

BEFORE THE  
STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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

Case 07-S-1315

FEBRUARY 2008

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Prepared Staff Rate Panel  
Testimony of:

Marco L. Padula  
Utility Supervisor  
Office of Electric, Gas and  
Water

Liliya A. Randt  
Utility Engineer 2  
Office of Electric, Gas and  
Water

Michael J. Rieder  
Utility Engineer 3  
Office of Electric, Gas and  
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State of New York  
Department of Public Service  
Three Empire State Plaza  
Albany, New York, 12223-1350

1 Q. Please state your names, titles and business  
2 addresses.

3 A. Marco L. Padula, Utility Supervisor, Liliya A.  
4 Randt, Utility Engineer 2, Michael J. Rieder,  
5 Utility Engineer 3, Department of Public Service,  
6 Three Empire State Plaza, Albany, New York 12223-  
7 1350.

8 Q. Mr. Padula have you already discussed your  
9 educational background, professional and testimonial  
10 experience, and responsibilities?

11 A. Yes, that information is included in my individual  
12 testimony in this proceeding.

13 Q. Ms. Randt, please briefly state your educational  
14 background and professional experience.

15 A. I graduated magna cum laude from the State  
16 University of New York Institute of Technology at  
17 Utica with a Bachelor of Science degree in  
18 Mechanical Engineering Technology in May 2004. I  
19 also received a Masters Degree in Civil Engineering  
20 from Poltava Technical University, Ukraine in 1997.  
21 I began my employment with the Department in April

1 2005 and currently hold the title of Utility  
2 Engineer 2. While with the Department, I have  
3 prepared, analyzed, and reviewed reports and studies  
4 involving operating revenues, sales forecasts,  
5 operation and maintenance expenses, embedded costs,  
6 revenue allocation, and rate design. My duties  
7 include engineering analyses of utility rate,  
8 pricing, and tariff proposals.

9 Q. Have you previously testified before the Commission?

10 A. Yes, I testified in the Consolidated Edison Company  
11 of New York, Inc. steam rate case 05-S-1376 and  
12 electric rate case 07-E-0523 regarding the embedded  
13 cost of service study, rate design, and other  
14 revenue requirement issues. I also testified in the  
15 Freeport Electric rate case (06-E-0911) regarding  
16 capital expenditures, depreciation, and rate design  
17 and in the recent Orange and Rockland Utilities,  
18 Inc. (Orange and Rockland or the Company) electric  
19 rate case (06-E-1433) regarding the delivery revenue  
20 forecast.

1 Q. Mr. Rieder, please briefly state your educational  
2 background and professional experience.

3 A. I graduated from Clarkson University with a Bachelor  
4 of Science degree in Electrical Engineering in 1990.  
5 I began my employment with the Department in  
6 November 1991. While with the Department, I have  
7 prepared, analyzed, and reviewed reports and studies  
8 involving operating revenues, sales forecasts,  
9 operation and maintenance expenses, marginal and  
10 embedded costs, mortality and net salvage, revenue  
11 allocation, and rate design. My current duties  
12 include engineering analyses of electric and steam  
13 utility rate, pricing, and tariff proposals.

14 Q. Have you previously provided testimony before the  
15 New York State Public Service Commission  
16 (Commission)?

17 A. Yes. I have testified before this Commission in  
18 numerous proceedings on issues related to electric  
19 and steam utility sales, revenues, expenses, cost  
20 studies, depreciation, revenue allocation, and rate  
21 design.

22 Q. What is the purpose of the Panel's testimony?

23 A. The purpose of our testimony is to address:

- 1 1. The Company's compliance with the Steam Order (Case
- 2 05-S-1376) related to the Embedded Cost of Service
- 3 Study (ECOS)
- 4 2. ECOS results presented in this case
- 5 3. Proposed Customer Charge rate design
- 6 4. Staff's Revenue allocation
- 7 5. Revenue forecast associated with Staff's sales
- 8 forecast adjustments
- 9 6. Proposed change to the Negotiated Steam Fuel Cost
- 10 Program
- 11 7. Proposed Steam Revenue Adjustment Mechanism
- 12 8. Recovery of costs related to the electricity used
- 13 by steam-only stations through the FAC
- 14 9. Various other Tariff Revisions
- 15 Q. In your testimony, will you refer to, or otherwise
- 16 rely upon, any information produced during the
- 17 discovery phase of this proceeding?
- 18 A. Yes. We will refer to, and have relied upon,
- 19 several Company responses to Staff Information
- 20 Requests. They are attached as Exhibit\_\_\_(SRP-1)
- 21 Q. Are you sponsoring any other exhibits?
- 22 A. Yes, we are sponsoring Exhibit\_\_\_(SRP-2) Revenue
- 23 Allocation, which provides details of the revenue

1 allocation of Staff's proposed revenue requirement  
2 and Exhibit (SRP-3), the net revenue adjustment  
3 calculation based on staff sales forecast  
4 adjustments.

5 **ECOS Study**

6 Q. Did the Panel examine the ECOS study submitted by  
7 the Company?

8 A. Yes.

9 Q. Please briefly describe the purpose of an ECOS  
10 study.

11 A. An ECOS study reflects the cost of providing utility  
12 services to each customer class. It is based on an  
13 analysis of the rate base, operating expenses, and  
14 revenues for a prior calendar year period. There  
15 are three major steps in an ECOS study:  
16 functionalization, classification and allocation of  
17 costs to each of the service classes.

18 Functionalization entails assigning costs either to  
19 production, transmission, distribution, or customer  
20 service.

21 After functionalization, all costs are classified as  
22 demand, energy, or customer related. The third step  
23 is allocation of classified costs to customer

1 classes based on selected characteristics such as  
2 class contribution to peak demand, steam sales, or  
3 the number of customers in a particular service  
4 class. The final output of the ECOS study is a  
5 summary of the individual class rates of return with  
6 indication of the level to which each class  
7 contributes to the total system rate of return.

8 Q. On what data was Con Edison's ECOS study based?

9 A. The Company's actual cost data for calendar year  
10 2006.

11 Q. Please explain the "tolerance band" that the Company  
12 applies to the results of the ECOS study.

13 A. Individual class revenue responsibilities have been  
14 measured with a +/-10% tolerance band around the  
15 total system average rate of return. Specific  
16 classes would be considered deficient or surplus if  
17 their computed return falls outside of this  
18 tolerance band.

19 Q. What are the results of the Company's ECOS study in  
20 this case?

21 A. The ECOS study indicates that SC1 is deficient by  
22 \$1,525,813. The Non-Demand SC2 and SC3 Classes are  
23 deficient by \$9,958,987 and \$1,263,107,

1 respectively. The Demand SC2 and SC3 classes are in  
2 surplus by \$8,864,455 and \$2,176,575 respectively.  
3 The total system rate of return is 6.30%. The  
4 Company proposes to adjust the revenue requirement  
5 for the surplus and deficient classes by bringing  
6 the class rate of return to within the +/- 10%  
7 tolerance band.

8 **Compliance with the Steam Order (Case 05-S-1376)**

9 Q. Regarding the ECOS, did the Commission require  
10 anything in particular for the Company to prepare in  
11 its Order Determining Revenue Requirement and Rate  
12 Design, issued and effective September 22,2006 in  
13 Case 05-S-1376(September 2006 Order)?

14 A. Yes. Pursuant to the September 2006 Order, the  
15 Company was required to allocate fuel costs  
16 associated with fixed line losses based on the  
17 "footage-of-mains" allocator and to allocate the  
18 costs associated with the East River Repowering  
19 Plant (ERRP) using a demand allocator in the ECOS  
20 for this case, being its next steam rate case  
21 filing.

22 Q. Did the Company comply with the September 22 Order?

23 A. Yes. In the 2006 ECOS Study filed with this case,

1 the Company allocated fuel associated with the fixed  
2 line losses based on the footage of mains allocator  
3 instead of an allocation based on sales. Also, ERRP  
4 costs were allocated, like all other steam  
5 production plant, using the demand allocator D01.  
6 This is consistent with the NARUC Electric Utility  
7 Cost Allocation Manual, which states on page 39 that  
8 production plant is traditionally allocated based on  
9 the "cost impact that the class loads impose on the  
10 utility system." The peak demand method that was  
11 applied to allocate ERRP costs in this study is one  
12 of the two major methods recommend in the NARUC  
13 manual.

14 Q. Has the Commission ordered the Company to implement  
15 demand billing?

16 A. Yes. Pursuant to the September 2006 Order, the  
17 Company was required to implement steam demand  
18 billing.

19 Q. When did the demand rates go in to effect?

20 A. The demand rates for the SC2 and SC3 classes were  
21 effective on October 1, 2007.

22 Q. What customer classes did it affect?

23 A. Demand charges were implemented for SC2 and SC3

1 customers who now have demand meters and annual  
2 consumption equal to or greater than 22,000 Mlbs.

3 **ECOS Results**

4 Q. In general, does the Panel agree with the Company's  
5 ECOS study results?

6 A. Yes. Staff agrees with the ECOS results for the  
7 reasons described below.

8 Q. Does the ECOS recognize the new SC2 and SC3 demand  
9 classes?

10 A. Yes. The ECOS study presents a separation of the  
11 SC2-Annual Power Service and SC3-Apartment House  
12 Service Classes into demand and non-demand metered  
13 sub-classes.

14 Q. Did the separation of SC2 and SC3 classes into  
15 demand and non-demand classes result in the  
16 deficiency and surpluses for these classes?

17 A. Yes, but such deficiency and surpluses are  
18 attributed to several factors beyond just the  
19 demand/non-demand change.

20 Q. Please explain these factors?

21 A. One factor is the allocation of ERRP costs based on  
22 the D01 demand allocator in this ECOS study instead  
23 of on a volumetric basis. Prior to October 2007,

1       ERRP cost recovery was strictly through the steam  
2       FAC. Recovery was, therefore, on a per MLB basis,  
3       applying the same \$/MLB to all classes. This  
4       temporary ERRP cost recovery approach was not  
5       consistent with the more proper (traditional) cost  
6       allocation of steam production plant. This has  
7       resulted in certain classes paying more than their  
8       fair share and others paying less, as revealed by  
9       the ECOS. For example, the SC2 non-demand class was  
10      only responsible for 14.82% of ERRP cost recovery  
11      when allocated on a volumetric basis through the  
12      FAC, as opposed to 23.04% of the ERRP cost when  
13      allocated properly, based on the demand allocator.

14    Q.    What other factors contribute to the deficiency and  
15      surpluses of SC2 and SC3?

16    A.    Another factor is the allocation of fuel costs  
17      associated with fixed line losses based on the  
18      footage of mains instead of sales volume. Again,  
19      using the SC2 non-demand class as an example, the  
20      allocation factor based on footage of mains, 26.7%,  
21      assigns more costs to this class than the allocation  
22      factor based on sales, 19.82%. This too contributes  
23      to the class' deficiency.

1 Q. How did you confirm the effect of these changes?

2 A. In response to Staff DPS-207 the Company provided  
3 the results of the ECOS study return with ERRP costs  
4 and fixed fuel costs associated with fixed line  
5 losses allocated using the prior sales allocator E01  
6 instead of the demand allocator and the footage of  
7 mains allocator, respectively. The results show that  
8 the SC2 non-demand class deficiency decreased from  
9 \$9,958,987 to \$3,498,176 and the SC2 demand class  
10 surplus decreased from \$8,864,455 to \$1,754,581.  
11 Additionally, the SC3 non-demand class deficiency  
12 decreased from \$1,263,107 to \$342,752 and the SC3  
13 demand class surplus of \$2,176,575 was completely  
14 eliminated.

15 This demonstrates that the majority of the surpluses  
16 and deficiencies for the SC2 and SC3 demand and non-  
17 demand classes can be attributable to ECOS  
18 allocation changes previously ordered by the  
19 Commission.

20 Q. Based on your review of the changes to the ECOS  
21 methodology describe above, are the ECOS results as  
22 expected?

23 A. With the SC2 and SC3 classes now separated into

1 demand and non-demand classes, the ECOS study more  
2 accurately identifies and assigns the costs and  
3 revenues of these now distinct service classes. As  
4 expected, the demand classes, which exhibit better  
5 load factors than non-demand classes, are assigned  
6 less cost than they had been in previous ECOS  
7 studies prior to the implementation of demand rates.  
8 Recognition of the newly formed SC2 and SC3 demand  
9 classes combined with the specific ECOS allocation  
10 methodology changes described earlier have  
11 contributed to the demand class surpluses and the  
12 non-demand class deficiencies exhibited in the  
13 current study.

14 **Staff's Revenue Allocation**

15 Q. Have you reviewed the Company's proposed revenue  
16 allocation?

17 A. Yes. The Company first adjusts the surplus revenue  
18 amounts for those classes that were found to be  
19 surplus on an across-the-board percentage basis, in  
20 order to bring the total surplus revenues equal to  
21 the total deficiency revenue, thus ensuring that the  
22 Company is revenue neutral in this regard. The next  
23 step re-aligns the Rate Year revenues, at the

1 current rate levels, to reflect the ECOS surpluses  
2 and deficiencies. It then allocates the proposed  
3 revenue increase to each class based on the  
4 proportion of each class' respective re-aligned rate  
5 year revenues to the total rate year delivery  
6 revenues.

7 Q. Do you agree with this approach?

8 A. Yes. This approach both recognizes the results of  
9 the ECOS and balances the rate increase to all  
10 classes. This is the same approach used by the  
11 Company in prior cases that has been accepted by the  
12 Commission.

13 Q. Has the panel prepared a revenue allocation?

14 A. Yes, we have performed a similar revenue allocation  
15 using the company's ECOS and the same general  
16 approach as described above, but with Staff inputs  
17 for the sales forecast provided by Staff witness  
18 Barney and the Staff Accounting Panel proposed base  
19 rate increase of \$59,959,000.

20 Q. Is Staff's revenue allocation provided herein as an  
21 Exhibit?

22 A. Yes, it is presented in Exhibit\_\_(SRP-2). The  
23 overall pure base rate change is 20.2%

1 Q. Did the panel need to make a mitigation adjustment  
2 to insure that no class receives an increase greater  
3 than 150% or less than 50% of the system average  
4 increase?

5 A. Yes. The SC 1, and SC 2 non-demand, SC4 Rate I  
6 increases were adjusted to bring the classes'  
7 increase to 150% of the system average. The  
8 resulting increases for each class are shown in  
9 Exhibit\_(SRP-2) Column 14.

10 **Rate Design**

11 Q. Please summarize the Company's proposed rate design.

12 A. First the Company determined its proposed increase  
13 to the customer charge for each customer class.  
14 Then it increased the volumetric charge for the SC1,  
15 SC2 and SC3 non-demand classes to recover the  
16 balance of the revenue requirement for each class.  
17 For the SC2 and SC3 demand classes, the Company  
18 increased both volumetric and demand charges by the  
19 same percentage increase.

20 Q. Please explain the proposed customer charge  
21 increases for the SC1 and SC3 non-demand classes.

22 A. The current customer charge, excluding the component  
23 relating to the fuel costs associated with steam

1 fixed line losses, was increased by the class's  
2 overall pure base percentage since the current  
3 customer charge was already close to the ECOS  
4 customer cost.

5 Q. Did the Company propose increases to the customer  
6 charges of certain service classes that differ from  
7 the class average increase?

8 A. Yes.

9 Q. Please explain the proposed customer charge increase  
10 for the SC2 non-demand class.

11 A. The Company's proposed SC 2 non-demand customer  
12 charge was increased by a lower percentage than the  
13 overall class increase, because the current customer  
14 charge for SC2 non-demand is higher than the  
15 corresponding ECOS customer charge.

16 Q. Please explain the proposed customer charge increase  
17 for the SC2 and SC3 demand classes.

18 A. For the SC2 and SC3 demand classes, the customer  
19 charge was increased by 1.5 times the overall  
20 increase, because the current customer charge is  
21 much lower than embedded customer cost. This large  
22 difference is due to the fact that the 2006 ECOS  
23 cost charges for the demand classes include costs

1 related to large services and more costly demand  
2 meters. This proposed increase will move the  
3 customer charge toward the ECOS customer cost to  
4 better reflect Company's cost to provide these  
5 services.

6 Q. Does Staff agree with the proposed customer charge  
7 increases?

8 A. Yes. Based on our review of the Company workpapers  
9 we agree with the proposed increases to the customer  
10 charges. The Company's approach is reasonable for  
11 each class in that it recognizes both the impact on  
12 customer bills, and, at the same time, attempts to  
13 incorporate proper cost responsibility. By applying  
14 a greater increase to the customer charge, in  
15 certain instances, the resulting customer charge  
16 better reflects the level of customer related costs  
17 as identified in the ECOS. In addition, the  
18 proposed customer charges will ensure that greater  
19 levels of fixed costs are recovered from fixed rate  
20 components, and volumetric usage charges reflect  
21 primarily variable cost recovery.

22 **Revenue Forecast**

23 Q. Have you reviewed the Company's rate year revenue

1 forecast at current rate levels?

2 A. Yes. As reflected in the Company's Exhibit \_\_\_\_  
3 (FCY-2), the Company forecasts \$667,547,000 in steam  
4 revenues during the rate year based on its sales  
5 forecast of 25,701 MMLbs.

6 Q. Does Staff propose a different level of sales for  
7 the rate year?

8 A. Yes. Staff witness Barney proposes adjustments that  
9 increase the level of sales reflected in the  
10 Company's forecast by 540 MMLbs. This increased  
11 sales level increases the projected overall level of  
12 revenues that the Company will collect at current  
13 rates. Additionally, all else being equal, it will  
14 reduce the level or rate relief sought by the  
15 Company in this case.

16 Q. Has Staff calculated a price out of witness Barney's  
17 adjusted sales forecast?

18 A. No. Due to the time constraints the Company provided  
19 at Staff's request, a price out of the rate year  
20 revenues at current rates based on Staff's  
21 forecasted sales level. We recommend that the rate  
22 year revenue requirement requested by the Company be  
23 reduced by \$5.6 million as a result of the sales

1 adjustment.

2 Q. How did you then arrive at the rate year revenue  
3 requirement reduction associated with the increase  
4 in sales?

5 A. We calculated the corresponding increase in fuel,  
6 water, chemicals and station electric costs  
7 associated with the increase in sales based on  
8 backup data provided as part of Company witness  
9 Cotuogno's testimony. This increase in cost was  
10 then subtracted from the increase in sales revenues  
11 to arrive at the net adjustment. The results of  
12 these calculations are shown in our Exhibit\_\_\_\_(SRP-  
13 3). This exhibit has been provided to the Staff  
14 Accounting Panel.

15 **Negotiated Steam Fuel Cost Program (Rider E)**

16 Q. Please summarize the Company's proposal regarding  
17 the Negotiated Steam Fuel Cost Program.

18 A. The Negotiated Steam Fuel Cost Program under Rider E  
19 offers customers fixed fuel adjustment prices based  
20 on financial hedges obtained in the natural gas  
21 markets. The Company offers winter and summer  
22 programs. Customer participation in the winter  
23 program increased from 12 to 57 between 2004/2005

1 and 2007/2008. The Company proposes to continue the  
2 winter program.

3 For the summer program, the Company claims that  
4 participation has been declining in recent years.  
5 Actual data shows that only 10 accounts were  
6 enrolled in summer 2007. The Company proposes to  
7 eliminate the summer portion of its Negotiated Steam  
8 Fuel Cost Program.

9 Q. Does Staff agree with the Company?

10 A. No. Staff recommends keeping both the summer and  
11 winter programs. The Company provides no  
12 justification for discontinuing the program other  
13 than declining enrollment levels. The fact that  
14 customers still participate in the summer program  
15 should be sufficient reason to continue offering the  
16 summer option. The fixed price option under Rider E  
17 will help reduce volatility in the Customer's fuel  
18 costs, whether it is in the summer or the winter.

19 **Steam Revenue Adjustment Mechanism (SRAM)**

20 Q. Turning now to the Company's proposed Steam Revenue  
21 Adjustment Mechanism (SRAM). What is the Panel  
22 recommending?

23 A. We recommend that the SRAM not be adopted.

1 Q. What does the Company state as its reason for  
2 proposing the SRAM?

3 A. The Company, referencing the Commission's April 2007  
4 Order in Case 03-E-0640 - Proceeding on Motion of  
5 the Commission to Investigate Potential Electric  
6 Delivery Rate Disincentives Against the Promotion of  
7 Energy Efficiency, Renewable Technologies and  
8 Distributed Generation, entitled Order Requiring  
9 Proposals for Revenue Decoupling Mechanisms (RDM  
10 Order), states that the principles contained in the  
11 RDM Order are also applicable to the steam business,  
12 providing a basis for requesting a steam RDM in this  
13 case. Further, the Company states that because its  
14 steam customers have characteristics similar to its  
15 gas customers, the Company believes it would be  
16 appropriate to require steam revenue decoupling as  
17 long as the Company was also required to decouple  
18 gas revenues.

19 Q. Did the Commission's RDM Order specifically address  
20 the steam business?

21 A. No, the Commission's RDM Order only addressed  
22 electric and gas service. The RDM Order did not  
23 address steam, nor did it address any other

1 regulated utilities, such as water.

2 Q. Do you believe this omission from the RDM Order was  
3 intentional?

4 A. Yes. We do not believe that the exclusion of steam  
5 was an unintended oversight. Rather, we believe the  
6 Commission accurately identified that the  
7 implementation of revenue decoupling is specific to  
8 electric and gas services where there is an explicit  
9 interest in pursuing conservation programs, and that  
10 decoupling need not be extended to other utility  
11 services.

12 Q. Please describe the Company's proposed SRAM.

13 A. Company Witness Rasmussen describes the SRAM as a  
14 revenue adjustment mechanism that would reconcile  
15 actual net steam revenues, by customer class, with  
16 the allowed revenue levels included in the final  
17 revenue requirement set in this proceeding. The  
18 SRAM is analogous to the total class revenue  
19 reconciliation methodology proposed by Staff in the  
20 Company's current electric rate proceeding, Case 07-  
21 E-0523.

22 Q. In Case 07-E-0523, the Company recommended the  
23 revenue per customer RDM methodology. Why is the

1 Company not proposing a similar methodology in this  
2 proceeding?

3 A. The Company correctly acknowledges one of the  
4 shortcomings of using the revenue per customer RDM  
5 is that customers within each service class vary  
6 significantly in size and usage. Thus, when  
7 customers are added or removed from a class, the  
8 average revenue per customer derived for that class  
9 becomes distorted.

10 Q. Is that the only flaw in using the revenue per  
11 customer methodology?

12 A. No. The revenue per customer RDM does not provide  
13 the Commission an absolute level of allowed revenues  
14 retained by the Company for the rate year. Rather,  
15 the precise level of allowed revenues to be retained  
16 by the Company is not known until the conclusion of  
17 the rate year, when actual customer numbers and  
18 revenues can be calculated by multiplying actual  
19 customer numbers for each service class by their  
20 respective revenue per customer factors.  
21 Furthermore, a revenue per customer RDM inherently  
22 encourages the Company to under-forecast customer  
23 numbers used in calculating class revenue per

1 customer factors in the first instance, which in  
2 turn produces higher retained revenue levels. When  
3 actual customer numbers exceed those forecasted, the  
4 allowed revenues retained by the Company will be at  
5 levels in excess of those estimated at the beginning  
6 of the rate year. Finally, a revenue per customer  
7 RDM allows the Company to retain 100% of the average  
8 revenue for each customer over the forecasted level,  
9 regardless of the incremental revenues actually  
10 generated by the additional customers or, more  
11 importantly, the Company's incremental cost of  
12 serving the additional customers. Allowing the  
13 Company to retain 100% of the average revenue for  
14 each additional customer above the forecast over-  
15 compensates the Company for its incremental costs of  
16 serving those additional customers. Conversely,  
17 adjusting the target downward by the average revenue  
18 per customer value likely results in an excessive  
19 negative adjustment to the class revenue target,  
20 thereby emphasizing the incentive for the Company to  
21 underestimate customer numbers in the forecasts.

22 Q. Since the proposed SRAM would not allow the Company  
23 to retain any incremental revenues associated with

1 adding new customers, has the Company proposed  
2 another mechanism to provide it with an incentive to  
3 attract new load to the steam system?

4 A. No. On page 29 of Company Witness Rasmussen's  
5 testimony, it merely suggests that the Company and  
6 other parties "consider this issue and seek to agree  
7 on the design of appropriate load growth  
8 incentives."

9 Q. Does Staff wish to propose an appropriate steam load  
10 growth incentive?

11 A. Yes. We recommend that the most appropriate steam  
12 load growth incentive would be to reject the  
13 Company's request for a revenue decoupling mechanism  
14 for its steam service. Allowing the Company to  
15 retain all incremental revenues associated with load  
16 and customer growth provides it with an appropriate  
17 incentive and adequate financial resources to focus  
18 on the continued viability of the steam system.  
19 Conversely, holding the Company at risk for  
20 declining load growth provides an incentive for the  
21 Company to promote the expanded use of its steam  
22 system for the benefit of all steam customers.

23 Q. Does the Company propose the use of the SRAM for

1 purposes other than revenue decoupling?

2 A. Yes. The Company also proposes that net steam  
3 revenues deferred for future reconciliation during  
4 any year within the Company's proposed three-year  
5 rate plan be recovered or passed back as part of an  
6 annual SRAM reconciliation process.

7 Q. Is Staff endorsing a three-year rate plan as part of  
8 its filing at this time?

9 A. No. Staff's testimony supports changes to rates and  
10 services for the Rate Year only, which is defined as  
11 the twelve month period ending September 30, 2009.  
12 If, however, the Commission were to ultimately  
13 approve a joint proposal supporting a three-year  
14 rate plan that included an RDM, the treatment of net  
15 deferrals should be addressed in that joint  
16 proposal. Absent a rate plan that goes beyond the  
17 rate year, we are not recommending SRAM, and there  
18 would be no deferrals requiring reconciliation  
19 beyond the rate year.

20 Q. What other adjustments is the Company proposing to  
21 be considered in the SRAM?

22 A. The Company proposes that interest should be  
23 recognized on over/under revenue collections at the

1 unadjusted customer deposit rates and that a  
2 provision should be in place to adjust allowed  
3 revenues for unexpected and unavoidable factors that  
4 increase or decrease costs, such as growth in  
5 customers, jobs, and business; wide variations in  
6 weather; and extreme storms and terrorist attacks.  
7 The Company also proposes that efficiency efforts  
8 proposed by the Company be reflected, and that the  
9 Company and other parties seek to agree on the  
10 design of appropriate load growth incentives to  
11 improve the design of the SRAM as filed by the  
12 Company.

13 Q. Do you agree that the SRAM should be used for these  
14 additional purposes?

15 A. No. The Company's proposal to use the SRAM as a  
16 revenue source to cover the effects of unexpected  
17 and unavoidable factors is not necessary. The  
18 Company continues to have the right to petition the  
19 Commission for deferral of extraordinary costs and  
20 the SRAM should not be created as a substitute for  
21 these purposes. Similarly, any incentives allowed  
22 the Company should not be intertwined within the  
23 SRAM.

1 Q. What is the Company claiming are some of the  
2 benefits of implementing an SRAM?

3 A. The Company claims that the SRAM would remove the  
4 financial disincentive the Company might otherwise  
5 have to promote the efficient use of energy and  
6 natural resources, allow existing customers to  
7 benefit from additional net revenues that new  
8 customers added to the system would bring, and  
9 assure adequate financial resources to allow the  
10 Company to build and strengthen the steam  
11 infrastructure and promote service reliability.

12 Q. Do you agree that the implementation of the SRAM is  
13 the only way to provide such benefits?

14 A. No. As we previously stated, we believe that  
15 allowing the Company to implement the SRAM will  
16 remove the Company's incentive to increase the  
17 economically use of steam among its customers. Not  
18 allowing the SRAM to be implemented should further  
19 encourage the Company to promote the efficient use  
20 of steam in order for this source of energy to be  
21 competitive with other sources, such as gas. Under  
22 this scenario, we believe the Company is best  
23 positioned to acquire adequate financial resources

1 to allow it to build and strengthen the steam  
2 infrastructure and promote service reliability.

3 **Recovery of costs associated with electricity used**  
4 **by steam-only stations through FAC**

5 Q. Please summarize the Company's proposal regarding  
6 the recovery of costs associated with electricity  
7 used by steam-only stations.

8 A. The costs of electricity used by steam-only stations  
9 to operate auxiliary equipment are currently  
10 recovered through the steam base rates. The Company  
11 claims that these are variable production-related  
12 costs and proposes they be recovered through the  
13 Fuel Adjustment Clause (FAC).

14 Q. What does Staff recommend regarding recovery of  
15 these costs?

16 A. Staff recommends denying the Company's proposal to  
17 shift this cost recovery from base rates to FAC.

18 Q. What is your basis for this recommendation?

19 A. Staff recommends keeping recovery of the cost  
20 related to electricity used by the steam-only  
21 stations through base rates because the Company has  
22 the ability to exercise some control over these  
23 costs. Staff's recommendation will provide the

1 Company with an incentive to reduce its costs.  
2 Moving the recovery to the Fuel Adjustment Clause  
3 (FAC) would effectively eliminate this incentive.

4 **Various Other Tariff Revisions**

5 Q. Did Staff review the Company's various proposed  
6 tariff changes to its Steam Services as proposed by  
7 the Company's Rate Panel and its witness Wheeler?

8 A. Yes, The proposed tariff changes include a new  
9 charge for customer-damaged meters, a new dishonored  
10 check fee, new language for customer prepayments,  
11 the elimination of leases of boiler equipment, new  
12 specific charges for flange valve and gasket repair  
13 and new charges for customers who want to obtain  
14 pulse signals form demand meters.

15 Staff reviewed the workpapers, contacted Company  
16 witness Wheeler on several occasions and determined  
17 that the changes and reasonable and the calculations  
18 are complete and correct.

19 Q. Does this conclude your testimony?

20 A. Yes.