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I. INTRODUCTION

Q. Would each member of the Property Tax and Depreciation Panel ("PTD Panel") please state your name and business address.

A. (Hutcheson) My name is Charles D. Hutcheson. My business address is 4 Irving Place, New York, New York.

(Merritt) My name is Stephanie Merritt. My business address is 4 Irving Place, New York, New York.

(Li) My name is Qun Li. My business address is 4 Irving Place, New York, New York.

Q. Mr. Hutcheson, by whom are you employed and in what capacity?

A. I am employed by Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") as Manager of the Property Tax and Depreciation group. My duties include the overall supervision and responsibility for the property tax and book depreciation functions for the regulated subsidiaries of Consolidated Edison, Inc.

Q. Mr. Hutcheson, please briefly outline your educational background and business experience.

A. I graduated from Hofstra University in 1978 with the degree of Bachelor of Business Administration in
Accounting. I have been employed by Con Edison since 1979 and have held various positions of increasing responsibility within the Finance area. My first assignment with the Company was in the Depreciation Section, where I spent my first 15 years of employment attaining the position of Senior Accountant. In 1993, I moved to the Rates and Budget Section. In 1996, I transferred to the Financial Restructuring Team, where my duties were to assist in the development of Con Edison’s rate plan filed in the New York State Public Service Commission’s (“Commission”) Competitive Opportunities Proceeding. I moved to the Tax Department in 1997 as a Senior Tax Accountant in the Federal Tax Section. In September 1999, I was promoted to Manager, Property Taxes, responsible for the property tax compliance function and the Company’s efforts to hold down property taxes. In December 2001, I once again began working on depreciation matters when the Tax Department assumed responsibility for the book depreciation function. My current depreciation responsibilities include analyzing and interpreting the results of the Company’s statistical plant mortality and net salvage studies. I am a member of the Society of Depreciation
Professionals. The Society serves as a forum to share information and insights related to the field of depreciation. Membership includes those in the utility industry, government, education, and other industries.

Q. Ms. Merritt, by whom are you employed and in what capacity?

A. I am also employed by Con Edison. I hold the position of Accounting Supervisor in the Property Tax and Depreciation group. I am responsible for the payment and accounting functions for the Company’s property taxes.

Q. Ms. Merritt, please briefly outline your educational background and business experience.

A. I graduated from Le Moyne College in 2004 with the degree of Bachelor of Science in Accounting as well as a Bachelor of Arts in Economics. I have been employed by Con Edison since 2005 and have held various positions of increasing responsibility within the Finance area. After approximately two years in Corporate Accounting, I transferred to the Tax Department where I was promoted to Staff Accountant in the Property Tax and Depreciation Group. In that position, my major responsibilities included the
preparation and interpretation of the Company’s
depreciation studies in connection with rate
proceedings. I have held my current position of
Accounting Supervisor since 2010.

Q. Ms. Li, by whom are you employed and in what capacity?
A. I am also employed by Con Edison. I hold the position
of Senior Accountant in the Property Tax and
Depreciation group and am responsible for the book
depreciation accounting functions for the Company.

Q. Ms. Li, please briefly outline your educational
background and business experience.
A. I earned a Bachelor of Science degree from Wuhan
Science and Technology University and in 2002 was
graduated from Bowling Green State University with the
degree of Master of Science in Accountancy. From 1990
to 1999 I worked in the accounting area at Bao Steel
Group, starting as a Staff Accountant and holding
positions of increasing responsibility. I rose to the
title of Assistant Project Manager. In 1997, I became
a Certified Cost Engineer. I later worked as a Senior
Accountant in the health care and education fields. I
have been employed by Con Edison since March 2012 as a
Senior Accountant.

Q. Have any members of the PTD Panel previously testified
before any regulatory commission?

A. (Hutcheson) I have submitted testimony and testified on the subject of depreciation and/or property taxes in numerous cases for Con Edison and Orange and Rockland Utilities, Inc. before this Commission; before the New Jersey Board of Public Utilities (on behalf of Rockland Electric Company); and before the Pennsylvania Public Utility Commission (on behalf of Pike County Light & Power Company).

II. PURPOSE OF TESTIMONY

Q. What is the purpose of the PTD Panel’s testimony in this proceeding?

A. Our testimony covers two areas -- depreciation and property taxes. Concerning depreciation, our testimony:

- Presents recommendations with respect to annual depreciation expense for Gas and Common plant at proposed depreciation rates;
- Identifies the Accumulated Provision for Depreciation recorded on the Company’s books (“book reserve”) at December 31, 2011, the computed reserve (which is interchangeably referred to as the theoretical reserve) based on
existing depreciation rates, and the computed reserve based on proposed rates for both Gas and Common plant;

- Details our conclusions regarding the variations between the book and computed reserves at existing and proposed rates for both Gas and Common plant; and

- Discusses our conclusions regarding the variations between the book and computed depreciation reserves at existing and proposed rates for both Gas and Common plant.

The property tax portion of our testimony:

- Presents general background information on property taxes;

- Describes the level of property taxes experienced recently by the Company;

- Presents our property tax forecast and explains the methodology and certain assumptions used in that forecast;

- Discusses the recently-enacted New York State law related to “capping” property taxes;

- Explains the limitations on the Company’s ability to control, and as a consequence, reasonably
estimate, the level of its property tax obligations; and

• Discusses the Company’s efforts to pay no more than its fair share of property taxes.

Q. Please summarize any changes to depreciation and property tax expense levels for the twelve months ending December 31, 2014 (the “Rate Year”) that result from the PTD Panel’s proposals.

A. Changes related to depreciation will decrease depreciation expense in the Rate Year by $3.5 million including allocated Common plant depreciation based on projected Rate Year plant balances. Our property tax forecast is $11.0 million greater than the level currently included in gas rates.

III. DEPRECIATION

A. PROPOSED AVERAGE SERVICE LIVES, LIFE TABLES AND RELATED STUDIES

Q. Have you reviewed the adequacy of the book reserve and the factors that determine annual depreciation expense and the theoretical reserve for Gas and Common plant?

A. Yes. The Company prepares studies that test the adequacy of the book reserve in relation to the theoretical reserve. Comparing the book reserve to
the theoretical reserve allows for the determination of whether there is a book reserve deficiency or excess. In addition, the Company prepares plant mortality and net salvage studies to determine the appropriate average service lives, net salvage factors, and life tables for each depreciable plant account. The studies reflected in our testimony and exhibits are based on accounting and retirement history data through December 31, 2011.

Q. Based on these studies, are you recommending changing any average service lives, net salvage factors or life tables from those currently in effect?

A. Yes. After a thorough review of the studies and consideration of other factors that may influence the selection of the appropriate average service life, salvage factor and life table, we have concluded that various changes to the Company’s depreciation factors for Gas and Common plant are warranted.

Q. Are you sponsoring an exhibit that summarizes your proposals?

A. Yes, Exhibit ___ (PTD-1) entitled “CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., PROPOSED DEPRECIATION RATE CHANGES FOR GAS AND COMMON UTILITY PLANT AT DECEMBER 31, 2011.”
Q. Was Exhibit ___ (PTD-1) prepared by you or under your direction and supervision?
A. Yes, it was.
Q. Please describe Exhibit ___ (PTD-1).
A. The exhibit compares the annual provision for depreciation on a “BOOK BASIS” (i.e., at current depreciation rates) and on a “PROPOSED BASIS” (i.e., at the depreciation rates proposed to be adopted in this proceeding). The exhibit also includes a comparison of the book reserve at December 31, 2011 to the theoretical reserve for depreciation computed using the depreciation factors currently in effect and to what the theoretical reserve would be using the depreciation factors we are proposing in this case.
Q. What is the basis for the PTD Panel’s selection of depreciation factors in this proceeding?
A. As we have indicated, the selections are based on a review and analysis of the historical data comprising the Company’s mortality and net salvage studies. These statistical studies are the primary, but not the only, basis for determining an appropriate average service life, h-curve (i.e., life table) and net salvage factor. Examples of other factors that influence plant retirement expectations are
technological change and obsolescence. In those instances where the accounts do not have sufficient retirement history to produce statistically reliable mortality or net salvage data, we propose to continue existing depreciation factors.

Q. What part does the average service life play in the determination of depreciation rates?

A. The estimated average service life is the period (number of years) over which the original cost of plant will be depreciated. With an average service life of 25 years, annual depreciation is $\frac{1}{25}\$, or 4%, of the original cost of the plant before taking into account the net salvage factor.

Q. What is the effect on annual depreciation expense of a change to an average service life?

A. The depreciation expense accrual varies inversely with its underlying average service life -- the longer the average service life, the lower the annual depreciation rate, and therefore, the lower the annual depreciation expense. Conversely, the shorter the average service life, the higher the annual depreciation rate, and therefore, the higher the annual depreciation expense.

Q. Please generally describe the changes you propose to
average service lives.

A. As to average service lives, we are proposing to change two Gas accounts, both toward higher average service lives that will decrease annual depreciation expense. For Common plant, we are proposing to increase the life of one account. We have estimated that the average service life changes we are proposing will result in a decrease in annual depreciation expense of approximately $3.1 million for Gas plant and a further decrease of approximately $1.9 million for Common plant. However, since Common plant is allocated to both Electric and Gas service, the decrease for Common plant allocated to the Gas Department will amount to approximately $0.3 million. Therefore, the overall change in depreciation expense for Gas due to average service life changes, based on a book cost at December 31, 2011, is a decrease of approximately $3.4 million annually.

Q. Please provide the depreciation expense changes related to changes in average service life by account.

A. In terms of dollar impact, we have estimated the change by plant account as follows:
<table>
<thead>
<tr>
<th>ACCOUNT</th>
<th>AVERAGE SERVICE LIFE</th>
<th>AMOUNT (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NUMBER</td>
<td>EXISTING</td>
<td>PROPOSED</td>
</tr>
<tr>
<td>Gas Plant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>380100</td>
<td>55</td>
<td>60</td>
</tr>
<tr>
<td>369000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Gas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Plant (at 100%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>390000</td>
<td>50</td>
<td>55</td>
</tr>
</tbody>
</table>

Concerning life tables, we are proposing to change those for four Gas accounts that will increase the computed reserve, offset by two life table changes that will lower the computed reserve for depreciation. We are not proposing any changes to life tables for Common plant.

Q. Please generally describe life tables.

A. Life tables, or “h-curves” are survivor curves representing a number of typical patterns of historical retirement dispersion that all can result in the same average service life. The combination of an average service life, net salvage factor and an h-curve is used to compute a theoretical reserve for depreciation. Changes to h-curves do not impact annual depreciation expense but do affect computed
reserves, which are used to help determine whether the Company’s depreciation reserve is adequate.

Q. Are you sponsoring an exhibit that contains the data you considered when selecting the average service lives and life tables you are proposing?

A. Yes, we are sponsoring Exhibit ___ (PTD-2) entitled “CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., GAS AND COMMON UTILITY PLANT, SUMMARY OF AVERAGE SERVICE LIVES, EQUIVALENT “h” CURVES AND OTHER STATISTICAL DATA INDICATED BY PLANT MORTALITY STUDIES BASED ON EXPERIENCE THROUGH DECEMBER 31, 2011” for that purpose. The exhibit includes the computer generated average service lives, equivalent h-curves, and other statistical data indicated by the rolling and shrinking band analysis of the Company’s mortality experience with respect to Gas and Common Plant through 2011.

Q. Was Exhibit ___ (PTD-2) prepared by you or under your direction and supervision?

A. Yes, it was.

Q. How are the data in Exhibit ___ (PTD-2) organized?

A. The data are summarized by grouping it into what is referred to as “bands.” Rolling and shrinking bands refer to the periods over which historical experience
is analyzed. Rolling bands are bands of constant width (e.g., ten years) developed by deleting the earliest year’s experience from the prior rolling band and adding an additional year’s experience. For example, rolling bands ten years in width developed from data for the period 2000 - 2011 would produce the following rolling bands: 2000 - 2009; 2001 - 2010; and 2002 - 2011. Shrinking bands are bands that initially accumulate all historical experience and then delete one year at a time, usually beginning with the earliest year until a band one year in width is developed. Therefore, using the period 2000 - 2011, the shrinking bands would be produced as follows: 2000 - 2011; 2001 - 2011; 2002 - 2011; . . . 2011 - 2011.

Q. How do you interpret the data?

A. The Company has a significant amount of historical data within its studies, and the grouping of that data by rolling and shrinking bands facilitates its interpretation. The data may be analyzed by looking at the full experience band, the only band that includes all of the data within a study, or looking at some of the many bands generated that contain data for something less than the full experience. Rolling bands are useful, especially the ones that contain
data for the more recent experience. Shrinking bands are useful to observe how the data is trending.

Q. What additional data in the statistical study allows for further analysis?

A. The depreciation studies allow for graphs to be produced that depict the observed life table (the percent surviving by age, reflecting the actual experience recorded in a band from the statistical study) of each plant account being studied. The studies also allow for any combination of survivor curve and average service life to be statistically and graphically compared to the observed life table to determine how closely they match. That process provides useful information in the selection of an average service life and h-curve.

Q. Is there a single rolling or shrinking band that should be relied on to select an appropriate life for an account?

A. No. All of the data within a study should be considered when determining an appropriate selection along with other factors affecting average service life as we explained previously.

Q. Is the PTD Panel sponsoring an exhibit containing the graphical comparisons you have discussed?
A. Yes, we are sponsoring Exhibit ___ (PTD-3) entitled “CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., GAS AND COMMON UTILITY PLANT, SURVIVOR CURVES INDICATED BY PLANT MORTALITY STUDIES BASED ON EXPERIENCE THROUGH DECEMBER 31, 2011” for that purpose. The exhibit includes the graphical illustration of each statistical study comparing the percent surviving from the observed life table derived from the Company’s actual mortality experience with the percent surviving from the average service life and h-curve we have proposed in this proceeding.

Q. Was Exhibit ___ (PTD-3) prepared by you or under your direction and supervision?

A. Yes, it was.

Q. From which experience band are the graphs included in Exhibit ___ (PTD-3) derived?

A. The extensive historical retirement data that the Company has results in a study producing numerous rolling and shrinking bands for each plant account. We included a single graphical depiction of the comparison of the h-curve to the observed life table for each study, that being for the full experience band (i.e., widest shrinking band).

Q. Why have you selected for presentation that particular
band of the many that were produced?

A. The full experience band is the only band in a study that includes all of the study data. However, it is important to remember that reliance on only the full experience band to select an average service life and life table would not be proper because reliance on that single band will not allow for recognition of trends that may be developing within the study.

Q. From what source were the data in Exhibits ___ (PTD-2) and ___ (PTD-3) obtained?

A. The data were produced by a depreciation study computer program developed by PowerPlan Consultants, Inc., a company providing integrated software for plant accounting and depreciation study purposes for plant asset intensive companies such as the Company. The Company implemented the PowerPlan system in 2010. The depreciation study module of that integrated software provides a full set of industry-standard statistical data-gathering and analysis tools used to develop average service lives and life tables based on the Company’s extensive history of plant mortality experience. It produces depreciation study results essentially the same as were produced by the Company’s prior depreciation study program, which the Company
had used since the 1960s. The new software is less
time consuming to use than the legacy program without
sacrificing the integrity of the underlying
statistical analysis.

B. PROPOSED NET SALVAGE FACTORS AND RELATED STUDIES

Q. What part does salvage play in the determination of
depreciation rates?
A. In addition to providing for recovery of the original
cost of plant over its estimated average service life,
the Company’s annual depreciation rates include an
estimated net salvage factor. The purpose of this
estimated net salvage factor is to reflect, over the
life of the plant, the expected salvage value of plant
less the expected cost of removal upon retirement.
Those two values are expressed as a percentage of
original cost retired and included in the annual
depreciation rate. As a result, and in accordance
with basic depreciation principles, the original cost
of a plant asset along with the net of the expected
salvage value and cost of removal are spread over the
expected useful life of the plant asset.

Q. Please generally describe the changes you propose to
net salvage factors.
A. We have estimated that the net salvage changes we are proposing will increase annual depreciation expense by approximately $0.2 million for Gas plant and approximately $2.0 million for Common plant, at 100% (i.e., before allocating portions of this change to Common plant to Electric and Gas). The Gas portion of the Common plant amount after allocation amounts to approximately $0.3 million, thereby making the overall change in total depreciation expense for Gas due to net salvage changes, based on a book cost at December 31, 2011, an increase of approximately $0.5 million annually.

Q. Please identify your net salvage proposals by plant account.

A. As to net salvage factors, we are proposing to change 10 Gas accounts, all of which will result in an increase in annual depreciation expense due to a move to a higher negative net salvage factor. For Common plant, we are proposing a move to a higher negative net salvage factor for a single account. In terms of dollar impact, we have estimated the impacts as follows:
Q. Are you sponsoring an exhibit containing the data you considered when determining the proper net salvage factor to be used in developing depreciation rates?

A. Yes, we are sponsoring Exhibit ___ (PTD-4) entitled “CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., GAS AND COMMON UTILITY PLANT, SUMMARY OF HISTORICAL NET SALVAGE” for that purpose. The exhibit contains the historical net salvage in dollar amount and as a percent of the book cost of plant retired. The book cost of plant retired, cost of removal and salvage is shown for the most recent 25 years for the actual retirements in the indicated calendar years. Exhibit ___ (PTD-4) also provides totals for the full
experience band ending in 2011, rolling bands five years in width, and a computation of the net salvage as a percent of the book cost retired for the full experience band, each rolling band, and each shrinking band.

Q. Was Exhibit ___ (PTD-4) prepared by you or under your direction and supervision?
A. Yes, it was.

Q. What is the source of the data for Exhibit ___ (PTD-4)?
A. The historical data shown for each account is based on the Company’s books and records.

C. GAS PLANT RESERVE VARIATION

Q. Please provide some background information on depreciation reserve variations.
A. In order to test the adequacy of the book reserve for depreciation, the Company performs an annual study comparing the book reserve at year-end to a theoretical reserve calculated using service lives, h-curves and net salvage factors in effect and, if applicable at the time, service lives, h-curves and net salvage factors the Company is considering proposing in a rate case. The variation between the
book and theoretical reserves can be expressed as total dollars and as a percentage of the theoretical reserve. Results of such a study can indicate either a positive variation (excess reserve) or a negative variation (reserve deficiency). For example, a book reserve of $190 and a theoretical reserve of $200 would result in a book reserve deficiency of $10, or 5%. Such comparisons as of December 31, 2011 for Gas and Common plant are summarized in Exhibit ___ (PTD-1) in which the book reserve is compared to the theoretical reserve calculated at depreciation rates currently in effect, the “BOOK BASIS”, and at those we propose be adopted in this proceeding, the “PROPOSED BASIS.”

Q. What does Exhibit ___ (PTD-1) show with respect to the variation between the book depreciation reserve and the computed reserve for Gas plant at December 31, 2011?

A. For Gas plant, the book reserve was approximately $1,015.2 million. The computed reserve is $938.3 million on the “BOOK BASIS” and $923.5 million on the “PROPOSED BASIS.” The book reserve of $1,015.2 million is approximately $76.9 million, or 8.2% more than the computed reserve on the “BOOK BASIS” and
approximately $91.7 million, or 9.9% more than the computed reserve on the “PROPOSED BASIS.”

Q. What do you recommend regarding the book reserve variation related to Gas plant?

A. We recommend that no action be taken at this time based on the following. The $91.7 million, or 9.9% book reserve surplus at our proposed depreciation factors includes an immediate $14.8 million, or 19.1% increase in the surplus due to our proposed changes to depreciation factors. We consider that to be a significant degree of sudden change in the book to theoretical reserve ratio. The changed depreciation factors cause an instantaneous change in the theoretical reserve but they will not affect the book reserve until the time new depreciation rates are implemented in January 2014, the beginning of the Rate Year. Even then, the effect on the book reserve will occur over time. For instance, the changes we are proposing will decrease annual depreciation expense by $2.8 million annually based on existing plant investment and $3.5 million in the Rate Year which will have the effect of lowering the surplus over time beginning when the changes are implemented in January 2014 but a more complete impact is not currently
observable. In other words, the effect of the changes on the book to theoretical reserve relationship should be tested for a reasonable time before acting to counter them. For those reasons, we believe the variation between the book reserve and the theoretical reserve should not be addressed for ratemaking purposes in this proceeding. We would revisit and report on this matter in the Company’s next gas rate filing.

D. COMMON PLANT RESERVE VARIATION

Q. What does Exhibit ___ (PTD-1) show with respect to the variation between the book depreciation reserve and the computed reserve for Common plant at December 31, 2011?

A. For Common plant, the book reserve was approximately $547.8 million. The computed reserve is $567.1 million on the “BOOK BASIS” and $568.5 million on the “PROPOSED BASIS.” The book reserve of $547.8 million is approximately $19.3 million, or 3.4% less than the computed reserve on the “BOOK BASIS” and approximately $20.8 million, or 3.7% less than the computed reserve on the “PROPOSED BASIS.”

Q. What do you recommend regarding the book reserve
deficiency related to Common plant?

A. The variation between the book reserve and the theoretical reserve is well within reasonable limits. Consequently, we recommend that no action be taken to mitigate the variation at this time.

E. IMPACT OF PROPOSED CHANGES IN DEPRECIATION

Q. Please summarize your depreciation proposals.

A. We recommend the Commission approve the various depreciation changes we have proposed as summarized on Exhibit ___ (PTD-1) to more closely align the average service lives, life tables, and net salvage factors employed with those supported by the depreciation studies we have conducted and presented in this proceeding. In addition, we recommend that no action be taken with respect to the Gas and Common plant reserve variations we have discussed.

Q. What effect will your proposed changes have on annual depreciation expense?

A. As summarized on Exhibit ___ (PTD-1), the amount of the annual provision for depreciation expense for the Company’s total Gas plant is $93.7 million under existing rates and $90.9 million under proposed rates. These amounts exclude the portion of depreciation
expense related to Common plant allocated to gas expense and are based on the book cost of plant investment as of December 31, 2011.
For Common plant, depreciation expense is $130.7 million under existing rates and somewhat lower at $130.6 million under proposed rates, also based on the book cost of plant investment as of December 31, 2011.
These amounts are before allocation to Electric and Gas operations. The Rate Year impact of our proposals was identified earlier in our testimony and was computed by the Company’s Gas Accounting Panel reflecting the proposed depreciation factors we provided, forecasted changes to plant balances and the allocation of Common plant depreciation to Gas service.

IV. PROPERTY TAXES

A. BACKGROUND INFORMATION

Q. Please explain the general basis upon which property taxes levied upon the Company have historically been determined.
A. Historically, the property taxes Con Edison has paid were based on the “value” of property and include taxes on land and the structures and/or equipment
erected or affixed to the land, known as real estate
taxes. In New York State, utilities also pay property
taxes on utility equipment located on or under the
public streets and highways, known as special
franchise taxes.
In New York State, public utility property is valued
under a method known as the “cost approach.” The New
York State Office of Real Property Tax Services
(“ORPTS”) and most of the larger local assessors in
the Company’s service territory determine value by
using a Reproduction Cost New Less Depreciation
(“RCNLD”) methodology for utility property. RCNLD
calculates what it would cost to reproduce property at
current construction costs based on a trending index,
subtracts an allowance for depreciation and
obsolescence, if any, and adds the value of land to
arrive at a “value” for the entire property. RCNLD is
used only to value certain of the Company’s structures
and all of its equipment. The value of land is
determined by comparable sales data.
In New York City (or “the City”), there are four
“classes” of property. Classes 1 and 2 pertain to
various types of residential property. The Company’s
property, depending on its type, is included in Class
B. SUMMARY OF RECENT AND PROJECTED PROPERTY TAXES

Q. Please provide some background on the amount of property taxes paid by the Company.

A. The Company pays property taxes to New York City and other municipalities. The other municipalities are principally located in Westchester County but also in Orange, Rockland, Dutchess, and Putnam Counties. The Company also pays a relatively minor amount of taxes in Mississippi and West Virginia in connection with gas storage. We will refer to those other municipalities as “Westchester & Other.”

During calendar year 2011, $167.7 million of property taxes was allocable to gas service. Of that total, $126.8 million was applicable to New York City and $40.9 million was applicable to Westchester & Other.

For calendar year 2012 we have forecasted property taxes allocable to gas expense to be $170.3 million. Of that amount, $126.3 million is applicable to New York City and $44.0 million to Westchester & Other.

For calendar year 2013 we have forecasted property taxes allocable to gas expense to be $186.5 million.
Of that amount, $140.4 million is applicable to New York City and $46.1 million to Westchester & Other.

Q. Have you forecasted the Rate Year property taxes for this proceeding?

A. Yes. Our forecast of property taxes allocable to gas expense for the Rate Year is $206.3 million. Of that amount, $158.0 million is applicable to New York City taxes and $48.3 million to Westchester & Other.

Q. Will the Company provide updates related to property taxes during this proceeding?

A. Updates have been customary in the Company’s rate proceedings and the Company intends to provide them in this case. The Company intends to update property taxes as part of its formal update at the update stage of this proceeding and proposes to provide updated property tax information throughout this case if new information becomes available from the City, ORPTS or any other municipality. It is the Company’s recommendation to base the revenue requirement in this case reflecting the latest available information on property taxes, subject to full reconciliation as discussed by Company witness Muccilo (Gas Accounting Policy). The Company anticipates an update for tentative assessed values for its non-special
franchise property in New York City, usually available
to the Company in January, tentative assessed values
for its special franchise property in New York City,
usually available in March, and for Westchester &
Other Town property tax payments to be made in January
2013.

C. NEW YORK CITY TAX FORECAST

Q. Please explain how you forecasted New York City
property taxes.

A. We used the Company’s 2012/13 final real estate and
special franchise assessed values as a starting point
and applied final tax rates to those values to compute
taxes for fiscal year 2012/13. We then computed the
estimated change in assessment by adding net plant
changes forecasted by the Company’s Gas Accounting
Panel. For subsequent periods, estimated tax rate
changes for New York City for each tax class were
based on the most recent six fiscal years of tax rate
history for each class so that percentage changes for
five individual fiscal years could be developed.

Q. What was the five-year average percentage change in
the tax rate resulting from your calculations?
A. The five-year average change in the tax rates indicated increases of 1.51% and 0.45% for Classes 3 and 4, respectively.

Q. What percentage change in rates did you use?
A. We selected tax rate changes that approximate the five-year average percentage changes. Our projected property taxes reflect escalations of the tax rates of 1.50% and 0.50% for Classes 3 and 4, respectively.

Q. Is that because you expect the rate changes in each of the next several years to approximate the five-year average changes?
A. No. Although the rates of change have not varied greatly in recent years, property tax forecasts are subject to much uncertainty and actual tax rate changes can be quite volatile. For example, City tax rates have increased as much at 18.5% from one year to the next. We will address that subject further later in our testimony but we note that it is that degree of possible variability that results in an inability to reasonably forecast property taxes for the Rate Year even based on recent experience.

Q. Are you sponsoring an exhibit containing the computation of the five-year average escalation rate?
A. Yes, we are sponsoring Exhibit ___ (PTD-5) entitled “CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., HISTORICAL NEW YORK CITY TAX RATES AND DEVELOPMENT OF TAX RATE ESCALATION FOR FORECAST, CLASS 3 & 4 TAX RATES” for that purpose. The exhibit shows the Class 3 and Class 4 tax rates for New York City for the last six fiscal years and the computation of the five-year average percentage change in tax rates. It also computes the forecasted tax rates for fiscal years subsequent to 2012/13.

Q. Was Exhibit ___ (PTD-5) prepared by you or under your direction and supervision?

A. Yes.

D. COUNTY OF WESTCHESTER AND UPSTATE COUNTIES TAX FORECAST

Q. Please describe how you arrived at the forecasted property tax amounts for Westchester & Other.

A. For Westchester & Other, we used the Company’s latest actual property taxes paid during calendar year 2012 as a starting point. Then, because it is not practicable to specifically forecast property taxes for each of the many different municipalities and
school districts to which the Company pays property
taxes since each has different factors affecting their
need to raise revenue, we developed an overall
escalation percentage to develop the forecasted
amounts. The escalation percentage was developed
based on recent historical tax payment information
from calendar years 2007 through 2012.

Q. What escalation percentage did you use?

A. We used an escalation percentage of 4.91%, which was
equal to the five-year average computation we
performed.

Q. Is that because you expect the rate changes in each of
the next several years to approximate the five-year
average changes?

A. No. Property tax forecasts are subject to much
uncertainty and actual annual changes can be quite
volatile. For example, within the five-year average
we computed, the year-to-year percentage increase
ranged from a low of 0.36% to a high of 8.86%.

Q. Are you sponsoring an exhibit containing the
computation of the five-year average escalation rate?

A. Yes, we are sponsoring Exhibit ___ (PTD-6) entitled
"CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., FIVE
YEAR AVERAGE OF PROPERTY TAXES PAID, WESTCHESTER AND
OTHER” for that purpose. The exhibit summarizes the tax payments made for the last six calendar years and computes the five-year average for Westchester & Other.

Q. Was Exhibit __ (PTD-6) prepared by you or under your direction and supervision?
A. Yes.

E. TWO PERCENT PROPERTY TAX “CAP”

Q. Have you considered the impact of New York State’s property tax “cap” law in your property tax forecast?
A. Yes, we have, however, it is important to recognize that the “cap” is not applicable to New York City taxes. In other words it only applies to a limited base of the Company’s property taxes.

Q. Please generally describe the new legislation.
A. The legislation, on its face, limits real property tax levy increases by local governments to the lesser of 2% annually or the rate of inflation. However, in no case shall the levy growth factor be less than zero. Those limitations, however, may be overridden by a 60% vote of the governing body of the local government or a 60% vote of school district voters.

Q. Are there exclusions that limit the reach of the cap?
A. Yes, for instance, there are exclusions for court orders or judgments against the governing body or school district. There are also exclusions for contributions to employee retirement funds beyond specified limits. Other exclusions require computations to determine what the legislation refers to as a "quantity change factor" which may allow the tax levy to increase above the cap due to development. There are also exclusions that will allow school districts to increase the tax levy for certain expenditures associated with facilities, capital equipment, debt service, lease expenditures, and transportation debt service, subject to the approval of the qualified voters where required.

Q. Assuming none of the exclusions applies and inflation is more than 2% (thereby capping the tax levy at the 2% maximum), wouldn’t the Company’s tax liability simply increase by 2%?

A. No, and that is why our forecast for Westchester & Other taxes is not simply a 2% across-the-board annual increase.

Q. Please explain.

A. The Company invests each year in new plant facilities and retires certain facilities that are no longer
providing utility service. Each of those plant transactions may add to or reduce the Company's assessed valuations and therefore its property tax liability. After an assessment roll is determined by a municipality a tax rate is computed for each municipality and school district by dividing that assessed value into the tax levy. Although the total tax levy may increase by exactly 2%, individual taxpayers may see tax changes either higher or lower than the 2% overall increase based on how their assessed values have changed in relation to other taxpayers in the tax district. Therefore, the Company's taxes, or any other taxpayer's taxes, could vary from the 2% increase, even without the occurrence of any of the exclusions built into the law. Property taxes become even more difficult to forecast when and if certain exclusions, including voter overrides, certain pension payments, court orders, quantity change factors, and capital outlays, impact some or all of the municipalities and school districts where the Company pays property taxes.

Q. How much could taxes vary from the 2% cap?
A. There is no upside limit. It is also important to note that the new legislation adds further uncertainty to forecasting property taxes.

Q. What actual payments have been made by the Company regarding property tax bills subject to the 2% “cap” law?

A. The law took effect for fiscal years beginning January 1, 2012 for local governments and for the 2012/13 fiscal year (July 1, 2012 through June 30, 2013) for school districts. To date, Con Edison has paid tax bills in Westchester & Other for 2012 that were levied pursuant to the “cap” law.

Q. What have you observed regarding property tax bills subject to the 2% “cap” law?

A. The Company’s experience for amounts paid in 2012 for bills levied pursuant to the “cap” compared to bills paid in 2011 indicated a percentage increase of 5.1%, which approximates the five-year average growth rate we computed. Therefore, we concluded that, at least at this time, the Company’s experience with the “cap” law did not require an adjustment to be made to our forecast for this case. Again, the “cap” does not affect the overwhelming majority of Con Edison’s taxes since it does not apply to New York City.
F. INABILITY TO REASONABLY FORECAST PROPERTY TAXES

Q. Why is a reasonable forecast of property tax not practicable?

A. We have found that it is very difficult to reasonably estimate future property taxes for many reasons. For example, whether local governments and school districts, outside of New York City, will be able to restrict tax levy increases to 2% or the rate of inflation, whichever is less, as the new legislation states, is far from certain and even if they do, it is also uncertain that the Company will have its tax burden lessened as a result. What appears clear is that an across-the-board increase in the Company’s tax liability not exceeding 2% will not be realized given the many ways in which the new legislation provides for taxing authorities to avoid being restricted in their tax levy increases and the Company’s experience to date.

As to New York City taxes, it is very difficult to predict tax rates, and there have been large variations in the rates that were unexpected and did not conform to a five-year average methodology. For example, in fiscal year 2007/08 the City unexpectedly cut rates on average by 7% and then raised rates by
7.5% in the middle of the following fiscal year. Additionally, in the middle of fiscal year 2002/03, the City raised rates by 18.5%. These significant changes in rates show that results in one year, or an average over several years, cannot be counted on to predict those for the next year. Decreases in City tax rates can also come at surprising times such as the modest rate declines in fiscal years 2010/11 and 2011/12 for Class 3 and Class 4 tax rates following two years of increases and occurring during less than robust economic times. In addition, the Company’s tax burden is so large that even small variations in the Class 3 and Class 4 tax rates from the forecasted rates have significant impacts on the Company’s tax liability.

In all cases, the Company’s property taxes are subject to the vagaries of municipal management, economic circumstances, and political influences.

Q. Can you provide an example of the effect of a tax rate change for New York City?

A. Yes. Absent any other changes in the forecast, a 1% increase in New York City’s tax rates above the rates we have used in our forecast for both Classes 3 and 4 would increase Rate Year taxes by $1.6 million so even
a minor change in the forecasted tax rate can have a significant impact on property tax levels.

Q. Does the Company have a proposal regarding reconciliation of property taxes to reasonably address the uncertainty of the Company’s level of property taxes for the Rate Year?

A. Yes. As explained by Company Witness Muccilo, given the variability and uncertainty we have explained, the Company believes that an accounting and ratemaking mechanism that symmetrically and fully protects the interests of customers and the Company from forecast variations is reasonable and appropriate.

Q. Do you believe full and symmetrical property tax reconciliation lessens the Company’s incentive to mitigate its property tax liability?

A. Not at all. As we will explain in greater detail later in our testimony, and as the Company has explained in numerous rate proceedings and annual reports of its activities regarding property taxes, the Company has a long and proven record of undertaking efforts to reduce the Company’s property tax burden. Challenges to unfair assessments; lobbying efforts to seek favorable legislation; developing and pursuing tax benefit proposals;
obtaining expert consultation; and aggressively pursuing available and potential tax benefits are a normal course of business for the Company.

Q. Has the Commission previously approved the full reconciliation of property taxes in a Company rate case?

A. Yes, in Case 08-E-0539, the rate case in which the Commission last established electric rates for the Company on a litigated rather than settled basis and for a single rate year (i.e., outside of the context of a multi-year rate plan on settled terms).

Q. In Case 08-E-0539, did the Commission address concerns that a full reconciliation would lessen the Company’s incentive to minimize property taxes?

A. Yes. The Commission concluded that would not be the case. On pages 106-107 of the Commission’s Order Setting Electric Rates, issued April 24, 2009 in Case 08-E-0539, the Commission said:

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.

G. EFFORTS TO MINIMIZE PROPERTY TAXES

Q. Please summarize the Company’s efforts to minimize 
property taxes.
A. The Company has aggressively challenged its property 
tax assessments so that it pays no more than its fair 
share of property taxes. The Company has been and 
remains very concerned with the level of property 
taxes in its service territory and the impact of these 
taxes on customer bills.

Q. Please discuss the Company’s efforts to keep property 
taxes to a minimum.
A. Property tax amounts are a function of a tax rate 
multiplied by an assessed value. The Company has no 
influence on the tax rates that municipalities set; 
therefore, our basic effort is to focus on the 
fairness of assessed values set by the municipalities.

Q. How do you determine which assessments should be 
challenged?
A. Annually, we review our property assessments to determine if they fall within a range of reasonableness under an RCNLD valuation. This approach to valuation begins with the original cost of property, which is then trended to the current time using a construction cost index to arrive at an estimated cost to reproduce the property today. That valuation is then reduced by depreciation. RCNLD is considered the market or full value of utility property and the method is used for valuation purposes by the Office of Real Property Tax Services, New York City assessors and some local assessors. If the actual assessments vary substantially from our RCNLD calculations, we file complaints with the applicable taxing authorities. We attempt to settle these complaints when we believe that a settlement is a more cost effective way of reducing our tax burden than prolonged litigation, the outcome of which is uncertain. We do, however, pursue litigation when our efforts to reach what we believe to be a fair compromise fail.

Q. Please describe recent efforts in that regard more specifically.
A. As to New York City, negotiations are ongoing with the New York City Law Department concerning settlement of proceedings challenging the assessments on certain of Con Edison’s locally assessed properties for the fiscal years 1994/95 through 2011/12. On October 22, 2012, Con Edison again filed real property tax petitions with the New York City Tax Commission seeking reductions of Con Edison’s 2012/13 final tax assessments on real property. The filings were based on the real property tax assessment roll made final on May 25, 2012.

Q. Please continue.

A. In Westchester & Other, the Company aggressively challenges property tax assessments in order to pay no more than our fair share of property taxes. In the past, Con Edison has reached settlements with the cities of Mt. Vernon, New Rochelle, Rye, White Plains, and Yonkers, and the towns of Carmel, Chester, Cortlandt, East Fishkill, Greenburgh, Harrison, LaGrange, Mt. Kisco, Mt. Pleasant, New Castle, Ossining, Peekskill, Ramapo, Stony Point, Tuxedo, and Yorktown, and the Village of Hillburn. These settlements, which applied in part to gas operations, cover a significant amount of Con Edison’s property
tax locations outside of New York City although we continue to monitor assessments in all of these areas to see if a challenge is again warranted.

Q. Please discuss your most recent efforts in Westchester & Other.

A. The Company recently arrived at settlements with the City of Peekskill and the Town of Pleasant Valley and has pending litigation with the Town of LaGrange. The Peekskill settlement involved both electric and gas property. The other two pertained only to electric property.

Q. Please discuss the settlement with the City of Peekskill.

A. The proceedings against the City of Peekskill were settled during 2012. The Company entered into negotiations during 2010 in order to settle the outstanding proceedings for 2008, 2009 and 2010. An agreement was reached with the city attorney. However, the processing of the settlement by the city was delayed. The delay caused another year to be added on to the challenge and the settlement was executed in 2012 covering years 2008 through 2011. The agreement will provide refunds in the amount of $363,000 while providing future tax savings of
approximately $617,000 due to reduced assessments though 2015.

Q. Does the Company challenge its special franchise taxes?

A. Yes, the Company has commenced proceedings in Supreme Court, Albany County, challenging the ORPTS special franchise full values for New York City’s 2009/10, 2010/11, 2011/12, and 2012/13 assessment rolls. The court has set July 2013 for the filing of Con Edison’s appraisal for the first three proceedings.

The special franchise complaints allege that the ORPTS’ application of the RCNLD methodology produces anomalous results that significantly overstate the value of special franchise property. The complaints are based on the ORPTS not properly taking into account the effects of:

- Dramatic increases in copper prices that have not returned to normal levels;
- Spikes in steel prices;
- Depreciation due to use of an artificial property age ceiling in relation to the property’s average service life; and
- The proper level of Economic Obsolescence ("EO") and Functional Obsolescence ("FO").
Although challenging the obsolescence allowances in the complaints, Con Edison continues to apply for and receive EO and FO benefits. A request for an EO benefit is filed for on all services (electric, gas and steam) and the FO benefit is applied for on low-pressure gas pipes and on electric, gas and steam facilities in the vicinity of the World Trade Center site. Con Edison has been approved for each of these benefits for many years and during 2012 again received approval from the ORPTS for the 2013/14 fiscal year, although the FO benefit on the facilities near the Trade Center no longer applies due to cost recoveries from the federal government.

Q. Can you give some examples of other types of efforts the Company has undertaken to reduce its property tax obligations?

A. Yes. The Company diligently seeks available benefits that reduce its taxes.

For several years the Company secured the benefit of the Industrial and Commercial Incentive Program (“ICIP”) in New York City. The ICIP was created to encourage the development, expansion, and preservation of commercial and industrial real estate. The ICIP grants a property tax exemption for the additional
real property taxes that would otherwise be payable as a result of eligible industrial and commercial construction work.

Con Edison has filed ICIP applications for projects involving the construction of new facilities and substations, substation renovations, and substation upgrades. Con Edison filed for and received the exemption regarding 17 different projects, some of which included multiple filings, which are estimated to generate more than $1 billion in tax savings over the course of their benefit periods which range from 12 to 25 years. The ICIP expired as of June 30, 2008, despite efforts by the Company for the program to be extended. The ICIP was replaced by a similar tax benefit program which, again, despite Company efforts, was made inapplicable to utility property. The Company continues, however, to receive benefits for the projects that were eligible under ICIP and, absent future law to the contrary, expects to receive them for the duration of their tax exemption benefit periods. During the 2012/13 fiscal year, it is estimated that the tax savings will amount to $69 million.
Of particular significance with respect to gas operations, the Company has an ICIP exemption that eliminated 100% of the tax increase on new gas facilities constructed at our Hunt’s Point Regulating Station. Assuming no change in tax rates, we estimate the tax savings will amount to approximately $28 million over the 25-year benefit period which extends through 2029. Another ICIP exemption applicable to gas operations is a project at our Third Avenue Yard in Brooklyn. That facility is a Common Plant Facility, so the gas department will benefit from the portion of those tax savings that are allocated to gas. Assuming no change in tax rates, we estimate the tax savings will amount to $37 million over the 25-year benefit period with the gas department’s share totaling approximately $6 million.

The Company has also addressed the tax structure in New York City.

Q. Please explain.

A. New York City's classified property tax system divides the City's real property tax burden among four classes, including one specifically for utility real property (Class 3). The classification system is a contributing factor to Con Edison's significant
property tax burden. Con Edison has continued to advocate for the merging of the utility property class (Class 3) and the general business property class (Class 4). The Company’s taxable property is primarily Class 3 property and a lesser portion is Class 4 property. The City’s real property classification system is a major concern for Con Edison because Class 3 pays 8% of all property taxes in the City but it owns just 3% of the total market value of property in the City. In addition, Con Edison’s property is nearly 80% of Class 3 by assessed value and because of that, there is little protection for the Company from the effect of tax rate increases.

Q. Please explain.

A. Only a few other taxpayers share in the Class 3 tax burden so the Company must absorb nearly 80% of the increase on Class 3. If Class 3 and Class 4 were merged, the Company would absorb a much smaller share because the Company would be a smaller percentage of a much larger tax class. This is especially important because the City tends to favor a shifting of tax burden away from homeowners and onto the utility and general business classes.
In addition, combining Classes 3 and 4 would be revenue neutral for the City. Under pending legislation to merge Classes 3 and 4, the proposed three-class system would generate the same tax revenue as the existing four-class system.

Q. What would be the annual property tax savings to the Company if Classes 3 and 4 were merged on a tax revenue neutral basis for the City?

A. The savings to the Company will depend on circumstances at the time of the merger such as individual property class shares of the total tax liability and which of several possible approaches to the matter becomes law. The Company is confident, however, that savings to the Company would be significant absent a major change to the fundamental manner in which the City currently assesses properties and establishes tax rates and intends to continue urging the merger. Additionally, merging Class 3 with 4 could help lessen Con Edison’s property tax volatility as valuation increases and decreases could be phased-in for Class 3 property as is the current practice for Class 4 thereby placing the Company’s property on equal footing with other businesses in the City.
Q. Please describe the Company’s efforts regarding the merger of Classes 3 and 4.

A. Over the past several years the Company has had several meetings with members of both the New York State Senate and Assembly seeking to pass the class merger legislation and engender legislative support. In 2011 the bill was approved by the Senate Local Governments Committee and the Senate Rules Committee before appearing on the floor of the Senate where it nearly received a full vote. However, it was removed from the Senate floor calendar before that vote could take place. In 2012 Con Edison continued its efforts supporting the bill.

Q. Does the Company keep the Commission and Staff apprised of the Company’s efforts to reduce its property tax obligations?

A. Yes. The Company prepares an annual report of its efforts to reduce its property tax obligations. The report is filed with the Commission and provided to Staff and the parties to the Company’s rate proceedings as well. The Company also meets with Staff to update them on accounting and finance issues. Property tax issues, including legislative efforts, have regularly been part of that agenda.
Q. Despite the Company’s efforts to mitigate property taxes, do the Company’s property taxes continue to increase?
A. Yes.
Q. Why?
A. Property taxes are used to finance local governments and public schools. The funds raised via the property tax levy are often the major revenue source for the taxing entity. The Company bears the levied tax obligations determined by the taxing authorities seeking to raise the funds they determine are necessary. Those needs, in concert with the Company’s activities resulting in increased capital investment, have historically resulted in higher tax bills for the Company despite successful Company challenges to assessed valuations of its property.
Q. Does that conclude the PTD Panel’s testimony?
A. Yes, it does.