff's review and approval.

Q. What is your recommendation?

A. We recommend a reduction of $2.0 million in 2009 and $1.5 million in 2010 for the Operation

Requirements (On-Line Systems) project.

Q. Please provide a description of the Bulk Power Improvements Project.

A. Briefly, the Company's newly installed Energy Management System, with its fully digitized operator interface, has created the potential for displaying and combining data from the micro level (circuit-by-circuit) to a macro or system level, and for accessing data from other databases (e.g., EPRI) at the "click-of-the-mouse." The Company could use this capability, in part, to create visualization tools for its bulk power system operators.

Q. What did you find in your review of the Bulk Power Improvements project and what is your recommendation?

A. During our meeting with the Company at the ECC, it became apparent that there were no firm Company plans, requests for proposals, or design instructions yet developed for this project. We understand that this project is still early in its conceptual planning phase. Further, the Company's response to DPS-50, requesting a priority ranking of capital projects, showed

this to be the lowest ranked project in the System and Transmission Operations area. Based on the foregoing, we recommend a $0.5 million reduction in 2009 and a reduction of $0.5 million in 2010.

Transmission Operations

Q. What level of capital expenditures has the Company proposed for this area?

A. For Transmission Operations, as shown on the Company's pre-filed Exhibit___(IIP-4), in years 2009, 2010, and 2011, the capital expenditures total $207.194 million, $165.050 million, and $90.350 million, respectively.

Q. Do you propose adjustments in this area?

A. Yes, we propose reductions in years 2009, 2010, and 2011 that total $17.450 million, $11.15 million, and $11.0 million, respectively. In percentage terms, this represents reductions of 8.42%, 6.76% 14.11%, in the years, 2009, 2010, and 2011, respectively.

Q. Please identify the project or program and the associated level of the proposed adjustments.

A. For the Vernon West 49th St-38M72 Upgrade project (Vernon), we propose a $6.3 million

reduction. For the Emergent Transmission Reliability program, we propose a $10 million reduction in each of the years 2009, 2010, and 2011. And, for the Transmission Feeder Failures program, we propose a $1.0 million reduction in each of the years 2009, 2010, and 2011.

Q. Please provide a description of the Vernon project.

A. Briefly, the Vernon project entails the installation of a phase angle regulator and associated equipment upgrades at the Vernon (Queens) station in order to regulate the power flow on the 38M72 feeder that interconnects Vernon with the West 49th station (Manhattan). The 38M72 feeder is used as an emergency tie during a contingency loss of 345 kilovolt (kV) feeders M51 and M52, and when in service, its power flows are currently controlled via the MVAR/MW output manipulation of the Poletti generator, which is scheduled for retirement in 2010. In addition, we have come to understand that even if the retiring Poletti generator is replaced at its current interconnection point, the replacement unit, which most likely will be

a combined-cycle natural gas fired facility, would not possess the inherent operating characteristics needed to enable it to perform the output control function now performed by the existing Poletti generator.

Q. Please provide the details underlying your Vernon project adjustment.

A. Our review of this project revealed that the Company initially planned to purchase property near the Vernon station for the purposes of locating the phase angle regulator, after which it would build the necessary transmission and complete the connections between the phase angle regulator and the Vernon station. This plan has since changed, and the Company now expects to install the phase angle regulator at its Vernon station, thereby obviating the need for purchasing real estate and constructing additional transmission lines. Based on the Company's response to DPS-337, the expected savings are approximately $6.3 million.

Q. Please provide a brief description of the Emergent Transmission Reliability item.

A. The Company provides, on page 151, lines 13-15,

of its IIP pre-filed testimony, the following justification for this program: "[t]his program will provide funding to address emergent reliability issues impacting transmission system reliability." Following discussions with the Company, our understanding of this program is that it essentially funds capital projects that have not been explicitly identified when the annual budget is developed.

Q. Please continue.

A. According to Con Edison's response to DPS-40, it expended no capital in this category since at least 2004, the earliest year for which data was provided. During that period, the Company had only budgeted funds in this category in years 2005 and 2008. Further, examination of the Company's submitted plant in service forecast model shows that it allocates the $10 million of capital ratably to plant in service during the rate year.

Q. What is your recommendation for this program?

A. Unforeseen situations requiring capital expenditures can and will arise between budgeting cycles. When that situation arises,

the Company should expend the capital needed to ensure safe and adequate service, assigning it to the proper plant account(s), with such expenditure being subject to review in a subsequent rate case. In light of this, we recommend adjusting this category by $10 million to reflect the Company's lack of historic expenditures in this program category.

Q. Please provide a brief description of the Transmission Feeder Failures program.

A. This program provides capital funding for feeder repairs that are extensive enough to necessitate capitalization of the work.

Q. What did your review find for this program?

A. The Company's response to DPS-40 shows that in some years actual expenditure levels were lower than budgeted and in some years actual expenditures were higher than budgeted. For example, in 2007, $4 million was budgeted, but only approximately $1.8 million was expended; in 2006, $4 million was budgeted while approximately $6.5 million was expended.

Q. What is your recommendation?

A. We recommend using an average of the actual

expenditure levels for the three years, 2005, 2006, and 2007, to establish the forecasted annual expenditure allowance in this case. That results in a $1 million reduction to the Company's budgeted figure.

Substation Operations

Q. What level of capital expenditures has the Company proposed for Substation Operations - Support Economic Growth?

A. For Substation Operations - Support Economic Growth, as shown on the Company's pre-filed Exhibit___(IIP-2), page 1 of 7, for years 2009, 2010, and 2011, the Company proposes capital expenditures of $317 million, $263 million, and $127 million, respectively.

Q. Do you propose adjustments in this area?

A. Yes, we propose a $3.0 million reduction to the Astor-Establish New Area Substation project.

Q. Please provide a brief description of this project.

A. As shown on the Company's pre-filed Exhibit___(IIP-10), page 2 of 19, the project entitled "Astor-Establish New Area Substation" would construct a five bank area substation on

the west side of Manhattan. Construction of the area substation includes the installation of a transformer for each of the five banks. The cost of installing each transformer, including the $1.4 million purchase price of the transformer, labor including the connection to a supply feeder of $1 million, and overheads of $600,000, totals $3 million.

Q. What did your review find for this project?

A. Based on discussions with the Company and its response to IRs DPS-76 and DPS-288, installation of the fifth transformer has been deferred to 2013 as a result of demand side reduction programs. However, records show that the transformer purchase was made prior to Con Edison's decision to defer its installation. The response further indicates that the purchased transformer has now been relocated to the Astoria Yard as a spare unit under the Spare Transformer Inventory program.

Q. What is your recommendation?

A. Since the transformer is now being stored at the Astoria Yard and is charged to the Spare Transformer program, we recommend a reduction of

$3.0 million to the Astor-Establish New Area Substation project.

Q. What level of capital expenditures has the Company proposed for Substation Operations - System and Component Performance?

A. For Substation Operations - System and Component Performance, as shown on the Company's pre-filed Exhibit___(IIP-2), page 2 of 7, for years 2009, 2010, and 2011, the capital expenditures total $199.615 million, $194.045 million, and $165.435 million, respectively.

Q. Do you propose adjustments in this area in addition to those based on historic spending levels?

A. No. However, we are concerned with the limited level of work the Company has performed on the Elmsford Substation Refurbishment project.

Q. Please provide a brief description of the Elmsford Substation Refurbishment project.

A. As shown on the Company's pre-filed Exhibit___(IIP-13), page 3 of 76, the project entitled "Elmsford Substation Refurbishment" is intended to refurbish the area substation that is over 49 years old. A new building is to be

constructed to house a control room, battery room, communication room, and a relay room. Other equipment to be upgraded or replaced includes the switchgear enclosures, capacitor banks, breakers, foundations, and equipment supporting structures.

Q. What did your review of this project find?

A. Based on our discussions with the Company and its response to IR DPS-96, this project is necessary due to the potential structural instability of transformer bank enclosures and aged housings that support and safeguard the equipment in this substation. A review of the photos provided by the Company in response to DPS-287 reveals that the equipment has been compromised due to water seepage, aged foundation causing unevenness on switchgear housings, and structural damages to transformer bank enclosures. We are concerned that none of the physical site work has been started given the severity of these problems.

Electric Operations

Q. Have you reviewed the capital projects under Electric Operations?

A. Yes. Projects were reviewed under the category of Support Economic Growth, System and Component Performance, Advanced Technology, Storm Hardening and Response, Process Improvement, and Public Safety and Environmental.

Q. Are all the capital projects under Electric Operations justified by the Company?

A. Yes, after a thorough review of the Company's filing, responses to IRs, and interviews with Company personnel, we found the Electric Operations capital projects to be necessary.

Q. Do you recommend any adjustments for projects listed under each Electric Operations category?

A. No. We recommend no adjustments for projects listed under Electric Operations - Support Economic Growth.

Q. Why are there no adjustments to projects listed under Support Economic Growth?

A. Projects categorized under Support Economic Growth support the load transfer work of the existing area substations and those that were put in service during 2008, and scheduled to be put in service during 2009 through 2011. The load transfer work will provide the necessary

system capacity to meet the increasing electric demands of customers. In addition, these projects are needed to reinforce and relieve overloaded conditions on several networks. In order to prevent overloads and relieve the stress on the networks under second contingency conditions, programs such as Primary Feeder Relief, Network Transformer Relief, Overhead Transformer Relief, and Secondary Main Relief are necessary.

Q. Please describe the specific adjustments you are recommending to projects that are not captured under the historic spending adjustment or historic hiring rate adjustment you discussed earlier in this testimony.

A. We will begin with programs under System and Component Performance. The first program we will discuss is the Underground Secondary Reliability program, for which the Company has budgeted $55.266 million, $50.612 million, and $57.181 million in 2009, 2010, and 2011, respectively. This program entails the replacement of aging secondary cables and the replacement of all metal service box covers with

covers constructed of composite material. The replacement of service box covers is a new addition to the Underground Secondary Reliability program. The Underground Secondary Reliability program increases the reliability of the secondary grid and improves public safety by mitigating the potential existence of stray voltage conditions in the underground system. We support the continuation of the secondary cable replacement and the addition of the service box cover replacement within the Underground Secondary Reliability program. However, the Company's proposed level of rate year expenditures is not in line with its historic or year-to-date expenditure levels.

Q. Is the Company's proposed rate year expenditure level higher than its historic expenditure level for this program?

A. Yes. Con Edison has under spent its budget every year since 2004. In response to DPS-194 and DPS-486, the Company indicates that, as of May 2008, it has replaced 545 cable sections, including obstructed sections, and 106 structure conductor upgrades, a pace well short of its

2007 replacement pace. Yet, the Company is now budgeting $12.832 million more than it budgeted in 2008 for this program. We do not believe that the Company will be able to accomplish the level of work it proposes. Moreover, we expected the Company to be fully committed to this program.

Q. Please explain.

A. During the Washington Heights and Long Island City investigations, Staff determined that there were many undetected conditions along the secondary main runs and congestion in structures that house the secondary mains along with primary feeders. Undetected damaged cable sections on the secondary mains create weaknesses in the secondary system that can result in manhole events, such as explosions and fires, which can cause public injury. Staff recommended approval of the level of funding each year since 2004 on the basis of the critical nature of these issues, and for the same reasons we would expect the Company to spend that level of funding.

Q. Please continue.

A. In regard to the service box cover replacements, Staff has supported the Company throughout the R&D effort to develop a composite material cover that would ultimately improve public safety. However, Con Edison's replacement rate to date does not appear to reflect the Company's claimed commitment to this program. According to its response to DPS-486, the Company replaced only 1,951 covers as of May 2008, well short of its proposed replacement of 11,400 during 2009 and 21,000 during 2010.

Q. What is your recommendation?

A. In light of the Company's historic expenditure levels, we propose reductions of $16 million in 2009, $8 million in 2010, and $4 million in 2011 to the Underground Secondary Reliability program. These reduced funding levels are based on the Company's average historical spending including 2008, but, taking into account the importance of this program, would allow the Company to ramp up its expenditure levels to $70.727 million by 2012.

Q. Please discuss your next program adjustment.

A. We propose an adjustment to the Company's

Network Reliability program. As shown on the Company's pre-filed Exhibit___(IIP-15), page 22 of 43, the Network Reliability program is intended to establish new feeder positions by de-bifurcating existing feeders. De-bifurcation is the process by which a single feeder with two main runs, or legs, is separated into two distinct, single leg feeders. The de-bifurcation process provides balanced loading during normal conditions and increases the number of feeders available during multiple contingencies. Con Edison budgeted $25.206 million, $25.723 million, and $26.545 million in 2009, 2010, and 2011, respectively.

Q. What did your review of this project find?

A. Similar to the Underground Secondary Reliability program, we question the Company's commitment to this program. Staff has supported this program during the Company's R&D effort under the Washington Heights implementation plan in Case 99-E-0930; however, the results to date show minimal progress by the Company. Additionally, based on its response to DPS-197, Con Edison has under spent its budget in each of the last three

years and, currently, under spent its 2008 budget of $42.434 million by $18.196 million. Moreover, based on its response to DPS-197 and DPS-501, we are not convinced that the Company will be able to complete the work it has scheduled for 2008.

Q. What is your recommendation?

A. We recommend a reduction of $24 million, $12 million, and $6 million in 2009, 2010 and 2011, respectively.

Q. What capital adjustments are you recommending for the Transformer Purchase program?

A. The Company proposes spending levels of $150 million, $147 million, and $147 million for the rate years ending March 31, 2010, 2011, and 2012, respectively. We recommend a reduction based on an incorrect cost for shunt reactor purchases, which should be $3.385 million, not $6.385 million. Our review of the Company's pre-filed Exhibit___(IIP-15), page 21 and 26 of 43, and its response to DPS-198 indicates a cost of $3.385 million under the Shunt Reactor program. This program is funded by the Transformer Purchase program. A review of the

Transformer Purchase program reveals a budgeted cost of $6.385 million. Our adjustment corrects Con Edison's erroneous reflection of an additional $3 million in the Transformer Purchase program.

Q. What capital adjustments are you recommending to projects categorized under Advanced Technology?

A. We do not recommend specific adjustments to projects under Advanced Technology. Instead, we accept the capital spending levels proposed by the Company, as adjusted by the Staff Accounting Panel, in order to allow Con Edison to take full advantage of improvements in the industry regarding monitoring, modeling, and data processing to benefit the operation of its electric system. To ensure that Con Edison properly allocates funding to the Advanced Technology programs, we further recommend that if, at the conclusion of the rate year, an amount less than those cumulative levels proposed by the Company, as adjusted by the Staff Accounting Panel, for Advanced Technology programs are actually spent, the Commission should require Con Edison to refund to customers

the incremental carrying charges associated with the reduced level of investment.

Q. Please discuss a few of the programs that will benefit the operation of the electric system through improved monitoring, modeling, and data processing.

A. The Secondary Monitoring (Secondary Model Validation) program provides for the retrieval of near real-time secondary grid load flows in a network through installation of 3,500 micro Remote Terminal Units. The information gathered will be used to confirm secondary load flow models created by Con Edison. Any significant differences between the estimated loadings and actual load values will be used to help identify the causes of those differences, such as open mains. The Company budgeted $4.0 million for the purchase and installation of 500 units during the rate year.

Q. Please continue.

A. Another Advanced Technology project is the Distribution Engineering Workstation. This project uses software to integrate the transmission, distribution, and customer load

information into one model allowing more accurate analysis than the current segregated models the Company uses. The model is intended to serve as the foundation for Con Edison's Smart Grid of the Future system. It will also likely be used to more accurately identify locations for transformer replacement, balancing the load and minimizing the losses, particularly in Staten Island and Westchester, where the Company currently does not have a load flow model. The Company budgeted $2.5 million for this program in the rate year.

Q. What adjustments were made to capital programs under Storm Hardening and Response?

A. Overall, our adjustments to Storm Hardening and Response consist of a combination of adjustments based on historic spending levels and the justification provided by the Company. Con Edison budgeted $32.453 million for projects under the Storm Hardening and Response category. We recommend a reduction of $6.403 million, resulting in $26.050 million in funding for Storm Hardening and Response projects. The breakdown of this adjustment can be found in

Exhibit___(SIIP-4).

Q. Do you have any further comments regarding adjustments to Storm Hardening and Response?

A. Yes. Similar to Advanced Technology, we recommend that if, at the conclusion of the rate year, an amount less than those cumulative levels proposed by us for Storm Hardening and Response programs are actually spent, the Commission should require Con Edison to refund to customers the incremental carrying charges associated with the reduced level of investment.

Q. What adjustments were made by the Panel to capital programs under Process Improvements?

A. We propose an adjustment to the Work Management Systems project, which covers the implementation of a comprehensive work management system that is intended to track work and time spent into a common platform. The Company budgeted $1.5 million, $13.5 million, and $18 million over the next three years. We find that, while this program does provide a benefit on a day-to-day basis, its completion date can be extended without jeopardizing the electric system or significantly hindering daily work tasks.

Therefore, we recommend an allowance of $1.5 million for the rate year, and $7 million and $7.5 million, respectively, if a second and third rate year were to be added to the rate plan. This will in effect double the length of time to complete but provide funding levels that ensure continued progress can be made on a yearly basis.

Q. What adjustments are you proposing to capital programs under Public Safety and Environmental?

A. We recommend an adjustment to the Company's Vented Manhole Cover program. This program has been ongoing for the last several years and is planned to be completed in the rate year. The program entails replacing existing round solid covers with vented covers, designed to prevent the build up of combustible gas in manholes caused by the breakdown of cable insulation. The breakdown of the cable insulation can lead to fires, and in some cases, explosions, in the manhole enclosures. The Company budgeted $10 million in 2009 for the program.

Q. What is your recommendation regarding this program?

A. From the perspective of public safety, it is imperative that this program be completed. However, in reviewing the historic spending levels in this area that the Company provided in response to DPS-40, the largest amount the Company expended in a single prior year was $8.66 million in 2005. As a result, we recommend an adjustment from $10 million to $8.7 million for the rate year.

Q. What are your recommendations regarding the Streetlight Isolation Transformer program?

A. The Streetlight Isolation Transformer program entails installing isolation transformers and associated connectors in underground structures supplying streetlamps and traffic signals. The installation of these devices should effectively eliminate stray voltage conditions at these locations, where many of the potentially hazardous conditions related to stray voltage exist. The program was only recently initiated, and as a result, no historic spending levels are available. The Company budgeted $4.1 million for this program in 2008 and $7.814 million in 2009. Given the fact that no historic spending

patterns have been established, an approximate doubling of the budget from one year to the next seems excessive. Because of the significance of this program with respect to public safety, a concerted effort should be made to complete it as soon as possible. The Company has set aggressive targets for installation of the units, with approximately 12,500 forecast for 2009. However, no historic basis exists for a determination that the Company can accomplish these goals, thus a more moderate increase in the budget is warranted until a baseline level of performance can be demonstrated through actual experience. As a result, we recommend that an adjustment of $1.857 million be made to Con Edison's rate year proposal, and that an allowance of $5.957 million be made for the rate year. We recommend a $5.957 million allowance for this program for a second and third rate year, if added to the rate plan, as well.

Q. Do you show any capital adjustments on your Exhibit___(SIIP-4) that are sponsored by other Staff panels?

A. Yes. Exhibit___(SIIP-4), page 7 of 8, also

includes adjustments to two projects (Area Profile System and Energy Efficiency IT Systems Development) that are sponsored by the Staff Accounting Panel. Those adjustments are included in the overall reduction to the T&D plant in service levels that we recommend in our testimony.

O&M Adjustments

Q. Have you reviewed the O&M projects under Systems and Transmission Operations?

A. Yes. In addition to $3.472 million in reductions due to historical spending and hiring practices, we are recommending adjustments to one other line item in the Company's budget. The Company budgeted $2.322 million for normalized human resources for the rate year ending March 31, 2010, as well as rate years ending March 31, 2011 and 2012. The Staff Accounting Panel testimony will address the normalization. Therefore, we removed the line item for Normalized Human Resources from our Exhibit___(SIIP-5) to avoid any confusion.

Q. Have you reviewed the O&M projects under

Substation Operations?

A. Yes. In addition to $0.374 million in reductions due to historical spending and hiring practices, we are recommending adjustments to two other line items in the Company's budget. The Company budgeted $1.4 million for corrective maintenance normalization for the rate year ending March 31, 2010. The Company budgeted the same amount for each additional year assuming rate years ending March 31, 2011 and 2012. The Staff Accounting Panel testimony addresses this normalization. Accordingly, we removed the line item for Corrective Maintenance Normalization from our Exhibit___(SIIP-5) to avoid any confusion. The Company budgeted $2.475 million for the rate year ending March 31, 2010 and, assuming additional rate years, $2.320 million and $2.000 million for the rate years ending March 31, 2011 and 2012, respectively, for the program, Structural Integrity/Station Betterment. In the Company's response to DPS-476, the Company provided estimates for specific projects over the three years totaling $4.690 million. We consequently recommend a reduction

of $0.765 million for the rate year ending March 31, 2010. If a second and third rate year is added to the rate plan, we recommend reductions of $0.720 million and $0.620 million in the rate years ending March 31, 2011 and 2012, respectively, to equal the Company's proposed budget of $4.690 million for this program over three years.

Q. Have you reviewed the O&M projects under Electric Operations?

A. Yes. Projects were reviewed under the category of Support Economic Growth, System and Component Performance, Advanced Technology, Storm Hardening and Response, Process Improvement, and Public Safety and Environmental.

Q. Based on your review, what have you found?

A. We have found that electric operations O&M program expenditures have increased in the categories of System and Component Performance, Storm Hardening and Response, and Process Improvement. Many of these programs are new or being expanded. The new programs are designed to improve overall system reliability while the existing programs call for the expansion of

resources and labor as well as increased amounts of scheduled work.

Q. Please indicate where you propose adjustments.

A. We are not recommending program adjustments under Support Economic Growth. However, we propose adjustments under each of the other categories in order to reflect our findings based on the Company's historical spending levels and rate of hiring, which we discussed earlier in our testimony.

Q. What adjustments are you recommending?

A. The Company proposes an increase in O&M funding for Enhanced Project Planning as part of Process Improvement totaling $9.358 million. This additional funding would provide for increased staffing for Regional Distribution Engineering in order to enhance project planning and oversight for Electric Operations. We recommend that the funding level be set at the levels the Company actually spent in 2007, $7.822 million. Our adjustment is based on the Company's response to DPS-219, where it did not sufficiently demonstrate that an increase in staffing will not result in duplications of

roles and responsibilities, thereby detracting from the increased productivity claimed by Con Edison.

Q. Are there any other programs under Process Improvement to which you propose adjustments?

A. Yes. Con Edison implemented an Edison program intended to develop and deploy adaptive business intelligence software focused on managing business risk and eliminating inefficiencies. Electric Operations Process Management includes an increase of Distribution Engineering staffing to ensure that the new processes under the Edison program are incorporated into the Company's processes as well as integrated into the day-to-day work practices of its field personnel. The Company budgeted $0.8 million to cover labor and overhead expense. Although the intent of the program is to improve business efficiency, until the Company can illustrate actual results achieved under this initiative, and thus, the value of this program, we do not recommend funding for the full staffing level proposed. Rather, we recommend $0.51 million in funding to allow for approximately half of the

proposed staffing level.

Q. Is there an adjustment being proposed to the Company's Area System Profile Program?

A. Yes. The adjustment is being sponsored by the Staff Accounting Panel. Accordingly, we removed the line item for Area System Profile Program from our Exhibit___(SIIP-5) to avoid any confusion.

Q. For programs under the category of Public Safety and Environmental, please explain the large increase in expenditures for the Mobile Stray Voltage Inspection Program, included as part of the Public Safety and Environmental Programs.

A. Pursuant to the Commission's Order in Case 07-E-0523 (the 2008 Rate Order), the Company was required to increase the total number of system scans undertaken as part of this program from the planned five to twelve for the rate year. As a result, the total amount budgeted by the Company was substantially increased to a total of approximately $21 million for the rate year.

Q. Is this amount justified in light of the 2008 Rate Order?

A. In order for the Company to comply with the 2008

Rate Order, increased expenditures should be allowed in the budget. However, in order to bring the projected expenditures more in-line with historic spending levels, we are recommending a reduction of $414,000.

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. Do you support such mechanisms to ensure that Con Edison 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 T&D plant used for ratemaking purposes. If, at the conclusion of the rate year, an amount less than those levels recommended by us 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 for and cost of the projects which caused the plant accounts to exceed the levels proposed in our testimony. With regard to the project cost variance reporting recommended by Staff witness Padula, we recommend that for every project addressed in the Company's Infrastructure Investment 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 because it supports Staff's 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 any new T&D projects it undertakes that were not addressed in its filing in this

proceeding. Justification of the need for and cost of these projects should also be provided. On this point, the Company should be aware of the fact that, for ratemaking purposes, it would be subject to the previously discussed cap on its plant accounts.

Generation Interconnection

Q. Please generally describe the generator interconnection issues.

A. New generator interconnections generally involve the need to address two basic issues: 1) the design of a reliable interconnection; and 2) the allocation of costs, which result from the project's design needs amongst the parties for whom the projects is required. These costs may arise due to needed system upgrades and/or re-configurations needed to allow for a safe and reliable interconnection. New York State has a formal process whereby the Transmission Owner (TO), the New York Independent System Operator (NYISO), and the Generation Developer (Generator) work together to develop the interconnection design needed to resolve these

two broad issues.

Q. Please provide background for the generator interconnection issues pertaining to this case.

A. The Company's response to DPS-296 references a document entitled "Con Edison Fault Current Management Plan Presentation to the NYISO Management Committee June 20, 2001" that details the Company's engineering and reliability system needs in support of a number of proposed Generators interconnecting to its system reliably and safely. On the page entitled "Milestone Schedule," under the year 2004 of the document, Astoria Energy (a/k/a SCS Astoria) 1,000 megawatts (MW) is indicated. To date, of the 1,000 MW of generation proposed by Astoria Energy, it has constructed and placed in service approximately half that level, or 500 MW (Phase 1). The second half, 500 MW (Phase 2), of the initial project has not yet been constructed. However, in anticipation of Astoria Energy's Phase 2 construction in the near future, two of the projects listed on page 14 this document, namely, "The Phase Angle Regulator At Astoria East" and the "Bus Tie Reactor At Corona," are

proposed in this case, as shown on the Company's pre-filed Exhibit___(IIP-10). These projects, at a cost of $64 million, will allow Astoria Energy's Phase 2 unit to interconnect.

Q. Please continue.

A. In a press release dated April 29, 2008, the New York Power Authority (NYPA) announced that it had authorized the selection of Astoria Energy to build a new, natural gas-fueled generating plant to help compensate for the scheduled retirement in January 2010 of the Charles Poletti Power Project (Poletti). That same announcement states that this "provides for Astoria Energy's implementation of the next phase with the construction of the second 500-MW facility." DPS-135, which we have included in Exhibit___(SIIP-1), contains the press release's Web link. The retiring Poletti unit is interconnected at NYPA's 345 kV switch yard located at Astoria and interconnected to Con Edison's 345 kV transmission system. The Astoria Energy 500 MW (Phase 1) plant, on the other hand, is connected at the Astoria 138 kV east yard. The 500 MW (Phase 2) plant was

originally proposed to be interconnected to the 138 kV transmission system with the agreed upon system upgrades and reconfigurations that are currently projected to cost $64 million in capital and are reflected in the Company's capital projections in this case.

Q. Does interconnecting the 500 MW (Phase 2) unit give rise to any other concerns besides the $64 million capital expenditure?

A. Yes, it does. Part of the Company's response to DPS-541 contains a document prepared by Con Edison entitled, "System Reliability Impact Study for NYPA's 500 MW Combined Cycle Generation Project at Poletti (Alternative interconnection to Astoria West) April 8, 2002." On page 15 of this study, with both Phases of Astoria Energy completed (1000 MW total), the Company states that "800 MW of generation could be bottled up at the Astoria East bus, due to limited transmission capacity." In simple terms, this means that while the unit is safely and reliably interconnected, there is insufficient outlet capability to accommodate all the available generation interconnected at

the Astoria East 138 kV yard. However, if Astoria Energy were to reach an agreement with NYPA to interconnect the second unit at Poletti's existing interconnection point, the unit's generation output would be not be bottled or curtailed due to insufficient transmission capability.

Q. What is the Company's response concerning this matter?

A. The Company, in response to DPS-135, states that it is continuing discussions with NYPA regarding the point of interconnection, and prefers a point of interconnection that ensures the full output and deliverability of the unit.

Q. What is your recommendation?

A. We recommend that the Commission strongly urge the three affected parties, Con Edison, NYPA, and Astoria Energy, to work together towards a solution that minimizes the costs to customers of interconnecting and allows the unit's unconstrained output be available to the system.

Increased Productivity Adjustment

Q. Please explain your proposal regarding the

Company's productivity adjustment.

A. We are supporting an increase to the Company's productivity adjustment, as reflected in the testimony of the Staff Accounting Panel. During the past five years, the Company has made significant investments in its electric system infrastructure. Its current proposal essentially maintains this high level of infrastructure investment during the ensuing five years, as well. Such continual, substantial investments to upgrade and reinforce its electrical system will not only provide for increased reliability, enhanced customer service, but produce increased operational efficiencies as well. As the Company's electric system is reinforced and operated under less stressful conditions, the likelihood of unforeseen events will be reduced, as will the necessity to make costly reactionary repairs. For this reason, we expect the Company will become more productive in its core business, the delivery of electricity. This supports a greater productivity adjustment.

Q. What types of savings are generally intended to

be captured by the application of a productivity adjustment?

A. Productivity adjustments have historically been used to capture all types of savings, specific enhancements resulting in operational efficiencies, as well as cost reductions that can not be specifically foreseen or quantified at the time rates are set. The Commission has previously utilized 1% as a productivity adjustment. This level was typically applied in times of more limited (or normal) infrastructure investment. However, because of the recent and proposed substantial increased investments in both infrastructure and the personnel needed to operate and maintain that infrastructure, we recommend that the Commission consider adopting a productivity adjustment that reflects the productivity savings that should be expected as a result of the substantial increases in both capital and O&M project and program expenditures the Company has incurred in the recent past and proposes for the foreseeable future.

Q. Has the Company identified potential cost savings associated with the projects and

programs it is proposing?

A. In most circumstances, the Company has not identified or quantified potential savings associated with its capital and O&M programs. Rather, the Company has only generally described the projects' benefits, as shown in the Company's pre-filed exhibits, as reducing failures and maintenance, improving operational response, or improving efficiency. When asked to specifically indentify any associated cost savings, the Company simply responded that there will be no direct cost savings or any cost savings realized during the next few years.

Q. What is the current productivity adjustment used for ratemaking purposes and what level are you proposing?

A. Under the 2008 Rate Order, the productivity adjustment used for ratemaking purposes is 1%. This is a minimal productivity adjustment used to generically capture broad savings in all areas that are typically not identifiable and quantifiable at the time rates are set. In light of the Company's significant capital and O&M investment, we recommend that the current 1%

productivity adjustment used for ratemaking purposes be increased to 2%.

Q. Is your proposed 2% productivity adjustment based on any studies or supporting data?

A. No. We do not know the exact projects or programs from which, or the exact levels of, the potential efficiencies and savings will be derived. However, in light of the fact that 1% has commonly been used during periods of much more limited (normal) infrastructure investments, this level would seem to be understated in relation to the Company's current expenditure levels. A conservative increase of a single percentage point should be sufficient to capture the Company's as yet unacknowledged operational efficiencies related to all aspects of the Company's business, including its significant investment in capital and O&M projects and programs, and encourage the Company to continually seek to operate in the most cost effective and efficient manner possible.

Q. Does this conclude your testimony at this time?

A. Yes, it does.