Q. Would the members of the Gas Rate Panel ("Panel") please state your names and business address?

A. Peter Otersen, Shajan Jacob and Yan Flishenbaum, 4 Irving Place, New York, New York 10003.

Q. By whom are you employed, in what capacity, and what are your professional backgrounds and qualifications?

A. (Otersen) We are employed by Consolidated Edison Company of New York, Inc. ("Con Edison" or "the Company"). I am a Senior Rate Analyst in the Rate Engineering Department. I received a Bachelor of Science Degree in Civil Engineering from Rutgers University in the State of New Jersey in 1977 and a Master of Business Administration Degree in Finance from American University in Washington, DC in 1982. I began my employment with Con Edison in 2005 in the Rate Engineering Department. My primary responsibilities are preparing tariff and other New York Public Service Commission ("Commission") filings, responding to Commission inquiries and providing analysis and preparation of rate cases. Prior to joining Con Edison, I held various positions in the utility industry including Manager of Financial Analysis with PSEG Global, a subsidiary of Public Service Electric & Gas ("PSE&G") in New Jersey. In
this position I managed a group that provided financial analysis for the development of domestic and international power projects. I later became a Manager in the Strategic Planning Department at PSE&G and analyzed the effects of deregulation in New Jersey. I have not previously testified before this Commission.

(Jacob) I am a Senior Rate Analyst in the Rate Engineering Department. I received a Bachelor of Science Degree in Chemistry from University of Kerala in 1977, a Bachelor of Business Administration from Saint Leo University in 1998, and a Master of Business Administration Degree in Finance from Rollins College in 1999. I began my employment with Con Edison in 2006 in the Rate Engineering Department as a Senior Analyst. In 2008, I was promoted to my current position of Senior Rate Analyst, where I am responsible for developing the Company’s rates and tariffs. I am a Certified Energy Manager (“CEM”), which I earned from the Association of Energy Engineers in 2003, and am also a Registered Gas Distribution Professional (“RGDP”), which I earned from the Gas Technology Institute in 2010. I have not previously testified before this Commission.
(Flishenbaum) I am a Senior Rate Analyst in the Rate Engineering Department of Con Edison. I received a Bachelor of Business Administration Degree in Economics from Pace University in 2001 and a Master of Business Administration Degree in Finance and Economics from New York University in 2008. In 2001, I began my employment with Con Edison in the Cost Analysis Area of the Rate Engineering Department. In 2003, I was promoted to Analyst, mainly involved in the development of the costing methodologies related to unbundling. I was promoted to Senior Analyst in 2005. In 2008, I was promoted to my current position in which I am responsible for developing the Company’s cost-of-service models. I previously testified before the Commission in Con Edison’s last gas rate case, Case 09-G-0795, as well as Case 06-G-1332; and Orange and Rockland Utilities’ recent gas rate case, Case 08-G-1398.

Q. Please summarize your testimony.

A. The Gas Rate Panel testimony is comprised of seven sections:

First, the Embedded Cost-of-Service ("ECOS") and Unbundled Cost Components Section of the testimony
presents the Company’s ECOS study for the calendar year 2011, which:

- functionalizes and classifies various costs for the gas system to their operating functions;
- allocates these functionalized costs to the customer classes;
- demonstrates each ECOS study class’s surplus or deficiency based on the application of a ± 10% tolerance band around the calculated total system rate of return of 7.54%;
- shows that the firm classes have the following rates of return: SC 1 - Residential and Religious (SC 1) - 6.92%, SC 2 - General Service - Non Heating (SC 2NH) (including customers served under SC 13) - 7.77%, SC 2 - General Service - Heating (SC 2H) - 9.58%, and SC 3 - Residential and Religious - Heating (SC 3) - 7.00%;
- presents the development of unbundled functional costs for competitive services pursuant to the Commission’s Statement of Policy on Unbundling and Order Directing Tariff Filings, issued August 25, 2004, in Case 00-M-0504 (“Unbundling Policy Statement”); and
• describes the development of the residential and non-residential supply-related and credit & collection/theft-related components of the merchant function, and the development of the costs for the billing and payment processing function.

Second, the Revenue Allocation section of the testimony proposes that:

• the delivery revenue increase be adjusted to deduct gross receipts taxes and to recognize the impact of a change in the revenue allocation of low income discounts and/or an increase in the number of customers participating in the Company's low income rate program;

• class Rate Year, i.e., the 12 months ending December 31, 2014, delivery revenue be adjusted at the current October 1, 2012 rate level to reflect one-third of the SC 2H ECOS surplus indication and prorated offsetting adjustments, in order to net to zero;

• the delivery revenue increase be allocated to each class by applying the overall Rate Year base delivery revenue percentage increase to Rate Year
delivery revenues as adjusted for the SC 2H ECOS surplus indication and offsetting adjustments.

Third, the Rate Design section of the testimony:

- explains the determination of the amounts of the delivery revenue increase applicable to the competitive charges, specifically amounts applicable to the Merchant Function Charge ("MFC"), the Billing and Payment Processing ("BPP") Charge, and the credit and collections component of the Purchase of Receivables ("POR") discount rate;

- explains the determination of the revenue changes, by class, applicable to non-competitive charges; and

- describes the methodology for allocating each class’s respective Rate Year delivery revenue increase associated with non-competitive charges. For example, minimum charges were increased to better reflect the cost of providing service, and the per-therm charges were then increased to recover the balance of each class’s respective Rate Year delivery revenue requirement for non-competitive services.

Fourth, the Bill Analysis section of the testimony describes an exhibit that:
• shows the gas sales and current and proposed
  revenues for the Rate Year and the projected number
  of bill increases, by class;
• compares the current October 1, 2012 rates and
  charges with the proposed rates and charges; and,
• presents typical monthly bill comparisons at present
  and proposed rates for three rate years.

Fifth, the Gas Rate Design and Analysis Systems
section addresses additional rate case system
enhancements and reporting requirements associated
with the replacement of the current flat file
mainframe system for gas rate design and analysis with
a modern server-based relational database technology
system.

Sixth, the Tariff Changes section of the testimony
presents proposed revisions to the gas tariff to:
• extend the end date for service under Rider I, the
  Gas Manufacturing Incentive Rate, but not the
  deadline for new applications;
• update the rates for handling costs and corporate
  overheads applicable to Special Services;
• modify the methodology used to determine the target
  line loss factor to be used in the lost and
unaccounted for gas calculation as proposed in Company witness Carnavos’s testimony;

- revise language in the Tariff to include in their respective RDM groups oil-to-gas conversion customers and Excelsior Jobs Program customers (with respect to usage above their baseline usage), that are currently excluded from their RDM groups, as proposed in the Gas Forecasting Panel testimony;

- include minimum charge provisions for all firm-dual fuel customers, as discussed in the Gas Infrastructure and Operations Panel testimony;

- implement changes to Interruptible and Off-Peak Firm sales and transportation service as proposed by the Gas Non-Firm Services Panel;

- institute a Gas Transmission Reinforcement Charge for Power Generation customers and increase the non-firm revenue sharing percentage applicable to firm customers to 80%, as further discussed in the Gas Non-Firm Services Panel testimony;

- modify the tariff provisions related to Company cost responsibility for residential multi-dwellings under the Installation of Mains and Services section of the General Information section of the Gas Tariff,
as discussed in the Gas Infrastructure Panel testimony;

- modify the tariff provision applicable to the Gas Facility Cost Credit;
- modify the tariff provisions applicable to the proration of monthly rates and charges in General Information Section III.8. to clarify when and how rates and charges are prorated on monthly bills; and
- make modifications of a housekeeping nature.

Seventh, the Marginal Cost Study section of the testimony presents the Marginal Cost Study, which compares the proposed delivery rates with the marginal costs associated with delivery service. The study indicates that, for the forecast period of five years from January 1, 2013, through December 31, 2017, the proposed delivery rates exceed the marginal cost of transmission and distribution.

Q. Is the panel sponsoring any exhibits?
A. Yes, we are sponsoring four exhibits. They are:

- Exhibit ___ (GRP-1) – Embedded Cost-of-Service Study and Unbundled Cost Components.
- Exhibit ___ (GRP-2) – Rate Design, Tables 1 – 4.
• Exhibit ___ (GRP-3) - Gas Rate Design and Analysis Systems Enhancement.

• Exhibit ___ (GRP-4) - Gas Marginal Transmission and Distribution Cost Analysis.

We will describe these exhibits in the course of our testimony.

EMBEDDED COST-OF-SERVICE STUDY AND UNBUNDLED COST COMPONENTS

Q. Please present the ECOS study and unbundled cost components analysis. Have you prepared an exhibit showing the ECOS study and unbundled cost components analysis?

A. Yes.

Q. Is this exhibit a document consisting of a title page entitled “CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. - EMBEDDED COST-OF-SERVICE STUDY - GAS DEPARTMENT - YEAR 2011 - RATES IN EFFECT OCTOBER 1, 2012”?

A. Yes.

Q. Please describe the exhibit.

A. The ECOS study and unbundled cost components analysis exhibit consists of three schedules. Schedule 1 shows the results of the study. Schedule 2 shows the MFC calculations, and Schedule 3 shows the unbundled costs
for printing and mailing a bill and receipts
processing functions.

Q. Was this exhibit prepared under your direction or
supervision?

A. Yes.

MARK FOR IDENTIFICATION AS EXHIBIT __ (GRP-1)

Q. Please provide a general description of the ECOS
study.

A. The ECOS study (Schedule 1) analyzes, on a class basis
and for a past period, revenues and book (accounting)
costs for specific cost categories.

Q. What cost categories are analyzed in the ECOS study
you are presenting?

A. The ECOS study analyzes costs and revenues associated
with the Company’s transmission, storage and
distribution operations and also includes cost
categories related to the competitive gas merchant
function, the receipts processing function and the
printing and mailing a bill functions. Also included
in the study are the MFC revenues associated with
commodity procurement and credit and collections, as
well as BPP revenues. The Gas Cost Factor ("GCF")
revenues, Monthly Rate Adjustment ("MRA") revenues and
associated expenses are not included in the ECOS
study. Revenues and expenses associated with the uncollectible component of the MFC, System Benefits Charge, and Regulatory 18-A Assessment have also been excluded from the study. Revenues and gas costs are presented as if there were no interruptible customers.

Q. What time period does the ECOS study cover?
A. It covers Con Edison’s gas operations for the calendar year 2011.

Q. What gas revenues are reflected in the ECOS study?
A. Gas revenues reflect current delivery rates, which went into effect October 1, 2012.

Q. What customer classes are analyzed in the ECOS study?
A. The ECOS study analyzes Con Edison’s four firm classes: SC 1, SC 2NH (including customers served under SC 13), SC 2H, and SC 3. A description of the type of customers served under each service classification is set forth on Page 14 of the ECOS explanatory notes.

Q. How are the results of the ECOS study expressed?
A. The results of the ECOS study are expressed as Total Company (“total system”) and class-by-class rates of return.

Q. What is the total system rate of return shown in the ECOS study?
A. The total system rate of return is 7.54% as shown on Table 1, Page 1, Column (1), Line 17 of the ECOS study.

Q. What are the class rates of return shown in the ECOS study?

A. The following class rates of return are shown on Table 1, Page 1, Line 17 of the ECOS study:

   SC 1: 6.92%
   SC 2NH: 7.77%
   SC 2H: 9.58%
   SC 3: 7.00%

Q. Has the Commission historically employed “tolerance bands” around the system rate of return in developing class revenue responsibilities?

A. Yes. Based on past practice, class revenue responsibility has been measured with respect to a ±10% tolerance band around the total system rate of return. Classes would not be considered “surplus” or “deficient” if the class ECOS rate of return falls within this tolerance band. Classes that fall outside this range would be either surplus or deficient by the revenue amount, including appropriate state and federal income taxes, necessary to bring the realized
return to the upper or lower level of the band. We propose to continue this practice in this case.

Q. Based on the application of the ±10% tolerance band around the calculated total system rate of return of 7.54%, what are the ECOS study class surpluses and deficiencies?

A. The revenue surpluses and deficiencies are shown on Table 1 of Schedule 1, lines 26 and 27 respectively. The rates of return for SC 1, SC 2NH and SC 3 are within the tolerance band. SC 2H shows a revenue surplus of approximately $11.8 million.

Q. What is the significance of the SC 2H class revenue surplus?

A. The surplus is the amount of revenue decrease, at current rates, required to bring that class’s return to the upper level of the tolerance band around the class rate of return.

Q. Let us now turn to the methodology used in developing the ECOS study. Please describe the procedures followed in the preparation of this study.

A. There are two main steps in the preparation of the ECOS study: (1) functionalization and classification of costs to operating functions, such as gas supply, distribution, customer accounting and customer service.
(with further division into sub-functions, such as distribution-demand component (mains) and distribution-services), and (2) allocation of these functionalized costs to customer classes.

Q. Please describe the functionalization and classification step.

A. The functionalization and classification step assigns the broad accounting-based cost categories to the more detailed categories used in the ECOS study. This breakdown is required, for example, to differentiate distribution-demand related costs from distribution-customer related costs. This allows for the proper allocation of these costs to the classes based on cost causation.

Q. Please continue.

A. During the process of functionalization, all costs are classified as being demand-related, commodity-related, or customer-related. Demand-related costs are fixed costs created by the on-peak hourly loads placed on the various components of the gas system. Commodity-related costs are variable costs caused by the total quantities of gas delivered during the year. Customer-related costs are fixed costs caused by the presence of customers connected to the system,
regardless of any customer’s particular level of usage.

Q. Please describe the allocation step.
A. The allocation step allocates the functionalized and classified costs to the customer classes based on the appropriate demand, commodity (sales) or customer allocation factors, which are shown on Table 7 of the ECOS study.

Q. Please explain the general organization of the ECOS study.
A. The ECOS study begins with explanatory notes detailing sources of data and methods used in the preparation of the study followed by seven tables of cost data.

Q. Does the ECOS study contain an analysis of customer costs by class of service?
A. Yes. Please refer to Table 6, Page 1, Line 14 of the ECOS study. The monthly customer costs by class are as follows:

SC 1: $22.33
SC 2NH: $99.45
SC 2H: $93.60
SC 3: $84.07

Q. What do customer costs include?
A. Customer costs include: a distribution-customer component, services, meter and house regulators, customer installation, payment processing, printing and mailing a bill, customer accounting, uncollectibles and customer service.

Q. Does the ECOS study present unbundled functional costs for competitive services?

A. Yes. The ECOS study separately identifies the following competitive functions: gas merchant function, receipts processing, and printing and mailing a bill.

Q. What costs are included in the gas merchant function?

A. The gas merchant function contains costs associated with procuring the gas commodity, including an allocation of customer care-related activities, customer service-related activities and Information Resources (“IR”).

Q. What costs are included in the allocation of customer care and customer service-related activities?

A. The customer care allocation includes costs associated with the Company’s Call Centers, Service Centers, and credit and collection/theft activities. The customer service allocation also includes an assignment of education and outreach costs.
Q. How were these costs allocated to the gas merchant function?

A. Pursuant to the Unbundling Policy Statement, customer care and customer service-related costs were allocated to the gas merchant function on the basis of total revenues (i.e., including commodity revenues, SBC and Regulatory 18-A Assessment revenues).

Q. How were IR costs allocated to the gas merchant function?

A. Pursuant to the Unbundling Policy Statement, IR costs were allocated on the basis of total revenues with 50 percent of the resultant allocation included in the gas merchant function.

Q. Have you further unbundled the gas merchant function for use in developing rate components for competitive services?

A. Yes. The ECOS study includes the development of separate supply-related and credit and collection-related MFCs to recover the costs for these commodity-related competitive services from two categories of customers. The supply-related MFC component consists of the costs associated with procuring commodity, IR, and education and outreach associated with commodity. The credit and collection-related MFC component consists
of costs associated with credit and collection/theft. Only full service customers will pay for these MFC components. The costs for credit and collection services associated with the POR program have been identified separately and will be reflected in a component of the POR discount applicable to marketers serving firm transportation customers receiving utility consolidated bills.

Q. How are these components allocated to the service classifications within the study?

A. One hundred percent of gas procurement activity costs and 25 percent of credit and collection/theft, IR, and education and outreach costs were allocated on a per therm basis. The remaining 75 percent of credit and collection/theft, IR, and education and outreach costs were allocated on a per-customer basis.

Q. Why were the customer care-type costs, such as credit and collection/theft, allocated predominantly on the basis of number of customers, while the gas procurement activity was allocated entirely on a volumetric (i.e., therm consumption) basis?

A. The Company followed basic cost causation principles and determined that customer care-type activities are predominantly driven by the existence of customers on
the system as opposed to their usage characteristics. On the other hand, the functional cost of purchasing commodity is aligned with sales volumes. This allocation is consistent with the Order Adopting Unbundled Rates and Backout Credits and Specifying Terms for the Recovery of Revenues Lost As a Result of Such Rates and Credits, issued April 15, 2005, in Case 04-E-0572, approving Con Edison’s unbundled rates.

Q. Is the allocation of the MFC components to various groups of customers shown on Exhibit ___ (GRP-1)?

A. Yes. Schedule 2 of Exhibit ___ (GRP-1), pages 1 and 2, shows the allocation of the competitive supply-related MFC cost components and the competitive credit and collection-related MFC cost components to the residential and commercial categories of customers. The exhibit presents these two components as percentages of total revenues, i.e., the sum of the T&D and competitive revenues (i.e., MFC and BPP revenues) used in the ECOS study. Separate percentages are shown for the residential and commercial groups of customers for use in the development of the MFC.
Q. Is the allocation of unbundled costs for the printing and mailing a bill and receipts processing functions shown on Exhibit ___ (GRP-1)?

A. Yes. Schedule 3 of Exhibit ___ (GRP-1) shows the unbundled costs for printing and mailing a bill and receipts processing functions. The printing and mailing a bill function and the receipts processing function consist of the customer accounting expense of accepting customer payments and billing customers, including both direct costs and an allocation for Call Center and Walk-in Center operations based on a detailed study of those activities. Credit and collection, education and outreach, and uncollectibles expenses were allocated to these functions on the basis of functional revenues. The unbundled average unit cost for receipts processing is 67 cents per bill. The average unit cost for printing and mailing a bill is 53 cents per bill. The costs for these two functions combined yield $1.20 in unbundled costs associated with billing and payment processing. The costs associated with billing and payment processing do not vary by service classification, and, thus, the system-wide $1.20 in unbundled costs is applicable to all service classifications.
Q. Did the Gas Accounting Panel provide you with the increased delivery revenue requirement for the Rate Year?

A. Yes, the increased delivery revenue requirement for the Rate Year, which is proposed to be obtained from firm sales and firm transportation customers in Service Classifications 1, 2, 3, 9 and 13, amounted to $25.347 million including gross receipts taxes.

Q. Please describe how you determined the Rate Year delivery revenue increase applicable to each class.

A. We performed the following steps in allocating the increased delivery revenue requirement:

- Gross receipts taxes of $0.976 million were deducted from the total Rate Year increased delivery revenue requirement of $25.347 million to derive the delivery rate increase in the Rate Year of $24.371 million.

- The SC 2H class Rate Year delivery revenue was adjusted to reflect one-third of the ECOS surplus indication.

- The Rate Year delivery revenues for the SC 1, SC 2NH and SC 3 classes were adjusted to offset the
adjustment to the SC 2H class described above. This ensures that the use of the ECOS study indications is revenue neutral to the Company. After application of this adjustment, the SC 1, SC 2 NH and SC 3 rates of return remained within the tolerance band.

- The Rate Year delivery revenue increase was then allocated to each class by applying the overall Rate Year base rate percentage increase to Rate Year delivery revenues as realigned for the ECOS study surplus indication and to net to zero. The Rate Year delivery revenue percentage increase of 2.5526% was developed by dividing the proposed delivery rate increase by the total Rate Year delivery revenues.

- Finally, we determined the total Rate Year delivery revenue increase for each class by adding the delivery revenue increase for each class, including the adjustments associated with the low income program and the ECOS study indications and adjustments described above.

RATE DESIGN

Q. Please explain how you designed firm gas delivery rates for each service class.
A. The rate design process consisted of the following steps:

- determining the amount of the rate increase applicable to the competitive charges;
- determining the remaining amount of the rate increase to be applied to non-competitive charges;

and

- designing rates for non-competitive charges.

Q. Please describe the competitive service rates that are unbundled.

A. The competitive service rates consist of an MFC, a credit and collections component of the POR discount rate, and a BPP Charge.

Q. Please describe the MFC.

A. The MFC is applicable only to full service customers and consists of fixed components and a variable component. As previously described, the fixed components of the MFC are: (1) a supply-related component, which includes the costs associated with commodity procurement, IR and education and outreach; and (2) a credit and collections/theft component, which includes the costs associated with credit and collection/theft. An additional fixed component, gas in storage working capital, is also included in the
MFC and is updated annually based upon the level of gas in storage. The variable component of the MFC consists of uncollectibles associated with commodity sales.

Q. Please continue your description of the MFC.

A. Separate MFCs were calculated for SC 1 customers, SC 3 customers, SC 2NH and SC 13 customers, SC 2H customers, and SC 2 and 3 Air Conditioning customers. The fixed components of the MFC are set for the Rate Year, but the variable component is re-set monthly to account for changes in that component.

Q. How were the fixed components of the Merchant Function Charge developed?

A. As shown on Exhibit ___ (GRP-1), Schedule 2, the costs associated with procurement (i.e., the Supply-Related Charges) are 0.22544% of total delivery revenues for SC 1 and SC 3 customers and 0.07178% of total delivery revenues for SC 2H, SC 2NH, and SC 13 customers. To determine the Rate Year revenue requirement associated with this charge, these percentages were multiplied by the total Rate Year revenue requirement. The SC 1 and SC 3 Rate Year revenue requirement and the SC 2H, SC 2NH, and SC 13 Rate Year delivery revenue requirement for the supply-related portion of the fixed MFC were
then divided by the combined Rate Year sales for SC 1 and SC 3 full service customers and the combined Rate Year sales for SC 2H, SC 2NH and SC 13 full service customers, respectively, to determine the $/therm associated with the supply-related component of the fixed MFC for each service class.

Q. Please continue.

A. As shown on Exhibit ___ (GRP-1), Schedule 2, the costs associated with credit and collections (i.e., the credit and collections charges) are 0.54072% of total delivery revenues for SC 1 and SC 3 customers and 0.11969% of total delivery revenues for SC 2H, SC 2NH and SC 13 customers. To determine the Rate Year revenue requirement associated with this charge, these percentages were multiplied by the total Rate Year delivery revenue requirement. The SC 1 and 3 Rate Year revenue requirement and the SC 2H, SC 2NH, and SC 13 Rate Year revenue requirement for the credit and collections portion of the fixed MFC were then divided by the combined Rate Year sales for SC 1 and SC 3 full service customers and the combined Rate Year sales for SC 2H, SC 2NH and SC 13 full service customers, respectively, to determine the $/therm credit and
collections portion of the fixed MFC for each service class.

Q. Please describe the development of the uncollectible component of the Merchant Function Charge.

A. The uncollectible component of the MFC will continue to be determined monthly by applying the uncollectible percentage associated with SC 1 and SC 3 and with SC 2H, SC 2NH and SC 13, to their respective GCFs, including any prior period reconciliation component, and then adjusting each result to the overall uncollectible percentage. The Gas Accounting Panel proposes that the uncollectibles percentage be set at 0.81% for the Rate Year.

Q. Please explain the uncollectible component of the Monthly Rate Adjustment (“MRA”).

A. The uncollectible component of the MRA is developed monthly using a methodology similar to the one used to calculate the uncollectible component of the MFC except that the uncollectible percentages are applied to the MRA, rather than to the GCF.

Q. Will ESCOs serving firm transportation customers be subject to a charge for the unbundled competitive service of credit and collections/theft?
A. Credit and Collections/theft ("C&C") costs are part of the MFC applicable to gas full service customers. However, to the extent that C&C costs are attributable to firm transportation customers whose ESCOs participate in the Company’s POR program, those C&C costs are used to calculate the C&C component of the POR discount rate applicable to ESCOs participating in the gas POR program and are not part of the calculation of the MFC. Firm transportation customers whose ESCO does not participate in the POR program will not be subject to C&C charges.

Q. How will the Billing and Payment Processing ("BPP") Charge be applied?

A. As noted previously, the BPP Charge resulting from the Company’s cost of service study is $1.20 per bill. Single service gas customers purchasing both commodity and delivery from the Company and single service retail access customers receiving separate bills from the Company and the Marketer will pay $1.20 per bill.

Q. Will dual service customers pay the same BPP charge as single service customers?

A. Yes, but half of the charge is treated as a gas charge under the Company’s gas rate schedule and the other
half as an electric charge under the Company’s electric rate schedule.

Q. Please describe the next step in the rate design process.

A. The rate increase to be applied to the non-competitive charges for each class was determined by adjusting the rate increase for the variation between the competitive charges by class at current rates and competitive charges by class for the Rate Year.

Q. Please describe the rate design for the non-competitive charges.

A. The proposed Rate Year delivery revenue increases applicable to non-competitive charges were allocated within each class as follows:

The minimum charge in each service classification, which includes delivery of the first three therms of gas, was increased to better reflect the indications of the ECOS study. In SC 1, the minimum charge was increased from $18.60 to $19.25. The minimum charge for SC 2H was increased from $30.45 to $33.00, and the minimum charge for SC 2NH was also increased from $30.45 to $33.00. The minimum charge for SC 3 was increased from $20.40 to $22.00. The SC 13 minimum charge, which is based upon the minimum charge for SC
2NH, and which is designed to collect minimum charges over seven months rather than 12 months, was increased from $52.20 to $56.57.

Q. How do the SC 2 and SC 3 proposed minimum charges compare to the average customer costs for these classes shown in the ECOS study?

A. As reflected in the gas ECOS study, the SC 2 and SC 3 average customer costs range from $84.07 to $99.45. Given the disparity between minimum charge indications at embedded costs and the minimum charges included in current rates, the proposed increases make additional progress in moving these minimum charges toward their indicated cost of service while limiting customer bill impacts.

Q. Please continue to describe the rate design for non-competitive charges.

A. After considering the amount of the delivery revenue increase attributable to increases in the minimum charges, the remaining non-competitive delivery revenue increase within each class was allocated as follows:

- The charge for the remaining rate block for SC 1 (for all usage over 3 therms per month) was designed
to collect the balance of the revenue increase assigned to SC 1.

- The charges for the remaining three rate blocks within SC 2 and SC 3 (for usage between 4 and 90 therms, for usage between 90 and 3,000 therms and for usage greater than 3,000 therms) were increased, on a uniform percentage basis, based upon each class’s remaining revenue increase after deducting the increase in annual revenues attributable to each class’s minimum charge and to the air conditioning rates (as explained below).

- After accounting for the increased revenues to be collected through the SC 13 minimum charge, the two remaining SC 13 rate blocks were assigned the balance of the rate increase assigned to SC 13 on an equal percentage basis. Consistent with our current rate design, the SC 2 and SC 3 air-conditioning rates were set equal to the proposed block rates in SC 13, because the air-conditioning rates apply to seasonal off-peak firm gas usage, as SC 13 rates do.

- Consistent with current rate design, Rider D (Excelsior Jobs Program) and Rider G (Economic Development Zone) rates were set equal to the
applicable SC 2 rates for the first 250 therms per
month of usage. The delivery rates for usage in
excess of 3,000 therms (the “terminal rate”) were
set at 50% of the corresponding SC 2 delivery rates.
The rates for usage between 250-3,000 therms (the
“penultimate rate”) were set at the increased
terminal rates plus the difference between the
proposed SC 2 terminal rates and the proposed SC 2
penultimate rates, thereby maintaining the existing
differential between the SC 2 penultimate and
terminal rates.

Q. Please describe the increases assigned to gas rates
for residential and non-residential distributed
generation ("DG") (Riders J and H).

A. Residential DG customers were assigned the average
rate increase (net of the effect of competitive
charges) for their respective otherwise applicable
classes. Non-residential DG customers were assigned
the average delivery rate increase applicable to SC
2NH.

Q. Were the rates for low income customers changed?

A. Yes. As discussed in the Gas Customer Operations
Panel’s testimony, the Company proposes to change the
low income rate differential for both SC 1 and SC 3
customers. The current rate differentials are a $1.50 per month differential in the minimum charge for SC 1 and a $0.3833 per therm differential in the 4–90 therm block for SC 3. The Company proposes to maintain the current low-income program funding target of $6.4 million per year. Due to an increase in the projected number of participating customers, the Company is proposing to reduce the minimum charge differential for participating SC 1 customers to $1.25 per bill and the per-therm differential for participating SC 3 customers to $0.3143 per therm for all therms in the 4–90 therm block.

Q. Did you allocate any of the delivery revenue increase to SC 14 and Firm Bypass customers in SC 9?

A. No. SC 14, the rate for natural gas used in vehicles, was not allocated any portion of the rate increase because SC 14 customers are charged either fixed rates set by contract or market-based rates reflecting the competitive price of gasoline. Firm Bypass customers in SC 9 were not allocated any portion of the rate increase because bypass rates are set by contract based on the bypass customer’s competitive alternatives.

Q. Are you proposing any other changes to SC 14?
A. Yes. The Company is proposing to update the minimum charge applicable to SC 14 Rate II customers (Negotiated contracts) from $55 per month to $100 per month to reflect the SC 2 non-heating customer costs from the Company’s 2011 ECOS study. The current minimum charge of $55 is based on the 1991 ECOS study. Since the Company does not have customers currently taking service under this rate, the proposed increase in the minimum charge does not have any revenue impact.

Q. Did you consider any proposals to mitigate the effect of the rate increase on customers’ bills?

A. Yes. Low Income customers will continue to receive discounts, thereby affording continued rate relief. In addition, changes to interruptible rates as well as a transmission surcharge to power generation customers, as proposed in the Gas Non-Firm Services Panel’s testimony, are expected to result in a greater revenue contribution from non-firm customers.

BILL ANALYSIS

Q. Having computed revised rates for each service class, have you prepared exhibits showing the estimated annual impact on customers’ bills under the proposed rates?
A. Yes. We show you a document, the first page of which is entitled “CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. ESTIMATED EFFECT ON GAS CUSTOMERS’ BILLS AND COMPANY REVENUES RESULTING FROM PROPOSED GAS RATES BASED ON FORECASTED SALES AND REVENUES FOR THE TWELVE MONTHS ENDING December 31, 2014 FOR SERVICE CLASSIFICATION NOS. 1, 2, 3, 13 AND 14 AND THE CORRESPONDING SC 9 FIRM TRANSPORTATION SUB-CLASSES.”

Q. Was this document prepared under your direction and supervision?

A. Yes, it was.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (GRP-2)

Q. Please continue.

A. Exhibit ___ (GRP-2) includes four tables that show the estimated annual impact on customers’ bills resulting from the proposed rates.

Q. Please explain each table.

A. Exhibit ___ (GRP-2), Table 1, shows, by service classification, the Rate Year annual service class revenues at current October 1, 2012 rates, the Rate Year annual service class revenues at the proposed rates, and the resulting increase in Rate Year service class revenues. Also shown is the number of customer bills that would have been increased in the Rate Year
based upon customer data for the 12-month period ended June 30, 2012. The current and proposed annual revenues include the effect of the Rate Year forecasted GCF and MRA, MFC, System Benefits Charge and the Regulatory 18-a Assessment, and also include appropriate gross receipts tax factors for both firm sales and firm transportation customers.

Exhibit__ (GRP 2), Table 2, shows a comparison of the current firm rates and charges, effective October 1, 2012, with the proposed firm rates and charges, for SCs 1, 2, 3, 9, and 13.

Exhibit__ (GRP 2), Table 3, shows monthly bill comparisons by service class, at the October 1, 2012 rates and at the proposed rates.

Exhibit__ (GRP 2), Table 4, shows a comparison of average monthly bills by service class, for the 12 months ending December 31, 2014, 2015 and 2016.

**GAS RATE DESIGN AND ANALYSIS SYSTEMS**

Q. Is the Gas Rate Panel proposing any systems initiatives?

A. Yes. We are proposing to enhance a support initiative titled Gas Rate Design and Analysis Systems which we refer to as the Customer Usage System ("CUS").

Q. Please explain the CUS initiative.
A. The CUS initiative commenced in 2010. It included the replacement of a legacy reporting system called the gas Rate Engineering and System Planning Integrated System ("RESPIN" or the "current system"). The RESPIN system hosts 26 months of clean billing history and is used for rate analysis, including bill impacts, and load study. The gas phase of the original CUS project is close to completion. However, the Company is planning several enhancements in 2014.

Q. What enhancements to the original project are you proposing?

A. The enhancements include: (1) special reporting to support dual-fuel and other non-firm service offerings, (2) enhancements to the bill impact process to eliminate reliance on RAMIS code, which is no longer supported, and (3) updates to Dynamic Load Shaping ("DLS") to incorporate upgrades to gas billing and/or gas interval data input systems.

Q. Why are these enhancements necessary?

A. The CUS system, which is replacing RESPIN, utilizes data warehouse technologies to interface and store billing data retrieved from the Company’s Customer Service System and employs server-based database technology that permits more user-friendly access
tools. Before RESPIN can be retired and replaced by CUS, several reports and interfaces that were deemed to be out of scope for the previous phases of the project and were not in the original funding need to be developed in the new system. The Company is projecting expenditures associated with the design, analysis and testing of these reports as well as to retrofit the DLS system to interface with CUS rather than RESPIN.

Q. Please discuss the timeline and funding associated with the continuation of this project.

A. The new system is budgeted as a software-related capital project with total additional expected expenditures of $600,000. The expected expenditures are $275,000, $200,000, and $125,000 in 2014, 2015 and 2016, respectively.

Q. Have you prepared, or had prepared under your supervision, an exhibit that details this project?

A. Yes. We have prepared an exhibit entitled “Gas Rate Design and Analysis Systems Enhancements,” Exhibit (GRP-3).

MARK FOR IDENTIFICATION AS EXHIBIT (GRP-3)

TARIFF CHANGES

Q. Are you proposing any other tariff changes?
A. Yes. First the Company is proposing to extend the end date for Rider I, the Gas Manufacturing Incentive Rate ("MIR").

Q. Please explain the reason for this extension.

A. The MIR was established in 2004 and resulted from discussions with the City of New York to establish incentives for certain non-residential manufacturing customers in the Company’s service territory to either establish new gas load or increase their gas load in accordance with guidelines in the Rider. The program was funded by $3 million of deferred pipeline refunds. To date, no customer has participated in the program, and none of the $3 million of deferred pipeline refunds has been spent. However, the Company anticipates that a small group of customers will qualify for the program in the near future. Therefore the Company is proposing to extend the MIR program through an end date of December 31, 2018 in the event that these customers qualify and elect to participate. However, the Company sees no reason to extend the current deadline to apply for the program beyond September 30, 2013. In addition, in accordance with the Gas Accounting Panel testimony, the Company will be returning the deferred amount to firm customers.
over three years. However, if any customers apply by the September 30, 2013 deadline and become program participants, the Company will adjust the refund credit accordingly.

Q. Are you proposing to change the rates for handling costs and corporate overheads?

A. Yes. As described in the Gas Accounting Panel testimony, the Company is proposing to update the percentages used for handling costs and for corporate overheads found in the definition of costs associated with Special Services in the General Information Section IV.2. (B) and (F), P.S.C. No. 9 – Gas (Leaf 117). The current leaf specifies material handling charges of 14.5% of the average actual storeroom price and corporate overhead for engineering, drafting, administration, and inspection at 20% of the five related items (i.e., labor, materials, transportation vehicles, contractor work/vendor bills, and use of large tools/equipment); provided, however, that corporate overhead is 4% when engineering or drafting is separately stated. The revised leaf indicates that the handling costs are 7.5% and the corporate overhead is (a) 10% for engineering and drafting, unless the labor cost for those services is separately stated or
was already charged on a prior invoice, (b) 14% for
construction management, if applicable, and (c) 3% for
administration.

Q. What is the next tariff change you are proposing?
A. The Gas Rate Panel is sponsoring tariff changes
associated with program changes being offered by other
company witnesses as follow:

- As discussed in Company Witness Carnavos’s testimony
  we are proposing to modify tariff provisions for the
calculation of the factor of adjustment to be
included in the monthly Gas Cost Factor, in the Gas
Cost Factor Annual Surcharge or Refund Adjustment
(General Information Section VII).

Q. What other tariff changes are being sponsored by the
Gas Rate Panel associated with program changes being
offered by other Company witnesses?
A. The following additional Gas Rate Panel sponsored
tariff changes are based on program changes from other
Company witnesses:

- As discussed in the Gas Forecasting Panel’s
testimony, we are proposing to modify the RDM
treatment for (1) customers converting from #4/#6
oil to firm gas, and (2) the usage above the
baseline usage for customers being served under the Excelsior Jobs Program (“EJP”). Specifically, we are proposing to include #4/#6 oil converting customers in their respective RDM groups; with regard to EJP customers, in addition to usage up to the baseline usage, which is currently included in the RDM, we are proposing that EJP customers' usage in excess of their baseline usage also be included in their respective RDM groups. Such customers will become part of the calculation of the annual Revenue Per Customer targets for their specific group.

- As discussed in the Gas Infrastructure and Operations Panel testimony, we are proposing to apply a minimum charge to all firm dual fuel customers taking service under SC 2 and SC 3. The dual-fuel minimum charge provisions currently require any firm customer who has dual-fuel capable equipment, and whose estimated Annual Allocation or actual annual use is equal to or greater than 100,000 therms per year, to pay a minimum charge based on 2/3 of 100,000 therms. This tariff change will subject all dual-fuel firm customers to a minimum charge and eliminate the current cap on the minimum charge for new dual-fuel firm customers.
• As discussed in the Gas Non-Firm Services Panel testimony, the following changes will be made to the tariff provisions included in SC 12 and to similar provisions in SC 9 (for purposes of this discussion, SCs 12 and 9 are considered the same):

  - SC 12 Rate 1 service will no longer be distinguished by priorities. All Rate 1 customers will be served under the same sets of rates;

  - the rates will be in the form of a block rate structure with a minimum monthly charge and two additional rate blocks based on monthly usage;

  - the annual reconciliation will be based on firm delivery rate components but no SC 12 Rate 1 customer will pay less than the minimum monthly charge;

  - new interruptible Rate 1 customers will have to have a minimum annual usage of 100,000 therms to be eligible for the rate; and,

  - SC 12 Rate 2 service will have a simpler rate structure, eliminating the need for contracts that specify rates for one-, two- or three-year terms.
Also, as further discussed in the Gas Non-Firm Services Panel testimony, the Gas Tariff is being modified to (1) include a provision instituting a Gas Transmission Reinforcement Charge, affecting power generation customers served under SC 9 of the Gas Tariff and the Steam Operations department, which operates facilities on our system that produce steam and electricity, and (2) increase, for the Rate Year, the sharing percentage applicable to firm customers for Non-Firm Revenues above the target amount of $58 million from 75 percent to 80 percent, assuming adoption of the proposed changes in the interruptible rates.

As discussed in detail in the testimony of the Gas Infrastructure and Operations Panel, the Company is proposing to modify the rules for Company cost responsibilities under the Installation of Mains and Services tariff provisions, to be consistent with the Commission’s rules for electric line extensions to multiple dwellings. The Company’s proposal will limit the Company’s cost responsibilities for material and installation costs for main extensions to multiple dwellings and groups of attached
townhouses with individually-metered apartments, which in Con Edison’s service territory must include space-heating uses, to up to 100 feet of main multiplied by the average number of dwelling units per floor or the average number of dwelling units in the group of attached townhouses. Currently, Company cost responsibilities for main and service installations follow the Commission’s regulations, which refer to a “residential applicant.” This may be an individual occupying a single dwelling unit with a resident-controlled gas-fired heating unit in a multiple dwelling. If the gas main extension entitlement is calculated on the total number of dwelling units in the building or buildings in an apartment complex, the Company’s cost responsibility for the main extension to be provided without charge under the current Commission gas main extension regulations may unreasonably burden other ratepayers.

Q. With regard to the changes being made to the interruptible program, are you proposing any additional tariff changes?

A. Yes. For new interruptible customers meeting the minimum eligibility requirement of using 100,000
therms annually, we are adding tariff provisions that will require such customers to maintain a minimum annual usage of 90,000 therms for two consecutive years to maintain eligibility to be served as an interruptible customer.

Q. Why are you proposing this tariff change?

A. This tariff change will supplement the minimum requirement provision by also establishing requirements for continued eligibility to be served on interruptible rates.

Q. Are you also proposing to modify the tariff provision applicable to the Gas Facility Cost Credit included in General Information Section IX, Special Adjustments?

A. Yes. Under the Gas Facility Cost Credit provision, firm sales and transportation customers are credited monthly, over a 12-month period, through the Monthly Rate Adjustment Statements, for net benefits received from the City of New York for gas facility costs. This provision provides for the Company to compare the amount of the net benefit to the actual net benefit credited to customers on a monthly basis and to apply any required adjustment to the Statement in the second month following the comparison. The Company has found that the variation between the net benefit and the
actual benefit has been de minimis over time and that
the largest variations have been in the 2-3% range.
Thus, the proposed tariff modification will change the
reconciliation to an annual basis.
Q. Are you proposing to modify the tariff provisions
regarding the proration of monthly rates and charges
included in General Information Section III.8?
A. Yes. We are clarifying the existing provision and
adding tariff provisions that explain how rates and
charges are applied to bills.
Q. Please describe any housekeeping changes you are
making.
A. The following housekeeping changes are being proposed:
- The Company is proposing to change an erroneous
reference found in the General Information Section
III 5 (B). The seventh unnumbered paragraph of that
tariff section discusses customer responsibility for
certain piping and equipment from the point of
service termination into the premises served. This
provision contains an exception for General Rule III
3 (B), which requires the utility to furnish, place
and construct mains and service lines. The
referenced exception is not relevant to what piping
and equipment the customer must provide within the
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1 premises. In addition, General Rule III 5 (B) also
2 requires the customer to notify the Company of any
3 gas leak or damage to “the pipe,” whereas General
4 Rule III 6 (B) makes the Company responsible to
5 repair or replace service lines on the Customer’s
6 property when any “leakage, damage or escape of gas”
7 occurs. Therefore, the Company proposes to change
8 the reference to General Rule III 3 (B) to a
9 reference to General Rule III 6 (B) to recognize the
10 Company’s responsibility for the service line on
11 private property as an exception to the customer’s
12 responsibility for its service piping;
13 • As a result of the Excelsior Jobs Program, no new
14 applications are being accepted for the Economic
15 Development Zone program, which will sunset at the
16 end of 2020. Language to that effect is being added
17 to Rider G, Economic Development Zone; and
18 • Housekeeping changes are being made to various
19 leaves to correct erroneous references and
20 formatting issues.
21 Q. Are you proposing any changes to the Rate Adjustment
22 Clause (“RAC”) mechanism?
A. Yes. As indicated in the testimony of Company Witness Muccilo (Gas Accounting Policy), the Gas tariff (Leaf 183.1) has been revised to indicate that amounts subject to refund pending Commission determination in Case 09-M-0114 will be limited to amounts collected through December 31, 2013, and shown on the Statements of Rate Adjustment.

MARGINAL COST STUDY

Q. Did you perform an analysis of the marginal cost of delivering an additional therm of gas on the transmission and distribution system?

A. Yes. The analysis is shown on Exhibit ___ (GRP-4), "CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – GAS MARGINAL TRANSMISSION AND DISTRIBUTION COST ANALYSIS."

Q. Was this exhibit prepared under your direction or supervision?

A. Yes.

MARK FOR IDENTIFICATION EXHIBIT ___ (GRP-4)

Q. Please describe the exhibit.

A. Exhibit ___ (GRP-4) shows the steps in the calculation of the marginal cost of delivering an additional therm of gas on Con Edison’s gas transmission and distribution system.

Q. What period was used to calculate marginal costs?
A. We used the forecast period of five years from January 1, 2013, through December 31, 2017. This includes the Rate Year.

Q. Please define marginal T&D costs.

A. Marginal T&D costs are the costs associated with additions and modifications to the T&D system infrastructure that result from increased throughput due to increased sales. This does not include costs associated with service piping or any equipment inside the customer’s premises.

Q. How did you estimate the marginal T&D costs for this study?

A. First, we identified capital costs incurred for the T&D system to maintain reliable service under peak design conditions as a result of increased sales. Line 1 in Exhibit ___ (GRP-4) shows the projected average annual capital investment in the T&D system for the years 2013-2017 that results from increased sales. Next, we calculated the annualized costs associated with the average annual capital costs by applying a carrying charge of 9.63%, plus an additional 3.28% in annual O&M, to line 1. The final step in our analysis was to compute the average T&D capital costs per unit of increased sales by dividing
the incremental annualized capital costs by the
projected increase in annual firm sales and escalating
the result to bring it to Rate Year dollars. Lines 6 of Exhibit ___ (GRP-4) show the computed projected
increase in firm sales (in therms); Line 7 shows the
general escalation factor; and Line 8 shows the
resultant total average marginal T&D cost per unit of
increased sales.

Q. What is the conclusion of the marginal cost analysis
you are presenting?

A. Exhibit ___ (GRP-4) indicates that, in general, the
proposed delivery rates exceed the marginal cost of
transmission and distribution.

Q. Does this conclude your testimony?

A. Yes.