

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of
CONSOLIDATED EDISON COMPANY of NEW YORK, INC.

Case 07-S-1315

FEBRUARY 2008

Prepared Testimony of:

Marco L. Padula
Utility Supervisor
Office of Electric, Gas and
Water
New York State
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your name, employer, and business
2 address.

3 A. Marco L. Padula. I am employed by the New York
4 State Department of Public Service (Department).
5 My business address is Three Empire State Plaza,
6 Albany, New York 12223-1350.

7 Q. Mr. Padula, what is your position in the
8 Department?

9 A. I am employed as a Utility Supervisor in the
10 Rates and Tariffs Section of the Office of
11 Electric, Gas and Water.

12 Q. Mr. Padula, please briefly state your educational
13 background and professional experience.

14 A. I received a Bachelor of Science Degree in
15 Electrical Engineering from Northeastern
16 University in 1990 and Master of Business
17 Administration from Rensselaer Polytechnic
18 Institute in 1998. From 1990 to 1994 I was
19 employed by IBM as an Electrical Engineer
20 responsible for the design and development of
21 high performance power/thermal control systems

1 for mainframe computers. In 1994 I joined the
2 Department.

3 Q. Please briefly describe your current
4 responsibilities with the Department.

5 A. My current responsibilities include electric and
6 steam utility revenue allocation and rate design,
7 computer simulation of electricity production,
8 transmission and pricing, and wholesale electric
9 market issues. I also serve as Staff co-leader
10 on the Con Edison electric and steam rate cases.

11 Q. Have you previously testified before the New York
12 State Public Service Commission (Commission)?

13 A. Yes. I have testified on operating and
14 maintenance expenses in Cases 94-G-0885 and 03-S-
15 1672 and on embedded cost of service studies and
16 rate design in Case 04-E-0572, Case 05-S-1376,
17 Case 07-E-0523 and the Stand-by Service
18 proceedings.

19 Q. What is the scope of your testimony in this
20 proceeding?

21 A. My testimony recommends the following:

- 1 • Reject the Company's proposal to discontinue
- 2 various existing steam business development
- 3 incentive mechanisms.
- 4 • Reject the Company's proposed Steam
- 5 Advertising Campaign proposal.
- 6 • Reject the Company's proposal to implement a
- 7 sharing mechanism related to lost revenues
- 8 from negotiated steam agreements.
- 9 • Adopt the Company's proposal to continue the
- 10 Seam A/C Incentive Program.
- 11 • A proceeding be instituted to consider the
- 12 Company's Steam Resource Plan, and to re-
- 13 examine the Steam-Electric cost allocation
- 14 of the East River Repowering Project (ERRP).
- 15 Q. Will you refer to, or otherwise rely upon, any
- 16 information produced during the discovery phase
- 17 of this proceeding in your testimony?
- 18 A. Yes. I will refer to, and have relied upon,
- 19 several responses to Staff Information Requests.
- 20 They are attached as Exhibit____(MLP-1).

1 Q. Are you sponsoring any other exhibits?

2 A. Yes. Exhibit____(MLP-2) is the Company's filing
3 made on September 27, 2007, in Case 05-S-1376
4 that reports on the number of Steam Business
5 Development personnel meetings/contacts with
6 developers, property owners, advisors, engineers,
7 and/or architects and the Company's plan for
8 addressing major issues raised during such
9 meetings.

10 **STEAM BUSINESS DEVELOPMENT INCENTIVE MECHANISMS**

11 Q. Has the Commission expressed concern in recent
12 years with the Company's steam business
13 development efforts?

14 A. Yes. When the Commission adopted a rate plan for
15 Con Edison's steam business in September 2004, it
16 established a Steam Business Development Task
17 Force. Among other things, this directive
18 resulted in the Company filing a Steam Business
19 Development Plan with the Commission on August
20 29, 2005 (SBD Plan). The SBD Plan laid out
21 nineteen action items for the Company, including

1 targeted completion dates. The Plan was made the
2 subject of another Commission Order issued on
3 December 5, 2005 (SBD Plan Order). The SBD Plan
4 Order required Con Edison to file quarterly
5 reports of its efforts to implement the SBD Plan.

6 Q. Did the rate plan issued in Case 05-S-1376
7 address Con Edison's steam business development
8 efforts as well?

9 A. Yes. The joint proposal upon which the current
10 rate plan is based includes a section on Steam
11 Business Development and Retention. Pursuant to
12 the joint proposal, the Company is required to
13 perform certain actions related to business
14 development by a date certain or face a specified
15 revenue adjustment, essentially performance
16 metrics for steam business development
17 activities. Certain of these performance metrics
18 automatically continue beyond the term of the
19 current rate plan, or until base steam rates are
20 re-set in this case.

1 Q. Has the Company improved its focus on Steam
2 Business Development?

3 A. In my view it has. I have reviewed the Company's
4 quarterly steam business development filings and
5 annual strategic plans, participated in the steam
6 cooling advisory group meetings, and participated
7 in meetings between the Company and NYSERDA about
8 steam cooling incentives. The Company's focus on
9 steam business development has improved
10 significantly.

11 Q. To what do you attribute the Company's
12 improvement?

13 A. I believe that the various steam business
14 development performance metrics currently in
15 place had a definite impact, as well as the
16 Commission's Order on the Steam Business
17 Development Plan action items described earlier.

18 Q. Has the Company proposed anything in this case
19 related to the business development performance
20 metrics?

1 A. The Company proposes that the performance metrics
2 related to Section G3 and G8 of the current steam
3 Joint Proposal be eliminated, claiming that they
4 are no longer required. It bases its elimination
5 proposal on the results of the steam business
6 development measures described in the Company's
7 testimony.

8 Q. Do you agree with the Company's proposal to
9 eliminate the steam business development
10 performance metrics?

11 A. No. The Joint Proposal envisions that the
12 performance metrics defined under Section G8 of
13 the Joint Proposal continue beyond the term of
14 the current rate plan, and that those defined
15 under Section G3 continue beyond the term of the
16 rate plan or until rates are reset. Therefore,
17 the metrics under Section G8 should continue even
18 if rates are re-set. The performance metrics
19 under Section G3 should also continue. These
20 metrics relate to meetings and contacts with
21 industry representatives. This is one the most

1 meaningful activities that the Company's steam
2 business development personnel should engage in.
3 This activity enables them to better understand
4 existing customer needs, and to develop future
5 business opportunities and market the benefits of
6 steam. In addition, these meetings/contacts
7 enable the Company to educate its customers about
8 steam efficiency measures.

9 Q. Please describe in more detail the performance
10 metrics under Sections G3 and G8 that you just
11 identified.

12 A. *Section G3-Meetings/Contacts* requires the
13 Company's steam business development personnel to
14 meet with and/or contact developers, property
15 owners, advisors, engineers, and/or architects at
16 least 175 times per year. The Company is
17 required to report to the Commission on the
18 number of actual meetings held and to prepare a
19 plan to address major issues raised at these
20 meetings. In addition, the Company is required
21 to conduct a survey of industry representatives

1 that it contacted to evaluate their reaction to
2 the Company's business development efforts.
3 *Section G8-Customer Service* requires that the
4 Company hold customer focus group meetings and
5 then to submit a report of its findings to the
6 Director of the Office of Consumer Services on
7 the concerns/issues raised by those customers.
8 In addition, the Company is required to conduct
9 two customer satisfaction surveys per year and
10 report those results to the Director of the
11 Office of Consumer Services each rate year.

12 Q. Do you have any specific recommendations related
13 to the continuation of other performance metrics
14 that currently exist?

15 A. Yes. Under *Section G1-Hybrid Chiller Systems* of
16 the currently effective Joint Proposal, the
17 Company is required to perform various activities
18 related to the promotion and development of steam
19 hybrid chiller systems. I would recommend that
20 the Company be required to continue to host
21 meetings of the hybrid chiller advisory group

1 that has been formed under this section, and to
2 continue hosting two forums per year on the use
3 and benefits of hybrid chiller systems. Based on
4 my involvement on that advisory group, there is a
5 wealth of information discussed and disseminated
6 at these forums and it is, therefore, another
7 great opportunity for the Company's steam
8 business development personnel to make direct
9 contact with industry representatives.

10 **STEAM ADVERTISING CAMPAIGN**

11 Q. Did the Company propose a new Steam Advertising
12 Campaign?

13 A. Yes, Company witness Wheeler proposes spending
14 \$500,000 in the rate year to target building
15 owners, developers and their representatives.
16 According to the Company's response to DPS-50 and
17 DPS-51, it intends to run print ads in seven
18 trade publications, as well as posters on
19 telephone kiosks located near the offices of
20 major commercial property owners, developers and
21 their representatives.

1 Q. Is this a new program?

2 A. Yes. This is a program change proposed by the
3 Company. As detailed in the company response to
4 DPS-188, the company has historically spent much
5 less on print advertising. In fact, in 2005 it
6 spent \$26,000, in 2006 it spent \$45,000 and in
7 2007 it spent \$101,000, for a three year average
8 of \$57,000. Therefore, the proposed program is
9 500% more than it spent last year and almost 900%
10 more than the recent three year average
11 expenditure in this category.

12 Q. Do you support this new steam advertising
13 program?

14 A. No. The Company has not demonstrated what
15 incremental value this advertising campaign will
16 provide for steam ratepayers. I support the
17 Company's desire to reach out to developers,
18 property owners, advisors, engineers and
19 architects to market the benefits of steam, but
20 do not view this proposed advertising campaign as

1 the most effective way to accomplish that
2 objective.

3 Q. Has the Company performed a cost / benefit
4 analysis of the proposed program?

5 A. No, as explained by the Company in response to
6 DPS-188, it has not conducted any tracking
7 surveys to measure the effectiveness of its prior
8 print advertising campaigns and it did not
9 conduct a cost/benefit analysis for the proposed
10 \$500,000 steam advertising campaign.

11 Q. What do you propose?

12 A. As described earlier, I propose that the Company
13 be required to continue efforts it began under
14 the current rate plan as they relate to one-on-
15 one meetings and contacts with industry
16 representatives. This is a much more direct
17 method of communicating the benefits of steam
18 service. The decision-makers are a relatively
19 small group on which the Company's steam business
20 development group has already been focusing and
21 developing relationships with. Furthermore, as

1 described by witness Wheeler, the Company has had
2 much success with its current business
3 development efforts.

4 The Company, in its report filed with the
5 Commission on September 27, 2007, and attached as
6 Exhibit___(MLP-2), demonstrated that it has
7 executed hundreds of direct contacts / meetings
8 with industry representatives over the last two
9 years. This direct contact facilitates two-way
10 communication between the Company and the
11 targeted audience. The proposed advertising
12 campaign would be a more passive one-way
13 communication and would not be guaranteed to
14 reach its targeted audience. Furthermore, there
15 is no indication provided by the Company of any
16 benefits from having ratepayers fund this very
17 significant increase in steam advertising.
18 Therefore, the Commission should reject the
19 Company's proposed \$500,000 steam advertising
20 campaign.

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NEGOTIATED STEAM AGREEMENTS

Q. What change is the Company proposing in regard to negotiated steam agreements?

A. The Company has the ability to enter into negotiated steam service, at its sole discretion, to retain and attract Customers that have available to them viable competitive alternatives to the Company's steam service. This service is offered under the Company's Service Class 5 Negotiated Agreement Service. Witness Wheeler proposes that revenue shortfalls resulting from new negotiated contracts entered into during the term of the rate plan be shared 80% by customers and 20% by the company. He argues that all customers benefit by these agreements, and therefore the burden should not fall solely on the Company.

Q. Do you agree with this proposal?

A. No. In a one year rate case, which Staff presenting here, revenue shortfalls due to

1 unanticipated negotiated agreements need not be
2 reconciled outside of the Company's sales
3 forecast. As witness Wheeler describes in his
4 testimony, the Company's steam business
5 development unit has been very active in its
6 attempts to understand its customer's current
7 needs and plans going forward. The Company
8 should, therefore, have a good idea about the
9 need to enter into negotiated agreements and
10 impute the revenue impacts of such in the
11 upcoming rate year forecast. The sharing
12 mechanism proposed by the Company may make more
13 sense in a multi-year rate plan, where it would
14 be more difficult to predict what may happen in
15 the outer years.

16 **STEAM A/C INCENTIVE PROGRAM**

17 Q. Do you support the Company's proposal to continue
18 the Steam A/C incentive program?

19 A. Yes. This incentive program is very important to
20 maintaining and expanding steam A/C usage in NYC.
21 Steam air conditioning usage is one of the major

1 contributors to reducing the electric peak in
2 NYC, and this program will help foster further
3 reductions of that electric peak.

4 **Steam Resource Plan / ERRP Cost Allocation**

5 Q. When and why did the company submit a Steam
6 Resource Plan to the Commission?

7 A. In its Order in Case 05-S-1376, the Commission
8 directed Con Edison to submit a Steam Resource
9 Plan that would identify and offer justifications
10 for Con Edison's preferred choice among resource
11 options including repowering of the Company's
12 existing steam boilers, construction of new steam
13 generation or cogeneration capacity, and
14 purchases from independent suppliers. The
15 Company submitted its plan to the Commission on
16 October 26, 2007.

17 Q. What is the general purpose of the Steam Resource
18 Plan?

19 A. As the Steam Resource Plan states, the plan
20 describes the Company's steam production plans
21 for the next 20 years with the goal of continuing

1 the long-term viability of the steam system and
2 providing reliable service at a reasonable price.

3 Q. Should the Commission, in this rate proceeding,
4 make a decision on whether to approve or reject
5 the Company's steam resource plan?

6 A. No. Due to the statutory time restraints
7 associated with a rate proceeding, it would not
8 be appropriate to consider steam resource
9 planning within the scope of this rate
10 proceeding. The Commission should consider
11 instituting a proceeding in which the steam
12 resource plan can be fully reviewed and
13 considered in the context of other statewide and
14 New York City wide system planning objectives.

15 Q. Has the Commission recognized the need to re-
16 examine the current allocation of ERRP costs
17 between electric and steam ratepayers?

18 A. Yes. In its order in Case 05-S-1316, when
19 addressing ERRP cost allocation issues, the
20 Commission recognized that there was an "major
21 evidentiary deficiency" being "ERRP's limited

1 operating experience (as compared, for example,
2 with the two additional years' worth of data
3 likely to be available when parties consider a
4 new steam plan to take effect in October 2008),"
5 and therefore parties' arguments to revise the
6 cost allocation at that time were rejected.
7 However, now that the two additional years' worth
8 of data is available suggests that the cost
9 allocation issue should be re-examined.

10 Q. How do you recommend the cost allocation be re-
11 examined?

12 A. I recommend the ERRP cost allocation issue be re-
13 examined in the same proceeding that I
14 recommended above to review the Company's Steam
15 Resource Plan. These two issues are linked in
16 that the Commission's consideration of the
17 Company's Steam Resource Plan could ultimately
18 result in the Company building another combined
19 steam / electric plant similar to ERRP, and
20 therefore the allocation of costs between

1 electric and steam customers would need to be
2 decided.

3 Q. Does this conclude your testimony?

4 A. Yes.