

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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

Case No. 07-S-1315

FEBRUARY 2008

Prepared Testimony of:

FREDERICK W. BARNEY
Econometrician 1
Office of Accounting, Finance &
Economics
State of New York
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. My name is Frederick William Barney. I am
4 employed by the New York State Department of
5 Public Service (Department). My business
6 address is Three Empire Plaza, Albany, New York
7 12223-1350.

8 Q. Mr. Barney, what is your position in the
9 department?

10 A. I am employed as an Econometrician 1 in the
11 Office of Accounting, Finance & Economics.

12 Q. Please describe your educational background and
13 professional experience.

14 A. I received a Bachelor of Science degree in
15 Economics from the College of Education of Wayne
16 State University in Detroit, Michigan in 1967.
17 I earned a Master of Science degree in Economics
18 from Wayne State in 1971. I also earned a
19 Masters of Science degree in Statistics from
20 Virginia Tech in Blacksburg in 1983. I have
21 completed 30 semester hours in Ph.D. level
22 statistics at the University of Michigan in Ann
23 Arbor. Before I joined the Department in 1992,
24 I held various jobs teaching economics and

1 statistics. I was also the Economics Department
2 head at Walsh College in Michigan.

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

5 A. My responsibilities include forecasting sales,
6 survey sampling, and statistical evaluation of
7 retail and wholesale service quality.

8 Q. Have you previously testified before the New
9 York Public Service Commission (Commission)?

10 A. Yes. I have testified before the Commission on
11 sales forecasting issues, including sales
12 forecast testimony in the Company's 2005 steam
13 rate case, 05-S-1376.

14 Q. What is the purpose of your testimony?

15 A I will provide Staff's assessment of the price
16 elasticity adjustment that the Company applied
17 to its forecast of rate year steam sales.

18 Q. What is your assessment of this adjustment?

19 A. It should be rejected.

20 Q. Why should it be rejected?

21 A. The Company has not sufficiently supported the
22 adjustment for it to be fairly evaluated.

23 Q. Please explain the Company's price elasticity
24 adjustment.

1 A. The Company contracted with the Brattle Group
2 to estimate the effect of an increase in bills
3 upon steam usage. This estimated effect is what
4 is being referred to as the price elasticity
5 adjustment.

6 Q. Have you asked the Company for a copy of the
7 Brattle Group's research?

8 A. Yes. In Staff information requests DPS-20,
9 DPS-60 and DPS-61, Staff asked for a complete
10 copy of all of the Brattle Group's analyses
11 related to the price elasticity adjustment shown
12 on page 12 of witness Yaegel's testimony.

13 Q. Did the Company's response to Staff's
14 information requests include a written report by
15 the Brattle Group?

16 A. The response to DPS-20 included a 3-page
17 document titled "Estimating Price
18 Elasticities Work paper, November 2, 2007" and
19 the response to DPS-60 included 3 pages of
20 additional description. Additionally, in
21 response to DPS-60 and DPS-61, the Company also
22 provided two large data sets, in the form of two
23 spreadsheet files, and an eleven page redacted
24 PowerPoint presentation along with the narrative

1 description. However, the information provided
2 by the Company and its consultants in these
3 responses did not comprehensively convey the
4 entirety of the Brattle Group's analysis.

5 Q. Did you ask the Company if any additional
6 written materials existed?

7 A. Yes. In a phone conversation with the Company
8 and its consultants on February 4, 2008, Staff
9 was told that no such comprehensive report
10 exists and that the only descriptive documents
11 related to the Brattle Group's price elasticity
12 analysis were previously provided in IR
13 responses.

14 Q. Why do you find this support insufficient?

15 A. Staff's role is to evaluate the Company's
16 case. The evaluation of the price elasticity
17 adjustment is a two part process. The first
18 part is an evaluation of the theory which
19 underlies what the Company's consultants have
20 produced. The second part of the evaluation
21 requires Staff to examine the Company's
22 implementation of the consultant's work to this
23 particular rate case. Without being able to do
24 the first part, Staff cannot reasonably

1 accomplish a proper evaluation of the price
2 elasticity materials that were produced.

3 Q. Please elaborate on the evaluation of the steam
4 price elasticity theory proposed.

5 A. In an era when anything that can be imagined can
6 be computed, regulators are required to
7 establish: 1) that what was computed applies to
8 the problem at hand; 2) that the interpretation
9 that its producer has given it is reasonably
10 accurate; and 3) that it has been computed in a
11 fashion that produces output that is strongly
12 related to the consultant's theory. Without
13 proper documentation, none of these tasks can be
14 done.

15 Q. Do you have specific concerns related to the
16 Brattle Group's analysis?

17 A. Yes. With respect to whether the consultant
18 computed in a reasonable fashion, some
19 consideration has to be given to data handling
20 procedures and the appropriateness of the
21 estimation procedures. What we have been given
22 from the Brattle group does not allow us to
23 establish the relevance to Con Edison steam
24 sales. It does not allow us to decide if what

1 they have found has been correctly implemented;
2 and it does not allow us to decide if it was
3 correctly estimated.

4 Q. Are there any other reasons to call into
5 question the reasonableness of the Company's
6 price elasticity adjustment?

7 A. Yes. The Brattle Group's models separately
8 identify the impact of prices and economic
9 variables (i.e., personal income or gross state
10 product) on sales. However, the Brattle Group's
11 price elasticity models do not appear to account
12 for the efficiency impact associated with new
13 energy efficient equipment. This impact was an
14 important adjustment to sales as described on
15 pages 11 and 12 of witness Yaegel's testimony.
16 Thus, some of the decreases in sales which the
17 Brattle Group's models attribute to increases in
18 prices may be partly due to customers' increased
19 use of energy efficient equipment.

20 Q. If it turns out that the Company can
21 subsequently support the magnitude of its price
22 elasticity estimates, should the Company's price
23 elasticity adjustment be modified?

24 A. Yes, at a minimum, the Company's recommended

1 negative 540 Mlb adjustment should be modified
2 for the fact that a lower recommended revenue
3 requirement would produce a smaller price
4 elastic response if the smaller proposed
5 percentage rate increase were run through the
6 Company's price elasticity methodology on tab 34
7 of the Company's work paper provided in response
8 to DPS-14.

9 Q. Does this conclude your testimony?

10 A. Yes.