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1 Introduction

2 Q. Please state your name and business address.

3 A. My name is Robert Muccilo. My business address is

4 4 Irving Place, New York, N.Y. 10003.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by Consolidated Edison Company of New

7 York, Inc. ("Con Edison" or the "Company") as Vice

8 President and Controller. In this position I am the

9 Company’s chief accounting officer with the overall

10 responsibility for the accuracy and consistency of the

11 Company financial accounting records.

12 Q. Briefly state your educational background.

13 A. In 1978, I graduated from Jersey City State College

14 with a Bachelors Degree in Accounting. I graduated

15 from Fairleigh Dickinson University in May 1983 with a

16 Master Degree in Corporate Finance.

17 Q. Please explain your work experience with Con Edison

18 and your current primary responsibilities.

19 A. I began my employment at Con Edison in June 1978 and,

20 from that time until 1998, I worked in the General

21 Accounts and Accounting Research and Procedures

22 ("ARP") sections of Corporate Accounting in increasing

23 levels of responsibility up to and including Manager
of ARP. In 1999, I was promoted to Assistant Controller, responsible for General Accounts and ARP. In 2002, I assumed the responsibilities for Financial Forecasting and Budgets and Electric Revenue and Volume Forecasting sections of Corporate Accounting, and in 2003 continuing through 2006, I assumed the additional responsibility of Regulatory Accounting and Regulatory Filings sections of Corporate Accounting. As part of a career developmental opportunity, in 2006 I assumed the position of General Manager, Stores Operations where I was responsible for operating and managing the central warehouse and distribution facility for electric, gas and steam materials. In April 2008, I returned to Corporate Accounting to assume a special assignment as Assistant Controller and team leader for the Finance Transformation Project. The team was responsible for implementing process, people, and system changes designed to minimize financial reporting risk. I have also served on and led several corporate teams, including the establishment of the Holding Company corporate structure and the Orange and Rockland ("O&R") Merger Transition Team.
Q. Have you been involved in industry-wide utility issues?

A. Yes. For many years, I have been an active member of both the Edison Electric Institute and American Gas Association finance and accounting committees.

Q. Have you previously testified before the Public Service Commission (“Commission”)?

A. Yes. I have testified before the Commission on behalf of the Company in previous electric, gas and steam proceedings.

Purpose of Testimony

Q. What is the purpose of your testimony in this proceeding?

A. My testimony will cover the following topics:

- First, I will provide an overview of the costs driving the Company’s request for a rate increase for the twelve months ending December 31, 2014 (“Rate Year”) as shown in Exhibit __ (RM-1), including the Company’s plans to make investments of approximately $1 billion in storm hardening of our electric, gas and steam infrastructure over the
next four years, and the Company’s efforts to mitigate its costs of providing service;

- Second, I will discuss how the Company proposes to apply the provisions of the current electric rate plan to the nine-month “stub” period covering April 1, 2013 through December 31, 2013. This is the period between the end of the third rate year of the current electric rate plan (i.e., March 31, 2013) until electric base rates would be reset as a result of this filing (i.e., January 1, 2014)

- Third, I will outline the Company’s request to continue currently authorized deferred accounting for a variety of items and purposes, address Company proposals to modify or eliminate some of the deferral or reconciliation mechanisms and address new items for which the Company believes deferral accounting or reconciliation is appropriate. This includes a description of an accounting and ratemaking process that the Company proposes be authorized to facilitate investments designed to “harden” the Company’s electric system
to provide for greater resilience to severe weather conditions;

- Fourth, I will discuss the elimination of collecting any revenues subject to refund pending the Commission’s determination in Case 09-M-0014;

- Fifth, I will discuss the reclassification of the Hudson Avenue Generating Station (“Hudson Avenue Station”) land and proposed treatment of unrecovered costs related to the Hudson Avenue Station;

- Sixth, I will address the Company’s interest in pursuing a multi-year rate plan in settlement discussions; and

- Seventh, I will address regulatory reforms the Company is actively supporting that, if adopted, would lower Company costs without impairing the level of service provided.

I. Costs Driving the Company’s Request for Rate Relief and Mitigation Measures

A. Costs Driving the Company’s Request for Rate Relief

Q. Mr. Muccilo, please explain why the Company is
requesting to increase its rates for electric service at this time.

A. This rate filing, which was delayed due to our focus on the response and recovery from Superstorm Sandy, has since been revised to address the universal concern that greater investments and preventative measures need to be initiated now to better protect critical infrastructure and our customers from major storms in the future.

The Company’s existing electric rates were set by the Commission under a rate plan that began April 1, 2010 and has a primary term extending through March 31, 2013. With this filing, the electric rate increase will not be effective until January 1, 2014, nine months later. The Company has taken significant steps to instill a cost-management culture that pervades management of all aspects of its operations starting with long range planning, project prioritization and optimization continuing to short term budgeting and culminating in daily implementation as is addressed by many Company witnesses, a number of significant increases in the Company’s costs of providing service that are, for the most part, outside its control.
materially exceeded the Company’s success in mitigating costs over which the Company can exercise a reasonable degree of control. As is described throughout this filing, the Company continues to mitigate costs – some to be realized in the short term and some in the longer term – some that can be more specifically quantified or estimated than others, and some that are avoided increases rather than savings from current levels. Many increases in costs, however, are outside the Company’s direct control, cannot be mitigated or offset to a degree the Company can absorb without significantly curtailing or eliminating necessary programs, negatively affecting overall service quality, jeopardizing the Company’s ability to provide reliable service and failing to provide a reasonable return to investors.

Q. What amount of electric rate relief is the Company requesting in this proceeding?

A. The Company is requesting $375.4 million of rate relief for the Rate Year. This would be equivalent to an approximately 7.2% average increase in delivery rates, or an overall increase on customers’ bills of approximately 3.3% as described in greater detail by
the Electric Rate Panel. As discussed later in my testimony, the $375.4 million request does not reflect the impact of additional planned storm hardening expenditures in 2013 of approximately $42 million or the additional rate base reduction that will be available due to the extension of bonus depreciation.

Q. Please continue to describe the impact to customer bills.

A. There are certain offsetting changes that will occur in the Rate Year and beyond that would counter the impact of this proposed increase. The Company estimates that approximately $96 million per year currently collected from customers will not be collected during the Rate Year, offsetting the requested increase by that amount. There are two components of that amount. First, as explained by Company witness Kimball, certain mandated supply contracts with non-utility generator units will be expiring during 2014, 2015 and 2016, eliminating the above-market prices the Company is required to pay. The first will be at the end of August 2014 and the Company estimates that approximately $46 million of the requested increase will be offset during the last
one-third of the Rate Year alone. Bill reductions will grow as additional contracts expire.

Second, the one percent temporary portion of the Public Service Law § 18-a surcharge is scheduled to expire March 31, 2014. The annual surcharge is revised each year and billed over a twelve-month period that runs from July through June. As a result, the Company estimates that approximately $50 million dollars of the proposed increase will be offset during the last six months of the Rate Year and customer savings will then be $100 million annually.

Q. Please explain how Superstorm Sandy costs are reflected in this filing?

A. In late October 2012, Superstorm Sandy caused extensive damage to the Company’s electric system. To restore service to customers and repair the electric system, the Company incurred substantial operating costs and made substantial capital expenditures both of which continue to be incurred in order to restore the electric system to a “normal” state following restoration of service. The operating expenses attributable to Superstorm Sandy have added a significant amount to the regulatory asset balance of
the Major Storm Reserve. The Company has reflected $240 million of operating expenses allocable to electric operations on a three-year amortization in this filing.

Q. Has the Company taken steps to mitigate these expenses?

A. Yes. The O&M costs to be recovered through the storm reserve have been offset by anticipated insurance proceeds of approximately $34 million. In order to mitigate this rate request, the Company has re-prioritized other capital projects scheduled for 2013 so that the projected costs to restore the system to normal do not increase this rate request. In addition, the Company also anticipates receiving insurance proceeds to offset capital costs incurred to restore the system to normal. The Company would credit to rate base all such insurance proceeds received.

Q. How are the planned investments in storm hardening reflected in this filing?

A. The Company’s Electric Infrastructure and Operations Panel, Electric Production Panel and Shared Services Panel address Company plans to make storm hardening
investments in 2013 through 2016. All of the
projected storm hardening investments are reflected in
the revenue requirements developed for the Rate Year
and for two additional years for illustrative
purposes, with the exception of $42 million in 2013,
which we will reflect in the Company’s update to be
submitted later in this proceeding.

Q. What are the other principal drivers of this rate
increase?

A. There are several. They are summarized in the
following table. Additional detail is shown in
Exhibit __ (RM-1) entitled “CONSOLIDATED EDISON
COMPANY OF NEW YORK, INC. – MAJOR ITEMS DRIVING RATE
INCREASE” which was prepared under my supervision and
direction.
<table>
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| Carrying cost of net rate base additions (incl.
| depreciation) | $156 |
| Depreciation rate changes and amortization of reserve deficiency | 75 |
| Higher operating expenses | 72 |
| Employee welfare expense | 57 |
| Pension/OPEB expense | 27 |
| Property & Other Taxes | 19 |
| Income Taxes | 16 |
| Increase in financing costs* | 14 |
| Amortization of net Deferred Credits** | (19) |
| Higher Electric Revenues | (41) |
| Other Items | (1) |
| Increase | $375 |

* Cost of capital reflects an equity ratio of 49.9% with a return on equity of 10.35%. Previously outstanding preferred stock was redeemed in 2012. Lower interest rates and lower customer deposit rates further mitigate the increase in the overall cost of financing.

** The amortization of net accounting credits includes the recovery of deferred Superstorm Sandy costs of approximately $240 million over three years.
Q. Please discuss the component of the rate request relating to net plant additions included in rate base listed on Exhibit __ (RM-1).

A. It is necessary to continue to maintain a safe and reliable system. As discussed by the Company’s Electric Infrastructure and Operations Panel, the projected level of spending reflects the investments determined to be necessary due to replacement of aging infrastructure, current customer needs and planning for future customer needs. Capital spending decisions are made following extensive and rigorous analysis including an optimization assessment and are guided by long and short term planning processes. As the Panel explains, the Company’s strategy is to invest in infrastructure enhancements only when less expensive alternative solutions are not available to sustain existing reliability levels, provide for localized delivery capacity needs, and provide for employee and public safety.

The ongoing need for capital investment and new investments to address storm hardening contributes to the increase in the carrying cost on rate base of approximately $156 million, which includes the
additional depreciation expense of $93 million on the higher plant investment at the Company’s currently authorized depreciation rates. The overall increase in rate base resulting from new infrastructure investments has been offset in part by the impact of deferred tax benefits related to bonus depreciation, repair allowance deductions and Section 263A capitalized overheads that have reduced financing costs by $79 million in the Rate Year.

Q. In his 2013 State of the State message, Governor Cuomo asserted that strengthening critical utility infrastructure is an essential step to ensure that we will be better prepared for future natural disasters. Does the Company agree?

A. Yes. As indicated above, the Company’s electric, gas and steam contemporaneous rate filings demonstrate a Company commitment to this objective made immediately following Superstorm Sandy. As detailed by the Company’s various infrastructure panels, the Company’s capital programs were adjusted to reflect approximately $1 billion of storm hardening projects in 2013, 2014, 2015 and 2016 as a substantial step to strengthening the Company’s infrastructure against
future weather events. Consistent with the Company’s continuing efforts to mitigate costs and thereby provide safe and reliable service in the most cost effective manner, some of the planned investments for 2013 will be made in lieu of previously planned expenditures that the Company determined can be reasonably deferred to a future period. The incremental request for 2013, $42 million, is the net result after reprioritizing other projects in the Company’s 2013 capital program. The revenue requirement will be updated at the appropriate stage of this proceeding to reflect the additional investment of $42 million for storm hardening. This update would be accompanied by various other updates as is common practice. In this case, the updates would include consequences of the recently enacted Taxpayer Relief Act of 2012 such as the additional rate base reduction that will be available due to the extension of bonus depreciation.

Q. Please explain the increase in depreciation expense of $75 million as shown on Exhibit __ (RM-1).

A. The increase in depreciation expense is due to three factors. The Company’s Property Tax and Depreciation
Panel has performed a study of the appropriateness of the depreciation rates currently authorized for use and proposes changes to certain of them. The updated depreciation rates result in increased depreciation expense of $36 million when applied to the projected plant investment for the Rate Year. I would note that this amount and the other depreciation adjustments are stated in terms of their impact on the revenue requirement so they include adjustments to reflect associated federal income taxes. Also included is $32 million representing a twenty-year amortization of an electric depreciation reserve deficiency and $7 million representing a twenty-year amortization of unrecovered plant costs associated with the retired Hudson Avenue Station as I will address more fully later in my testimony.

Q. Please explain the reference to a twenty-year amortization of an electric reserve deficiency in your previous answer.

A. This matter is explained in greater detail by the Company’s Property Tax and Depreciation Panel. In summary, there has been a large and persistent deficiency in the electric depreciation reserve. The
Commission has expressed concern over the circumstance and has taken steps to address it by providing for recovery of limited amounts through amortization in rates.

Continuing the current approach indefinitely will not rectify the circumstance. The remainder of the currently effective amortizations of the deficiency as of December 31, 2011 amounted to $194.4 million. That amount will not be realized in full, however, until March 31, 2023. Even after recognizing that scheduled amortization, the deficiency remains at $485.2 million.

Assuming the deficiency does not grow, of which there can be no assurance, customers will pay carrying charges on that amount and those charges will be in addition to the carrying charges customers have been bearing for many years already. Further action should be taken to ameliorate this situation. The deficiency represents the cost of plant that has been “consumed” in providing service but not paid for by the customers who benefitted from the service. The sooner the deficiency is recovered, the closer will be the alignment of the customer group that used the service
and the customer group who paid for it and the total
cost to customers will be less.
The Company sees this rate filing as an opportunity to
try to fully address this perennial problem as the
bill impacts related to this filing are significantly
less than those for the Company’s last four electric
rate cases.
The Company is proposing to address this issue by
setting the currently existing unaddressed deficiency
of $485.2 million on a twenty-year amortization
schedule ($24.3 million per year). As explained by
Company witness Sanders, the Company’s depreciation
recoveries are small relative to its current capital
costs and due to the long depreciation lives
established in rates, this dynamic is likely to
continue for many years. As Mr. Sanders also
explains, limited depreciation cash flow puts upward
pressure on the Company’s cost of capital and need for
rate increases. The Company’s proposal to begin
recovery of the full remaining depreciation reserve
deficiency is a small step toward addressing that
broader problem to the long term benefit of customers.
Q. Please address the increase related to employee
welfare expenses you have identified.

A. Employee welfare expenses account for $57 million of the requested rate increase. Under the current rate plan, health benefit costs were set at levels reflecting general rate of inflation increases, approximately 2% per year. As explained by the Company’s Compensation and Benefits Panel, general inflationary growth is not the proper escalator for this material cost. Simply applying a cost escalation factor does not recognize that a significant portion of the projected increase is due to changes in health care coverage law, the demographics of those covered by the Company’s benefit plan and increased usage of benefits by employees covered by the plan, among other factors, which support a higher expected rate of growth for this cost.

Q. Please explain the item on Exhibit – (RM-1) related to pensions and OPEBs.

A. The Company is faced with a number of increasing costs, many of which cannot be directly controlled by Con Edison. Employee pension and other post employment benefit (“OPEB”) costs are an example. Those costs have increased primarily as a result of
the current interest rate environment and account for $27 million of the rate request. Low long-term interest rates manifest themselves in the discount rate that is used to calculate the Company’s pension obligation. Based on information that was available in early December, the Company’s actuary used a 4.0% discount rate when computing the Company’s pension expense for the Rate Year. The actual discount rate at December 31, 2012 was 4.1%. The change, when compared to the discount rate used for calendar year 2012, increased the Company’s estimated pension cost for the Rate Year by approximately $58 million. Due to Company efforts to restructure its Voluntary Employee Benefit Association (“VEBA”) plans for its OPEBs, however, that cost has been reduced for the Rate Year by $23 million. The change involved the way Medicare Part D prescription drug reimbursements are handled. Beginning in 2013, an employer’s tax deduction was reduced to the extent the employer’s drug expenses are reimbursed under the Medicare Part D retiree drug subsidy (“RDS”) program. Previously, such reimbursements were not taxed. As a result of this change, the Company will redirect the Medicare Part D
RDS to an Employer Group Waiver Plan (EGWP), which
would not be subject to the same tax treatment and
thereby avoid an increase in this cost to the Plan.

The OPEB projections also reflect the reduction, and
in some cases elimination, of the life insurance
benefit to be paid to the estates of management and
weekly retirees effective January 1, 2013. The
Company’s Compensation and Benefits Panel further
explains the initiatives used to mitigate pension and
OPEB costs. As has been customary in previous rate
case proceedings, the Company will update pension and
OPEB costs, reflecting updated information received
from the Company’s actuary, Buck consultants, during
the update stage of this proceeding.

Q. What other operation and maintenance (“O&M”) expenses
significantly contribute to the need for rate relief?

A. Increases in operating expenses and other cost
increases, excluding labor costs, are explained by
various Company witnesses. The more significant
expenses driving the Company’s rate increase are
Company labor of $71 million, an increase in the major
storm costs reflected in rates by $16 million
excluding as of the time of this filing those related to Superstorm Sandy as I explain later in my testimony, and higher property and liability insurance premiums of $15 million. The Company is also seeking to recover the variable portion of non-officer management labor costs of approximately $20 million. The components making up the salary and wage expense are addressed by the Company’s Accounting Panel. Labor expense reflects contractually required wage increases for union employees, a reasonable management wage increase, and funding for the variable component of management pay for non-officer management employees which was excluded from rates during the current rate plan. The Company has also reflected a one percent productivity imputation through a reduction of otherwise expected labor costs. The Company’s Compensation and Benefits Panel demonstrates the reasonableness of the Company’s compensation of its weekly and management employees. I would note that despite the reasonableness of management employee compensation, the Company has elected for purposes of this proceeding, without prejudice to the Company’s position in any future
proceeding, to forgo requesting recovery of the cost
of the longer term performance-based equity grant
portion of that compensation.
It should also be noted that the increased revenue
requirement for O&M expenses includes $14 million
related to completing the phasing-out of excluding O&M
expenses from rates by austerity imputations under the
current rate plan.
Partially offsetting these O&M expense increases are
dower electric operation costs of $27 million, as well
as estimated O&M savings of $17 million to be derived
from implementing the new work management system for
Electric operations and from other initiatives.
Q. Please discuss the increase related to property and
other taxes.
A. Property and other taxes comprise $19 million of the
rate increase and are costs over which the Company has
no direct control and limited power to influence. The
Company’s Property Tax and Depreciation Panel
discusses the increase in property taxes of $9 million
in further detail. The increase in property taxes
above the current rate allowance is attributable to
higher projected property taxes in Westchester and
other upstate communities. Property taxes in the City of New York are estimated to be slightly less in the Rate Year than reflected in the current rate plan. As discussed by the Property Tax and Depreciation Panel, the reduction is attributable in part to Company efforts to reduce New York City property taxes. Payroll and other taxes increased by another $10 million primarily due to the increase in salaries and wages I addressed earlier.

Q. Please continue by discussing financing costs.

A. The overall impact of the change in the capital structure is about $14 million. The primary factors contributing to this increase is a change in the equity ratio from 48% to 49.9%, which is representative of the Company’s current equity ratio. The redemption of preferred stock in 2012 and lower debt costs mitigate this cost. In addition, the return on equity (“ROE”) of 10.35%, recommended by Company witness Hevert, is 0.2% higher than the ROE used to set rates under the current rate plan and amounts to a $29 million increase in the revenue requirement.

Q. What effect does the amortization of deferred items
have on the Company’s request for rate relief?

A. The effect of amortizing deferred credits over three years serves to make available $178 million annually to reduce the amount of necessary rate relief. The largest deferred credits being passed back to customers through the amortization mechanism are property tax deferrals of $96 million, interest rate true-up of $25 million, World Trade Center recoveries of $23 million, and $19 million for cash flow benefits from bonus depreciation and the repair allowance tax deduction.

The deferral accounting and ratemaking approach is intended to protect the interests of customers and investors by avoiding a “windfall” for one or the other. As noted above, this approach gave rise to the $178 million of annual deferred credits for customer benefit. The approach also gave rise to deferred costs or charges, meaning costs that have been incurred but not yet charged to customers. In this case, the annual amortization of deferred charges amounts to $159 million.

The annual amount of deferred cost recoveries include Superstorm Sandy costs of $80 million, pension costs
of $30 million and other items that stem from the reserve accounting approach, major storm costs other than Superstorm Sandy of $27 million, and ERRP major maintenance expense of $8 million. The amortization of site investigation and remediation ("SIR") costs related to former manufactured gas plant ("MGP") and Superfund sites is projected to result in a $14 million increase of the Company’s revenue requirement, including the effect of an amortization period adjustment from ten to five years that I will address later in my testimony.

On a net basis, the amortization of deferred costs and credits serves to make available $19 million annually to reduce the rate increase.

Q. Please expand on your earlier reference to credits available related to World Trade Center expenses.

A. The Company’s efforts to obtain recovery of costs incurred for restoration of facilities damaged as a result of the attack on the World Trade Center have resulted in the mitigation of the rate increase. To date the Company has recovered approximately $400 million through lawsuits, insurance recoveries and from the federal government. These recoveries
ROBERT MUCCILO – ELECTRIC

combined with the amount of costs funded by customers
have offset the deferred restoration costs leaving $67
million available to be credited to electric
customers, which the Company proposes to do over three
years. To the extent additional litigation costs are
incurred and/or proceeds are awarded from the pending
lawsuits, the Company proposes to continue to defer
these costs and proceeds until all of these matters
are resolved.

Q. Are there any additional offsets to increasing costs?
A. Yes. Exhibit __ (RM-1) shows certain offsets to the
increased costs I have mentioned. The Company is
projecting an increase in electric usage that offsets
a portion of the increase in the revenue requirement
caused by the cost drivers discussed above. As
discussed by the Electric Forecasting Panel, we are
projecting $46 million of additional revenue
attributable to projected growth in electric usage
when compared to the level assumed in current rates.
Lower income taxes resulting from higher projected
“flow thru” tax deductions offset a portion of the
increase in the revenue requirement by $16 million.
In addition, this filing contemplates $15 million
included in base rates in connection with a wheeling
service contract with Public Service Electric & Gas
Company (“PSE&G”) will be removed because that
contract has expired and the costs of a wheeling
service contract under the PJM Open Access
Transmission Tariff (“OATT”) that superseded the PSE&G
service is reflected in the net change in costs and
revenues to be recovered through the Monthly
Adjustment Clause (“MAC”). The Company made a filing
with the Commission on July 9, 2012, addressing the
recovery through the MAC of costs incurred under the
PJM OATT for this service commencing May 1, 2012,
consistent with this approach.

B. Mitigation of the Rate Increase

Q. Has the Company taken steps to mitigate its rate
request?

A. Yes. The Company has taken numerous measures to
mitigate this rate increase and keep it to the lowest
practical level without adversely affecting service
quality or reliability. It is a Company-wide
imperative to proactively seek ways to responsibly
reduce costs.
I have mentioned several already during my explanation of cost increases and decreases resulting in the amount of the rate increase being requested in this filing. Examples are: (i) aggressively pursuing recovery of costs associated with the World Trade Center matter and succeeding to the point that funds are available in this proceeding to more than offset remaining deferred costs and provide a credit to customers; (ii) the significant savings due to the restructuring of VEBA plans (I would also note by adopting a Cash Balance pension formula for newly hired Local 1-2 union employees); (iii) implementing the work management system for Electric operations; (iv) successful efforts to reduce property tax assessments; (v) reduced transmission and distribution O&M expenses and (vi) sound financial management such as the redemption of the Company’s preferred stock serving to reduce financing costs. Additional savings are reflected for customer service activities attributable to staffing reductions that will result from the continued expansion of automated meter reading and “off system” billing changes that amount to $1.6 million, as explained by the Company’s

For property taxes, assessment reductions gained by pursuing and achieving “obsolescence” adjustments have been significant. Over the past two years, with the inclusion of the “obsolescence” adjustment, the assessed value of electric property has resulted in significant reductions in the Company’s property taxes compared to the levels forecast in the current rate plan. The majority of these savings have been deferred for the benefit of customers pursuant to the provisions of the current rate plan.

These efforts and successes and others as well as embedded practices that have served to avoid unnecessary costs are described by various witnesses including the Electric Infrastructure and Operations Panel, the Shared Services Panel, the Municipal Infrastructure Support Panel, the Compensation and Benefits Panel, the Property Tax and Depreciation Panel, the Management Audit Panel, Company witness Price as to environmental costs and Company witness Kimball as to electric supply costs.

These efforts are also consistent with implementing the element of the Cultural Imperatives, as described
by the Management Audit Panel, to reinforce cost
management consciousness. Various witnesses discuss
the implementation of the Cultural Imperatives with
respect to their areas of operations.

Q. Mr. Muccilo, did the Company contemplate that it would
be able to mitigate the revenue requirement in this
case due to availability of a higher amount of
customer credits than is now available?

A. Yes, significantly so but the Commission directed that
a large amount of customer credits be used earlier.

Q. Please explain.

A. In January 2012, the Commission initiated Case 12-E-
0008 to evaluate whether actual and projected
accounting credits deferred by Con Edison could be
used to offset the need to collect a $133.5 million
surcharge from customers in the third rate year of the
Company’s current electric rate plan. The Commission
had previously authorized the surcharge in connection
with the levelization of rate increases authorized in
Case 09-E-0428. By an order issued March 22, 2012,
the Commission ordered the cancellation of the $133.5
million surcharge and directed the Company to use
certain actual and projected deferred credits in the
same amount in order to offset, in an earnings neutral manner, the effect of cancelling the collection of the surcharge.

Had the Commission not cancelled the collection of the $133.5 million surcharge and not ordered the Company to use $133.5 million of deferred credits to offset that cancellation, those credits would have been available in this case to mitigate the rate increase the Company is now seeking. Assuming a three-year amortization of the credits, the Company’s request for rate relief would be approximately $44.5 million less.

II. Application of Current Electric Rate Plan Provisions

Q. The Company’s current electric rate plan, adopted in Case 09-E-0428, has a term that ends March 31, 2013, is that correct?

A. Yes. However, because the Company has delayed filing to change base rates for nine months, there will be a “stub” period (i.e., a period shorter than a full year) during which the terms of the rate plan will continue, from April 1, 2013 through December 31, 2013.
Q. Please explain how the current electric rate plan reflects the Company not filing for new base rates to be effective immediately following March 31, 2013.

A. Under the current electric rate plan, unless otherwise expressly provided, the provisions of the current rate plan continue after March 31, 2013 unless and until electric base delivery service rates are changed by Commission order. The current rate plan does not expressly provide for termination of any provision at the end of the third rate year so all provisions will continue beyond March 31, 2013.

Q. Are there provisions of the current electric rate plan that you would like to address in terms of their impact on this rate filing?

A. Yes. I would like to address provisions that could result in the over or under deferral of costs during the stub period and could affect the Rate Year revenue requirement. For example, while the rate plan provides for the target for the third rate year of the rate plan (“Current RY3”) to apply to any additional rate year(s) for mechanisms subject to targets and reconciliations for the first rate year, the second rate year and Current RY3, the rate plan does not
expressly provide how to implement reconciliation for an additional partial rate year.

Q. Please explain how the Company will continue applying the provisions that have Current RY3 targets.

A. The Company will use a portion of the Current RY3 targets, as explained below, for the following reconciliation items and mechanisms:

- Property Taxes;
- Municipal Infrastructure Support;
- Pensions/OPEBs;
- Environmental Remediation;
- Long Term Debt Cost Rate;
- Proceeds from Sale of SO2 Allowances;
- Other Transmission Revenues;
- Brownfield Tax Credits; and
- NEIL Dividends.

Specifically, the Company will use 1/12 of the annual Current RY3 targets each month of the partial year in the reconciliation calculations for the above items.

Regarding pensions and OPEBs, it should be noted that the applicable Current RY3 target is the amount of pension and OPEB expense before it was adjusted in
Case 09-E-0428 to levelize the rate increase over the rate plan’s three year term.

The Major Storm Expense Reserve and the ERRP Major Maintenance Reserve will be treated in a similar fashion in that the Company will charge 1/12 of the annual rate allowance of $5.6 million for storms and 1/12 of the Current RY3 rate allowance of $7.739 million for ERRP maintenance to expense each month and credit the related reserve accounts. Actual costs for qualifying storms and actual ERRP maintenance costs will continue to be charged against the related reserve accounts.

As to rate base items, (1) for the Average Net Plant-In-Service reconciliation, if the actual average net plant balance for the period of April 1, 2013 through December 31, 2013 is less than the Current RY3 average net plant balance target, the Company will accrue carrying charges for customer benefit in accordance with the Net Plant Reconciliation mechanism of the current rate plan and (2) the 263A deferred tax balance reconciliation will be carried forward during the stub period based on the difference between the
deferred tax balance reflected in rate base for current RY3 and the actual deferred tax balance.

Q. How will the Company treat the amortization of deferred charges and deferred credits reflected in rates under the current electric rate plan during the stub period?

A. The amortization of deferred charges and credits under the current rate plan nets to a charge of $22.931 million in Current RY3. Of that amount, $22.445 million relates to deferred items with amortization periods that extend beyond the end of Current RY3 (deferred T&D costs at $19.445 million per year and World Trade Center Capital costs at $3.0 million per year) and $0.486 million relates to items for which amortization will be complete at the end of Current RY3. As I explained earlier, the deferred World Trade Center capital costs have been provided for by recoveries from lawsuits, insurance and the federal government making continuation of that amortization of $3.0 million unnecessary. When that amortization is combined with the $0.486 million of expiring amortizations, there will be a total of $3.486 million
of annual amortization reflected in rates beyond Current RY3 with no associated deferred costs. Each month of the stub period the Company will defer 1/12 of that $3.486 million for the benefit of customers.

Q. Please explain how the Company will implement the Revenue Decoupling Mechanism ("RDM") for the stub period.

A. Under the current rate plan, the RDM targets are to remain if the Company does not file for new base delivery rates to be effective within fifteen days after the end of Current RY3. Therefore, the Company will use the class-specific targets underlying the numbers set forth in the column labeled “RDM Targets – Excludes Temporary Surcharge” in Appendix H to the Company’s March 29, 2012 tariff filing in Case 09-E-0428. The aggregate monthly RDM targets beginning April 2013 will be set forth in the Company’s March 2013 compliance filing, which will include combining the targets for SC 1 and SC 7 (since SC 7 expires as of March 31, 2013 pursuant to the terms of the current rate plan).
Q. How will the Company handle the Low Income Customer Charge Discounts and Reconnection Fee Waivers during the stub period?

A. The current program will continue. As to funding those benefits, for the Low Income Customer Charge Discounts during the stub period, the Company will add three-quarters of the $38.25 million reflected in rates for the discounts to the aggregate target for the discounts, and for Reconnection Fee Waivers, the Company will continue to provide such waivers during the stub period so long as the total amount of fees waived since April 1, 2010 does not exceed the $1.5 million program allotment before December 31, 2013.

Q. How will the Company address transition adjustments for competitive services during the stub period?

A. The Company will use the Current RY3 monthly targets for MFC and credit and collection costs reflected in the discount rate applicable to Energy Services Companies under the Purchase of Receivables program for purposes of computing the transition adjustment for competitive services.
III. *Deferral Accounting and Reconciliations*

A. Other Than Related to Utility Plant

Q. Does the Company currently employ the use of deferred accounting as permitted under Accounting Standards Codification 980, Regulated Operations?

A. Yes. The Commission has authorized the Company to utilize deferred accounting to match the recognition of expenditures with the recovery of certain costs when they are either beyond the Company’s direct control and therefore not subject to reasonable estimation, the timing of the actual expenditure is not certain, or in furtherance of Commission policy objectives. The Commission similarly employs deferred accounting regarding the Company’s actual, potential or unexpected receipts of various revenues and credits. The approach is intended to protect the interests of customers and investors by avoiding a “windfall” for one or the other and the approach of amortizing the costs over subsequent periods serves the purpose of minimizing rate volatility.

Q. Is the Company proposing to continue the use of deferral accounting for the costs that the Commission has previously authorized?
A. Yes. With the exception of one mechanism (discussed below), the Company is proposing to continue all deferred accounting and reconciliation mechanisms that are in effect during the current electric rate plan, some with modifications I will discuss later in my testimony. The reconciliation mechanisms that are proposed to continue include, but are not limited to, the existing supply rider provisions (e.g., MSC, MAC) and reconciliation mechanisms for such items as property tax expense, interference costs, pensions and OPEBs, SIR costs, major storm costs, major maintenance for East River Units 1 and 2, the weighted average cost of long term debt and that related to legislative, regulatory and related actions. The Company also proposes to continue the implementation of the revenue decoupling mechanism in effect under the current electric rate plan subject to certain modifications that are explained by the Company’s Electric Forecasting Panel. For each mechanism based on an established target, the target level in effect under the current electric rate plan should be updated to reflect the amount of such expense reflected in rates as established in this
Q. Why is the Company proposing the continuation of the existing reconciliation mechanisms?

A. Those related to costs that are significant, highly variable even in the near term and not subject to reasonable estimation, protect the interests of customers and investors and are appropriate. I note in that regard that the Company is subject to the Commission’s Policy Statement on Pensions and Other Post Employment Benefits and is required to true-up its annual pension and OPEB costs to the levels provided in base rates. Others, such as those related to the System Benefits Charge and Low-Income customer charge discounts and the MSC, are in furtherance of public policy objectives. Moreover, continuing these true-ups in connection with a one-year rate determination could enable the Company to delay the need for rate relief at the expiration of the Rate Year. As discussed below, however, I propose that some of the existing true up mechanisms be modified and that one not be re-established.

Q. You mentioned that the reserve accounting approach for major storm costs and East River Units 1 and 2 major
maintenance expenses warrants continuation. Please explain why.

A. Both of these expenses are highly variable with respect to timing and magnitude. Major storm costs are highly unpredictable as the weather events of 2011 and Superstorm Sandy in 2012 reminded us with emphasis. During calendar years 2010 and 2011 the Company incurred $52 million and $42 million, respectively, of major storm costs. The cost accrued for Superstorm Sandy as of the end of November 2012 amounted to $240 million.

The Company’s Electric Production Panel explains in detail the variability of the East River Units 1 and 2 major maintenance expenses as to timing and magnitude due to a cyclical schedule and other influences. The reserve accounting approach provides for a smoothing of rate impacts of these costs over time and avoids either customers or the Company receiving a windfall at the expense of the other.

The Company’s Accounting Panel explains proposals to modify the amount of expenses reflected in base rates for major storms and East River major maintenance and I would like to elaborate regarding the basis on which
the Company proposes the major storm reserve be
established.

Q. On what basis does the Company propose to establish
the major storm reserve for the Rate Year?

A. As discussed by the Accounting Panel, the Company is
proposing to increase the major storm reserve by
$15.65 million to reflect a Rate Year amount of $21.25
million, which is the four-year average of major storm
costs incurred between July 2008 and June 2012.

Accordingly, the proposed increase does not reflect
major storm costs associated with Superstorm Sandy and
the Company reserves its rights to update this amount
an appropriate time during the course of this
proceeding.

Q. What is the basis for this update?

A. For purposes of the initial rate filing, the Company
believed it was premature to simply include Superstorm
Sandy storm costs in the historic average for purposes
of calculating a storm reserve amount for the Rate
Year. However, as indicated by Governor Cuomo’s State
of the State message, the Company anticipates that
during the course of this proceeding proposals will
emerge that will guide the Company, Staff and parties
to this proceeding in terms of the frequency, nature and intensity of future storms for which the Company should plan. In addition, the Company’s Electric Infrastructure and Operations Panel, as well as the Gas and Steam Infrastructure and Operations Panels in the contemporaneous gas and steam filings, have presented testimony explaining the Company’s current plans to invest in aggregate approximately $300 million in 2013 and 2014 to harden the Company’s systems against future storms. These panels also generally discuss additional infrastructure changes and enhancements under consideration. The timing, extent and nature of these investments should also inform the level of the storm reserve. Therefore, the Company believes that the storm reserve established in this proceeding should be increased from the $21.25 million reflected in the proposed revenue requirement to reasonably consider another storm of Sandy’s magnitude with projected impacts that take into consideration investments and other changes that would reasonably mitigate the impacts experienced during and after Sandy.

Q. Does the Company propose that certain reconciliation
mechanisms that are currently in effect be modified?

A. Yes. The Company proposes that modifications be made to the currently effective reconciliation mechanisms related to: Property Taxes, Municipal Infrastructure Support, and Net Plant. The Company also proposes a change to the amortization period associated with the recovery of SIR costs. As explained in the testimony of the Company’s Accounting Panel, the Company is proposing that the surcharge for Smart Grid project costs be modified to provide for a portion of the costs to be included in rate base. In addition, the Company proposes that the existing provision for deferral accounting for cost or expense changes due to legislative, regulatory and related actions be modified to include changes in Company revenues due to such circumstances.

Q. Please explain the Company’s proposed modifications to the Property Tax Reconciliation Mechanism.

A. The Company’s Property Tax and Depreciation Panel explains at length why property taxes are not subject to reasonable estimation. The Company’s property taxes are subject to the vagaries of municipal management, economic circumstances, and political
influences.

The so called “2% cap” law is an example and as the Property Tax and Depreciation Panel points out, there really is no ultimate “cap” under the law and that the Company’s experience for amounts paid in 2012 for bills levied pursuant to the “cap” compared to bills paid in 2011 indicated a 5.1% increase.

The Panel also points out how a small change in New York City (“NYC”) tax rates can produce large tax amount changes and the City has imposed large and unexpected tax rate changes. In this proceeding, the Company’s property tax forecast reflects a relatively modest increase of $9 million that is equivalent to less than 1% and, as a result, variations from this forecast can be material. This was the case during the current electric rate plan. The Company has deferred for the benefit of customers $104 million for property taxes below the rate allowance as of June 30, 2012 and the Company will retain the equivalent of 10 basis points of return on common equity as a result of the over estimation of property taxes. The Company projects that the deferral for the benefit of customers will grow to $258 million by December 31,
Absent a full and symmetrical reconciliation mechanism, these circumstances create the potential for a significant windfall for either customers or the Company at the expense of the other. There should be no such opportunity and the current sharing mechanism does not foreclose the possibility. As the Company’s Property Tax and Depreciation Panel explains, the Company has historically sought to minimize its taxes and that continues on an ongoing basis—it is a normal course of business for the Company including when a full reconciliation was in effect. There should be no concern that full reconciliation would diminish the Company’s incentive to minimize its property taxes and there is no reason to not provide for it because a rate case does not result in a multi-year rate plan. The Commission has addressed those matters specifically for the Company. In Case 08-E-0539, the Commission last set rates for the Company outside the context of a multi-year rate plan and provided for a full and symmetrical reconciliation of property taxes. Addressing the
We share DPS Staff’s concern about removing an incentive for the Company to minimize its property tax expenses. However, the record in these cases shows that the Company has aggressively sought to minimize its property tax assessments. Indeed, there is no assertion to the contrary. Moreover, our long standing policy is that a utility will be allowed to retain a share of property tax refunds, frequently in the 10-15% range, to the extent it can be established conclusively that the utility’s efforts contributed to that outcome. Taking these two factors into account, we conclude that the Company already has and will retain an incentive to minimize its property tax assessments.

Given the magnitude of the Company’s property taxes, the relative uncertainty about the impacts of the economic downturn that we consider unique, and that the Company will continue to have an incentive to minimize its property tax assessments, we are adopting the judges’ recommendation for full or bilateral reconciliation of property taxes.

The Commission’s explanation of why a full reconciliation mechanism was appropriate in Case 08-E-0539 remains applicable here in the context of a single rate year filing. The Company has continued to
aggressively pursue minimization of its property taxes. Although economic circumstances the Commission referred to as “unique” are not indicative of today’s economic environment, it can hardly be said that taxing entities no longer face fiscal stress or uncertainty, which prevents the ability to forecast future tax responsibility with any degree of certainty.

The Company’s proposal for full reconciliation is without prejudice to the Company’s right to petition for a sharing of tax savings in cases where exceptional efforts lead to success in this area as is provided for under the current rate plan.

Q. What do you propose with respect to sharing of any tax savings?

A. The Commission should continue the 86% customer/14% Company sharing mechanism for property tax refunds and assessment reductions (net of costs incurred to achieve them) that the Company secures that is in place under the current electric rate plan. Such sharing is consistent with established Commission practice to incent utilities to pursue property tax reductions. Moreover, as explained by the Company’s
Property Tax and Depreciation Panel, the Company’s efforts in this regard have produced material benefits for customers.

Q. What modifications is the Company proposing to the currently existing reconciliation mechanism for interference O&M expense?

A. For the reasons explained in the testimony of the Company’s Municipal Infrastructure Support Panel, the Company is proposing that a full and symmetrical reconciliation mechanism replace the partial and asymmetrical reconciliation mechanism currently in effect under the Company’s electric rate plan for Municipal Infrastructure Support O&M expenses. As discussed below, the Company is also proposing a reconciliation of Municipal Infrastructure Support capital expenditures in the context of the proposed Net Plant reconciliation mechanism.

Q. What modification does the Company propose be made to the amortization period associated with the recovery of SIR costs?

A. The Company proposes that the amortization period be changed from ten years to five years. The Company believes that this change can be accommodated with
minimal bill impacts and will reduce the long term
cost to customers by reducing carrying charges.

In its Order Concerning Costs For Site Investigation
And Remediation, issued November 28, 2012, in Case 11-
M-0034 ("SIR Order"), the Commission’s generic
proceeding to review and evaluate the treatment of
utility SIR costs, the Commission presented (at page
6) the range of current bill impacts for electric and
gas residential, commercial and industrial customers
in the State. Those of Con Edison are the lowest in
every instance and by a wide margin as can be seen in
Appendix 1 of the SIR Order. Appendix 1 of the SIR
Order also shows Staff forecasts of utility-specific
bill impacts for 2012 and forward. Those for Con
Edison are the lowest by a wide margin in almost all
cases.

The Company understands, however, that its ten-year
recovery period for SIR costs is the longest recovery
period in the State. In fact, by an order issued in
Cases 06-G-1185 and 06-G-1186 on the same day as the
SIR Order, the Commission authorized five-year
recovery periods for KeySpan Energy Delivery New York
and KeySpan Energy Delivery Long Island. The ten-year
amortization period applied to the Company can be
shortened to five years with electric bill impacts
remaining low in relation to other companies in the
State while reducing the long term costs to customers.
Rate Year electric delivery bill impacts at ten-year
and five-year amortization periods would be
approximately 0.4 percent and 0.7 percent,
respectively.

Q. What deferral or reconciliation mechanisms not
currently in effect does the Company propose be
established?

A. As explained in the testimony of the Company’s
Compensation and Benefits Panel, the Company proposes
to defer for customer benefit the amount by which
payments under the variable component of the non-
officer management pay plan are less than the rate
allowance for this expense.

Q. Does the Company propose that any deferral or
reconciliation mechanisms in effect under the current
electric rate plan be terminated?

A. Yes. The mechanism by which the difference between
the actual rate base effect of deferred taxes related
to deductions under Section 263A of the Internal
Revenue Service Code and the rate base amount reflected in rates being subject to carrying charges should cease. As explained by the Company’s Accounting Panel, the issue between the Company and the Internal Revenue Service underlying the employment of the mechanism has been resolved.

**B. Net Plant and Capital Expenditures**

Q. The current electric rate plan includes provisions governing net plant targets, capital spending targets and reporting requirements relating to capital expenditures. What is the Company’s proposal in this proceeding regarding these capital expenditure mechanisms?

A. The Company proposes

- to continue downward reconciliation of net plant, with certain changes to the mechanisms currently in effect, including a limited opportunity for upward reconciliation;
- to continue annual capital reporting requirements; and
- to allow to expire at the conclusion of the current rate plan, without replacement, the
currently-effective capital spending target mechanism.

Q. Please explain why the Company is proposing to continue downward reconciliation for net plant in this rate proceeding.

A. The Company considers the year(s) to be addressed in this rate proceeding to capture the end of a transition period, which began in 2007 when concerns regarding the Company’s capital spending were raised. Since 2007, the Company has embarked on comprehensive cost management, capital expenditure prioritization, capital spending optimization and long term planning initiatives aimed at mitigating capital expenditures, as explained by various Company witnesses in this proceeding. As a result, the Company’s recent and projected capital expenditures are lower today than the capital expenditure forecasts that preceded these initiatives, except for certain expenditures, both actual and anticipated, driven by circumstances outside the Company’s control, such as NYC municipal infrastructure projects, and compliance with changes in market conditions (e.g., generator retirements), and in response to Superstorm Sandy. Accordingly, the
Company believes that this feature of recent Company rate plans should be phased out in future rate proceedings beyond this rate proceeding.

Q. Please explain why.

A. There should be a reasonable basis for establishing any reconciliation mechanism. Most reconciliation mechanisms are premised on the underlying costs being outside the Company’s control and/or not subject to reasonable estimation. Such mechanisms are usually bilateral in nature. Downward reconciliation mechanisms merely serve to limit discrete aspects of the Company’s overall cost structure to actual expenditures up to a cap and therefore limit the Company’s flexibility to effectively manage its operations and shift resources, as needed. Downward reconciliation is also inherently unfair because it addresses only the potential for forecasts being too high, while not reasonably addressing the just as likely potential for forecasts being too low. This lack of fairness is particularly evident where the downward reconciliation mechanism is structured to create caps on discrete categories of expenditures, thereby not recognizing the offsetting
spending effects of certain projects above or below forecasts where the net result is within the utility’s overall budget.

For these reasons, the Company is proposing for purposes of this proceeding to continue downward reconciliation, based upon (1) a single net plant target that includes all categories of capital expenditures (i.e., T&D, electric production, shared services and Municipal Infrastructure Support); (2) reasonable forecasts of the Company’s expenditures, some of which may turn out to be somewhat higher than forecasted and others lower; and (3) a limited opportunity for upward reconciliation where the reason for exceeding the aggregate net plant target is expenditures that result from circumstances outside the Company’s control.

Q. Please explain the difference between the net plant reconciliation mechanism that you have proposed for the Rate Year and the net plant reconciliation mechanism in the current rate plan.

A. The current electric rate plan provides for downward-only reconciliation to specific net plant targets established for three capital expenditure categories,
sometimes referred to as silos: (1) Transmission and Distribution, (2) Other, comprised of capital expenditures for Municipal Infrastructure Support, Electric Production, and Shared Services allocable to electric, and (3) the Enterprise Resource Project. The Company’s proposal for the Rate Year in this proceeding is to combine categories (1) and (2) into a single category and set a single aggregate net plant target for purposes of downward net plant reconciliation. The Company would continue to address capital expenditures associated with the Enterprise Resource Project on a stand-alone basis in accordance with the terms of the current rate plan.

Q. Why is it reasonable and in customers’ interests to combine these targets?

A. As indicated above, the Company will likely need to address changed circumstances during the Rate Year, requiring changes to planned programs and projects that are inevitable for any business, and particularly applicable to the complex nature of the Company’s services. Reconciliation within a single net plant target provides the Company with flexibility to reprioritize projects and modify project-specific
funding, as necessary, to address changed circumstances, without being subject to unduly restrictive cost recovery constraints that may drive investment decisions that are not optimal for customers.

Q. Please explain what you mean by unduly restrictive cost recovery constraints?

A. Under the “two-silo” net plant target system under the current rate plan, when re-prioritizing capital expenditures to address changed circumstances, the Company must consider that exceeding the net plant target in one net plant category cannot be offset by reducing expenditures in the other category. For example, assuming the Company needs to make unanticipated expenditures in the Other category for Municipal Infrastructure Support that would cause the Company to exceed its “Other” net plant target, reducing lower priority expenditures in the T&D category would not enable the Company to avoid incurring capital expenditures for Municipal Infrastructure Support on which the Company would not earn a return until the next time base delivery rates are reset. To avoid this situation, the Company may
be compelled to defer higher priority “Other”
expenditures rather than lower priority T&D
expenditures (as identified by the Company’s capital
optimization process). Moreover, in that
circumstance, the current rate plan mechanism has the
potential for the Company to owe customers a credit
for under-spending in the T&D category while spending
above the target in the Other category, without
reimbursement or deferral, even if the aggregate net
plant for the two categories is below the amount upon
which rates are designed.

Q. You mentioned that the Company is seeking a limited
opportunity for upward reconciliation where the reason
for exceeding the aggregate net plant target is
expenditures that result from circumstances outside
the Company’s control. Please explain your proposal.

A. While the Company accepts the challenge and
responsibility for managing its capital expenditures
within an aggregate net plant target reasonably set
during the rate proceeding, the Company may face
circumstances during the Rate Year that cannot be
reasonably anticipated or planned for, which must be
addressed through capital projects that cannot be
delayed to a future period when the costs can be reflected in rates. These costs are often significant in scope and/or cost, and cannot and/or should not be offset by deferring other capital projects that are in customers’ interests in order to avoid exceeding net plant targets.

Q. Please provide examples of circumstances to which the Company would not likely be able to delay responding until there was an opportunity to first reflect projected costs in rates.

A. As explained by the Company’s Municipal Infrastructure Support Panel, the Company is compelled to respond to municipal infrastructure projects impacting Company facilities in accordance with schedules and scopes of work established unilaterally by the municipality. This work may entail major infrastructure projects, like NYC’s Water Tunnel #3 project, or a myriad of smaller projects, each smaller in scope but material in the aggregate.

As explained by the Electric Infrastructure and Operations Panel, other circumstances for which an immediate response may be required include facilities required as a result of generator retirement or
mothballing, implementation of new cyber security
requirements and/or implementation of FERC's new
definition of bulk power facilities.

Q. What is the Company’s proposal to address these
circumstances?

A. The Company proposes that if capital expenditures
resulting from one or more of the foregoing
circumstances cause the Company to exceed its
aggregate net plant target, the Company be permitted
to defer carrying charges on the amount of net plant
that exceeds the aggregate net plant target.

Q. Is there precedent for the Commission adopting such a
mechanism?

A. Yes. The Company’s current gas rate plan includes
this type of mechanism for Municipal Infrastructure
Support capital expenditures resulting from NYC
infrastructure projects supported by federal stimulus
funds and NYC's Water Tunnel #3 project.

Q. Aren't some of the circumstances you refer to covered
by the new laws provision you propose continue?

A. Yes, for some of these circumstances. However,
application of the new laws provision would subject
these expenditures to a dollar threshold. While a
dollar threshold has been applied for unanticipated
costs resulting from a change in law or regulations
not anticipated at the time rates are set, a threshold
should not apply when the potential circumstance is
known at the time rates are set, although the details
of implementation are not.

Q. Is there another example of the Commission adopting
such a recovery mechanism?

A. Yes. In the Company's 2006 gas rate case, the
Commission adopted a provision that permitted the
Company to defer for recovery costs incurred as a
result of new regulatory requirements for distribution
integrity and/or gas inspections promulgated by either
federal or state regulatory agencies during the term
of that rate plan. This deferral mechanism was in
addition to a traditional new laws provision included
in that rate plan for new legal and regulatory
obligations that were not foreseeable, unlike the
distribution integrity costs.

Q. Why is it reasonable to expand the application of the
current gas rate plan provision applicable to certain
Municipal Infrastructure Support costs and stimulus
program costs to the additional circumstances you list above?

A. This proposal reasonably balances customer and investor interests by providing customers a downward reconciliation mechanism for virtually the totality of Company capital expenditures and providing the Company the opportunity to be made whole for expenditures above the aggregate net plant target, for limited circumstances outside the Company’s control, where the Company is unable to mitigate these additional costs by deferring other capital expenditures.

Q. Doesn’t the reconciliation mechanism you propose eliminate the Company’s incentive to defer other capital expenditures in order to mitigate the impact on customers of these unanticipated expenditures?

A. No. As demonstrated by several Company witnesses, the Company now has in effect comprehensive and disciplined business planning and budgeting processes designed to prioritize and minimize capital expenditures in the context of a long-range plan the goal of which is to mitigate costs to customers and maintain the sustainability of the Company’s services. The integrity of these processes demands that the
Company first seek to defer planned capital work to accommodate unavoidable unplanned expenditures. For example, the Company has already demonstrated that it would and has taken such action in response to NYC’s Water Tunnel #3 project. As set forth in reports submitted pursuant to the current Gas Rate Plan, the Company deferred certain gas capital work in an effort to reduce unavoidable capital spending in response to the Water Tunnel #3 project. However, with a planning and budgeting process that already prioritizes and minimizes capital expenditures, the deferral of already prioritized capital work is not always in the best interest of system operation or indeed, our customers.

Q. Are there any other similar circumstances that need to be addressed?

A. Yes. The New York Energy Highway Task Force recently announced that it will encourage[] cost-effective utility initiatives to create near-term jobs and improve the electric generation and delivery system. DPS should work within existing and new rate cases and other proceedings to help accelerate specific projects that would improve system reliability and/or safety. The electric projects identified could accelerate utility spending by up to $500 million over five years. The spending would include
capital expenditures and operation and
maintenance elements. Where possible, utility
budgets should be reprioritized to accomplish the
economic development goals cited above and stay
within existing rate plans, without sacrificing
previously established goals. (New York Energy
Highway Blueprint, p. 56).

While the Company will endeavor to work with Staff to
accomplish these goals within existing rate plans,
that effort may require either adjustment to the
projected spending upon which rates are based in this
proceeding or a deferral or surcharge mechanism that
provides the Company the opportunity to recover such
costs outside the rate plan parameters.

Q. You mentioned that the Company proposes that the
Capital Spending Targets provision of the current rate
plan expire without replacement. Please explain why.

A. The Capital Spending Targets provision is a novel
ratemaking element of the Company's current multi-year
rate plan. Like the previous incarnations of downward
reconciliation for the Company, which has transitioned
from four silos to two silos and should transition
further in this rate proceeding to a single silo, the
Capital Spending Targets provision was instituted to
address concerns regarding Company spending practices
that have been comprehensively and systematically addressed by the Company. Similar to Commission policy regarding reducing regulatory mandates, when the purpose for which a rate plan provision was instituted has been addressed, the provision should be eliminated. To the Company's knowledge, a capital spending target provision is unique to the current Con Edison rate plans and not a ratemaking tool commonly employed by the Commission. The targets were intended to provide the Company added incentive to restrain capital expenditures over the current three-year rate plan period while the Company implemented internal measures, many prescribed by the Management Audit Report, to improve cost control and better correlate capital spending to longer-term objectives and customer benefits. These measures included a new cost management organization, a new budgeting process, a capital expenditure optimization process that reflects operating risks and business plans, and long term planning that establishes long-term goals and considers the impacts of expenditures on customer bills. These internal measures have been implemented over the three years since the rate plan was
established, and corporate discipline in prioritizing and limiting capital expenditure is embedded in the Company’s planning and budgeting process. As a result, the need to impose fiscal discipline through external, regulatory measures like a Capital Spending Target provision is obviated.

Q. Does the Company propose that any additional rate plan provisions continue consistent with its cost management initiatives relating to capital spending?

A. Yes. As discussed by the Company’s Management Audit Panel, along with the Company’s cost management initiatives, the Company is also aggressively pursuing cultural imperatives aimed at enhanced outreach with Staff and other stakeholders. In furtherance of these imperatives, the Company is proposing to continue comprehensive capital cost reporting requirements. These requirements are designed to keep Staff and other interested parties informed of Company actions to implement the capital programs upon which current rates are set and to explain deviations that are considered material and the reasons for such deviations. The Electric Infrastructure and
Operations Panel discusses the proposed reporting requirements.

C. System Hardening Costs

Q. How does the Company propose to recover storm hardening investments?

A. The Company plans to seek recovery of storm hardening investments in base rates through this rate filing and through future major rate filings for investments that can be timely addressed in rate proceedings. However, for major storm hardening investments that cannot be timely addressed in rate proceedings or through multi-year rate plans, the Company believes that a separate process should be established to provide for recovery of these costs. A surcharge mechanism would be a suitable approach.

Q. Under what circumstances would this process be implemented?

A. One circumstance is where the Company is otherwise able to defer a rate request, as was the circumstance in May 2012 when the Company elected to forgo filing for new electric rates and continue to operate under the terms of its existing electric rate plan beyond the expiration of the primary term. As discussed
later in my testimony, this mechanism should also be incorporated in a multi-year rate plan that the Company plans to seek through settlement discussions with Staff and other parties to this proceeding.

Q. Why is such a mechanism necessary and appropriate?

A. A surcharge mechanism will facilitate the Company’s investment in storm hardening projects that may be developed via Company, governmental and/or other stakeholder processes, and in particular those that follow Superstorm Sandy, outside the traditional rate process, and would allow it the flexibility to timely respond to such recommendations and actions that result from such processes.

Q. Please explain what you mean by other governmental and/or stakeholder processes.

A. Immediately following Superstorm Sandy, there has been intensified focus on the steps necessary and appropriate to mitigate the impact of future storms. As indicated above, strengthening utility infrastructure is a major initiative of Governor Cuomo, as detailed in his State of the State message. It is also a major initiative of the City of New York and Westchester County.
Q. Please give an example of a government process to develop storm hardening plans that may be initiated outside a traditional rate proceeding.

A. In his 2013 State of the State message, Governor Cuomo discussed strengthening critical utility infrastructure as an essential step to ensure that we will be better prepared for future natural disasters.

For the electric system, Governor Cuomo stated that the Public Service Commission must require the utilities to submit plans for the following critical actions:

- strengthening substations against flooding (raised walls, elevated equipment, relocation if necessary);
- reconfiguring network boundaries to separate flood areas from non-flood areas to limit the impact of flooding to a much smaller area;
- elevating critical distribution transformer installations to protect against flooding;
- replacing the most critical distribution wood poles with steel poles to limit the risk of damage; and
- installing state-of-the-art, remote condition monitoring equipment to allow real-time monitoring of lines without manual inspection.

The Governor also stated that installing electric distribution lines and equipment underground can reduce the potential for damage caused by high winds, debris, impact, and lightning strikes; and that placing equipment underground can also improve land-use aesthetics and free up land for additional use.
Recognizing that undergrounding can be cost-prohibitive, the Governor noted that it may be more effective to employ undergrounding only for portions of a circuit that are harder to access. The Governor stated that utilities will be required to identify best locations for undergrounding for their most critical or most vulnerable distribution lines. Finally, the Governor noted that creating a long-term capital stock of critical equipment throughout the region provides an efficient system of distribution to streamline the delivery and recovery processes. Accordingly, he directed the PSC, NYISO, other regional electric entities, and utilities to work to create a long-term stock of critical equipment by the end of 2013 that is shared and leave utility companies less exposed to supply bottlenecks, spare parts shortages, and updates in equipment every five years.

Q. Does the Company’s rate filing reflect any initiatives in furtherance of the Governor’s objectives?

A. Yes. As explained by the Company’s infrastructure panels, the Company already plans to spend approximately $1 billion (electric $800 million, gas $100 million, steam $100 million) during calendar
years 2013, 2014, 2015 and 2016 to harden the Company's electric, gas and steam systems against future storms. The Company's infrastructure panels explain these projects and programs in their initial testimonies in this electric rate filing and the contemporaneous gas and steam rate filings. Company witnesses also discuss ongoing efforts to evaluate further investments designed to make the Company's infrastructure more resilient and thereby less prone to damage and service interruptions during major weather events.

However, it is apparent that there may be parallel initiatives that are likely to result in plans and/or directives for the Company to make additional, material investments in storm hardening infrastructure. The magnitude and timing of these investments is unknown and not within the Company’s control. Accordingly, a complementary cost recovery mechanism should be established to facilitate timely implementation of these new initiatives.

Q. What distinguishes these storm hardening investments from other capital investments that the Company develops as part of its current capital planning
processes or that result from new circumstances outside the Company's control (like those identified above) for which the Company is seeking the right to defer costs?

A. The Company views these future storm hardening investments to be more akin to the investments in Smart Grid, a major, ongoing public policy initiative for investments aimed at the future enhancement of the utility grid. Smart Grid involved a process for determining which projects to pursue and recovering carrying charges through a surcharge until future rate proceedings, when recovery of these investments would continue in base rates. Other than developments that may result from the State’s Energy Highway initiative (which I indicate above may also require different rate treatment), the circumstances for which the Company is seeking the right to defer costs are more speculative in terms of whether and to what extent they will have a material impact on overall capital spending (for example, whether investments can be made to satisfy those objectives by reprioritizing other projects and programs).
Q. Does the Company intend to also consider storm hardening projects in the context of its overall budget plans and therefore will re-prioritize other capital projects and programs as necessary and appropriate?

A. Yes. The Company has, for purposes of the contemporaneous rate filings, presented plans to invest in storm hardening in 2013 in lieu of other previously scheduled projects and programs. And the Company will continue to do so. The Company already engages in a comprehensive capital optimization and prioritization process that provides opportunities to initiate material storm hardening capital projects designed to meet new public policy objectives in lieu of current capital plans designed to maintain the safety and reliability of the Company's services. Accordingly, the Company proposes the surcharge as a vehicle for recovering incremental costs pursuant to a defined process.

Q. What is the process that you propose be established to authorize the Company to recover these investments by means of a surcharge?
A. The following are key elements of the process I propose for recovery of storm hardening costs through a surcharge.

- In accordance with any Commission initiatives to implement the Governor’s directive, the Company would file with the Commission its plan to invest capital in a specific storm hardening project(s) and/or program(s). The Company may also choose to file such a plan with the Commission if the Company determines that certain storm hardening initiatives are warranted and should be presented for implementation in advance of the next major rate filing opportunity.

- The filing would explain the location and scope of the project(s) and/or program(s); benefit to the system; past impact of storms on the to-be-modified infrastructure; the current ability of the system to withstand severe weather events; and future design capabilities of the system to be achieved via targeted projects.

- The Company would also explain why the project(s) and/or program(s) cannot be accommodated within the Company's existing capital budget.
DPS Staff would evaluate the proposed project(s) and program(s), with input from interested parties, and present to the Commission all project(s) and/or program(s) that DPS Staff recommends be initiated by the Company, within 60 days of the Company's filing.

Between rate proceedings, the Company will file a report annually with the Commission as to the status of its storm hardening projects and programs. Company rate filings would serve as the primary vehicle for reporting this information, since the rate filing would also be the vehicle for including in base rates investments for which the costs have been deferred or partially recovered through the surcharge.

The surcharge would include a return on and return of investments. Depreciation rates, return on equity, and overall return on each project would be as approved in or derived from the Company's most recent rate case. The surcharge would also include any incremental O&M, sales taxes and all other operating costs that arise due to a storm hardening project or program.
• The Company would proceed with construction on individual projects following Commission action and commence the surcharge related to each project as it is placed in service.

• The surcharge would be applied to all customer classes in a manner consistent with the allocation of costs approved in Con Edison’s most recent rate case.

IV. Revenues Subject to Refund

Q. Is the Company proposing to make any change to the Rate Adjustment Clause ("RAC")?

A. Yes. The Company proposes to cease collecting any revenues subject to refund pending the Commission's determination in Case 09-M-0114 ("contractor proceeding"), effective January 1, 2014. The revenues collected subject to refund through December 31, 2013 would continue to be subject to disposition by the Commission pursuant to its determination in the contractor proceeding.

Q. Why did the Commission direct the Company to collect revenues subject to refund pending the Commission's determination in the contractor proceeding?
A. In February 2009, following the January 2009 arrests
of 14 Con Edison employees and retired employees for
accepting kickbacks from contractors that performed
work for Con Edison, the Commission commenced a
proceeding to examine the prudence of certain Con
Edison expenditures. In order to preserve its
flexibility to order refunds to customers in the event
Con Edison was determined to have been imprudent, the
Commission ordered that a portion of the Company’s
revenues be collected subject to potential refund to
customers.

Q. How did the Commission determine the amount of
revenues to be collected subject to refund for this
purpose?

A. The Commission determined that the electric revenues
to be made subject to refund for this purpose should
be the same revenues that the Commission had
previously directed the Company to collect subject to
refund pending an audit of Con Edison's 2005-2008
electric capital expenditures. The Commission also
established proportionately comparable annual amounts
for the Company’s gas and steam businesses.
Q. Has the Commission determined whether Con Edison should refund any monies to customers as a result of the Con Edison's 2005-2008 electric capital expenditures?

A. Yes. The 2005-2008 capital expenditure audit was concluded by a settlement approved by the Commission in 2010. Notwithstanding this settlement, the Commission directed the Company to continue to collect the same level of revenues subject to refund pending a Commission determination in the contractor proceeding.

Q. Why are you recommending that the Company cease collecting revenues subject to refund for purposes of the contractor proceeding?

A. Generally, the Company believes that the amount of revenue that will be collected subject to refund through December 31, 2013 will grossly exceed any reasonable expectation of potential refund liability in the contractor case, and continuing to collect revenues subject to refund is both unnecessary and potentially harmful to the Company's customers. As noted above, the annual amounts the Company is currently collecting subject to refund were not established on the basis of any evaluation of the
Company's potential liability in the contractor proceeding. The annual amounts were established in connection with, and on the basis of, the Commission's decision to audit the Company's electric capital expenditures during 2005-2008. As noted above, although the resolution of that audit has been fully resolved and implemented, the collection of revenues has continued at the same level.

Q. Didn't the Company, along with other signatory parties, propose continuation of the Rate Adjustment Clause as part of the Joint Proposal presented to the Commission in Case 09-E-0428?

A. Yes. That provision was one of a myriad of provisions agreed to by the Company and other signatory parties as part of the give-and-take of the settlement process. The Company is not proposing to modify the current rate plan. However, there is no reasonable basis for continuing this provision beyond the expiration of these rate plans.

Q. Please explain why.

A. When the current rate plan was established, there was a reasonable basis to assume that the Staff would conclude its investigation and the Commission would
reach a decision in the contractor proceeding before the expiration of the three-year term of this rate plan. However, Staff's investigation has been underway for more than three years with no target date for either completing its investigation or concluding this proceeding. Nothing in the record in the contractor proceeding establishes a basis for collecting a nearly unlimited amount of revenues for an indeterminate period of time pending a determination in that proceeding. Revenues collected subject to refund through December 31, 2012 amount to $1.103 billion ($979 million for electric, $104 million for gas and $20 million for steam). The estimated amount that would be collected subject to refund as of December 31, 2013 is $1.587 billion ($1.425 billion for electric, $136 million for gas and $26 million for steam). No rational basis has been presented by Staff or the Commission for reserving an amount of revenues subject to refund in the order of magnitude already collected.

Q. Why is reserving this gross level of revenues subject to refund harmful to customers?
A. Investors and rating agencies assess the value of utility investments as a function of the regulations that govern their financial performance. With little or no opportunity to earn more than the returns specified in rate plans, the financial community’s assessment of utility investments often fixates on the potential for large adverse outcomes. Discussions with members of the financial community indicate that the indeterminate nature of the contractor proceeding, coupled with the material and growing amount of revenues held subject to refund, is beginning to cause the financial community to similarly fixate on the contractor proceeding. If this perception results in an increase in the Company’s financing costs, customer bills will be adversely affected. Avoiding this adverse result by terminating further collections of revenues subject to refund, effective January 1, 2014 would ultimately benefit our customers.

V. Hudson Avenue Station Reclassification

Q. Are you familiar with the testimony of the Company’s Steam Infrastructure and Operations Panel and Electric
Infrastructure and Operations Panel regarding the Company’s Hudson Avenue Station?

A. Yes.

Q. Please summarize the testimony of those two panels.

A. Each of those panels points out that the Hudson Avenue Station ceased operation as a steam facility in April 2011, the equipment at the site was rendered unusable, the plant was retired in place, and the land was transferred from Steam Plant in Service to the Electric department as Plant Held for Future Use. The Steam Infrastructure and Operations Panel points out that at this time the Company does not contemplate that the land will have a future use in the Company’s Steam operations and the Electric Infrastructure and Operations Panel explains that there are several anticipated uses for the land in the Company’s Electric operations.

Q. At what value was the land transferred from Steam Plant in Service to Electric Plant Held for Future Use?

A. In accordance with Section 463.13 (Transfers of Property) of the Commission’s Uniform System of Accounts for steam corporations, the book value of the
land of approximately $1.7 million was transferred to Electric Plant Held for Future Use.

Q. How are the Hudson Avenue Station structures and equipment accounted for on the Company’s books at this time?

A. At the time of retirement, on April 30, 2011, the book cost of structures and equipment amounted to $127.5 million as the Electric Infrastructure and Operations Panel and Steam Infrastructure and Operations Panel show in their exhibits. As required by the Commission’s accounting rules, Steam Plant in Service was credited and the Reserve for Depreciation of Steam Plant was charged for that amount. At that time, the Reserve for Depreciation of Steam Plant for the Hudson Avenue Station structures and equipment amounted to $35.2 million. As a result, the amount of unrecovered costs is $92.3 million.

Q. Is the Company making any proposals in its concurrent electric and steam rate proceedings regarding the unrecovered costs of the retired structures and facilities applicable to the Hudson Avenue Station?

A. Yes. The Company proposes to transfer the $92.3 million of unrecovered costs from the Steam department
to the Electric department, reflect them in electric rate base and amortize them in electric rates over a 20-year period.

Q. Please describe the accounting that the Company proposes to use to effectuate the transfer of the book value.

A. The Company would charge the Accumulated Provision for Depreciation of Electric Utility Plant and credit the Reserve for Depreciation of Steam Plant for $92.3 million. The Company also proposes that the amount transferred be carried in a separate sub-account of the Accumulated Provision for Depreciation of Electric Utility Plant for reasons related to depreciation accounting and depreciation reserve analyses as explained more fully by the Company’s Property Tax and Depreciation Panel.

Q. Why is it reasonable for the unrecovered costs of the Hudson Avenue Station to be recovered in electric rates?

A. Recovery of the unrecovered costs in electric rates is supported by the history of the site and its planned future use.

Q. Please explain.
A. With regard to the past, the Hudson Avenue Station has historically had a substantial connection to the Company’s electric business. In fact, the history of the Hudson Avenue Station is that it has overwhelmingly been an electric rather than steam facility. For most of its service life, the Hudson Avenue Station was an electric or cogeneration facility. The Hudson Avenue Station was originally built as an electric generating station, with the first unit going into operation in 1924. It operated as an electric-only plant until 1964. It then operated as a cogeneration facility until the retirement of Unit 10/100 in 1997 due to the unit’s steam capacity having been replaced by the Brooklyn Navy Yard Plant. At that time, 74 years after being placed in service, the Hudson Avenue Station became nearly a steam-only facility but gas turbines for peak electric capacity remained. Unit 10/100 was soon brought back into service, during the summer of 2001, so that, as explained in the Commission’s April 9, 2001 order in Case 01-E-0147, it could be an additional source of electric capacity and supply in New York City, thus avoiding the purchase of capacity
and energy from the market at prices that were
projected to be more expensive than the cost of
operation of the unit. Unit 10/100 was subsequently
retired, in 2004, as it was no longer required for
electric capacity.

As to the future, the Company’s Electric
Infrastructure and Operations Panel explains the
significance of the site to electric operations due to
its strategic location, favorable zoning status,
limited availability of suitable alternatives and
avoidance of significant real estate costs. For
example, the Electric Infrastructure and Operations
Panel explains that use of the Hudson Avenue Station
site for the West Side Station project would enable
the Company to avoid a major real estate purchase
which had an estimated cost of roughly $135 million in
2008.

Given these circumstances, the Company believes that
it is reasonable for electric customers to bear the
unrecovered costs of the Hudson Avenue Station.

VI. *Multi-Year Rate Plan*

Q. Has the Company included forecasted financial
A. Yes. The Company has included for illustrative purposes only financial information for two annual periods beyond the Rate Year. Exhibit __ (RM-2) entitled “CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., THREE-YEAR REVENUE REQUIREMENT,” which was prepared under my supervision and direction, presents details of the revenue requirement for the Rate Year and the two following twelve-month periods ending December 31, 2015 and December 31, 2016. The Company’s filing also includes capital expenditure projections that extend beyond the Rate Year. Those projections are for calendar years 2013 through 2017.

Q. What is the basis of the financial information presented in Exhibit __ (RM-2)?

A. Various Company witnesses have presented forecasts extending beyond the Rate Year. There are also proposals by various witnesses, including myself, that would affect periods beyond the Rate Year such as amortization periods for deferred costs and credits.

Q. Is the Company proposing a multi-year rate plan for adoption by the Commission?
A. No. This filing seeks Commission approval of what is commonly referred to as one-year rates. The Company is, however, interested in pursuing, through settlement discussions with Staff and the parties, a multi-year rate plan. The financial information presented, along with the Company’s thoughts on some possible features of a multi-year plan, could form a basis for discussions to address the myriad of details and complexities that must be addressed to establish a multi-year rate plan that fairly considers the interests of all stakeholders.

Q. Please identify rate plan features that the Company anticipates it would consider in discussing a multi-year rate plan with Staff and the parties.

A. The Company is not in a position to identify all features of a multi-year rate plan that the Company might seek or that various parties might want included in the give and take of the settlement process, but I can provide some examples of multi-year rate plan features that the Company believes would warrant consideration. The examples, however, should not be construed as the Company’s view of all of the features that should be addressed in establishing a multi-year
rate plan.

Q. Please provide these examples.

A. Without prioritizing the examples, I will start with consideration of a deferral mechanism that would allow the Company to defer incremental O&M costs in the event of inflation notably higher than now anticipated over the term of a multi-year rate plan. A stay out premium added to the ROE to compensate the Company for the additional risk of a multi-year rate plan as discussed by Company witness Hevert would be appropriate.

The Company believes that there is considerable merit to exploring a mechanism that would enable the rate plan to be extended beyond the initial multi-year term if certain agreed-upon circumstances exist. This would go beyond simply implementing the rate plan beyond its term in the manner that I explained earlier in my testimony. It could reach to automatic modifications of the rate plan that become effective at the end of the stated multi-year term. This would include consideration of the storm hardening surcharge process and mechanism discussed earlier in my testimony.
As a final example, consideration of an earnings sharing mechanism with respect to cumulative earnings over the term of the rate plan in order to provide customers an opportunity to share in productivity or efficiency savings achieved by the Company in addition to those reflected in base rates over the term of the rate plan. Such mechanisms established in recent Company multi-year rate plans have included initial and graduated earnings sharing thresholds and sharing formulae more heavily favoring customers over investors than had traditionally been the case. The purpose of the shift was to permit customers to benefit from potential Liberty Audit cost savings that, at the time, could not be reasonably identified and (where appropriate) reflected in rates, to the extent that is now possible. Therefore, a return to sharing thresholds in line with traditional levels is now warranted. The customers’ share of such earnings could be used to write down deferred costs that are otherwise chargeable to customers.

Q. Does the three-year revenue requirement you present reflect a stay-out premium?

A. For purposes of illustration, the revenue requirements
for the twelve-month periods ending December 31, 2015 and December 31, 2016 reflect an ROE of 10.85% (as compared to 10.35% for the Rate Year), which assumes an ROE resulting from a settlement that reflects a stayout premium.

VII. **Regulatory Reforms**

Q. Mr. Muccilo, are there regulatory reforms that could be implemented as part of this proceeding, through changes in State legislation or otherwise that, if adopted, would lower costs for customers without significantly impacting the level of service or reliability provided by the Company?

A. Yes, there are a number of programs and requirements that currently add to the Company’s cost of providing service to customers that, if modified or eliminated, would lower customer bills without markedly affecting service quality and not only with respect to the Company’s electric operations. If the Company is successful in achieving reforms in even small programs, the resulting cumulative savings have the potential to be significant.

Q. Can you provide examples of the types of regulatory
and legislative changes you are referring to and indicate what steps the Company has already taken?

A. Examples are addressed in the testimony of various Company witnesses and relate to electric, gas and steam service. As explained by the Municipal Infrastructure Support Panel, Con Edison has been supporting an expansion of joint-bidding for municipal interference work. Although some progress has been made, a challenge to supportive legislation is in the courts. The Gas Infrastructure and Operations Panel explains how changes to the Commission’s regulations concerning main extension and service line installation costs should be modified to make them applicable in multiple-dwelling circumstances in a manner that more fairly assigns cost responsibility. As Company witness Viemeister points out, the cost of generating electric and steam includes a NYC tax on the fuel used for such generation without a comparable tax on on-site generators. The Steam Infrastructure and Operations Panel explain the benefits of changes to the Commission’s trap inspection requirements. The Company’s Property Tax and Depreciation Panel explains that the Company has
been pursuing a strategy to merge the New York City property tax Class 3, the utility property class in which most of the Company’s property is included, with Class 4, the general business class in which a lesser portion of the Company’s property is included, with the objective of lowering the Company’s tax liability. This change, if passed by the legislature, would reduce the property tax rate paid by Con Edison and result in significant savings for customers. In addition, the Company along with the other major electric utilities in the State, recently petitioned the Commission (petition dated September 17, 2012 filed in Case 04-M-0159) for modifications to the Commission’s standards for inspecting and testing facilities for the presence of stray voltage which would reduce costs without reducing the degree of public safety.

Q. Does this conclude your testimony?

A. Yes, it does.