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Introduction

Q. Please state your name and business address.
A. My name is Robert Muccilo. My business address is 4 Irving Place, New York, N.Y. 10003.

Q. 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 Vice President and Controller. In this position I am the Company’s chief accounting officer with the overall responsibility for the accuracy and consistency of the Company financial accounting records.

Q. Briefly state your educational background.
A. In 1978, I graduated from Jersey City State College with a Bachelors Degree in Accounting. I graduated from Fairleigh Dickinson University in May 1983 with a Master Degree in Corporate Finance.

Q. Please explain your work experience with Con Edison and your current primary responsibilities.
A. I began my employment at Con Edison in June 1978 and, from that time until 1998, I worked in the General Accounts and Accounting Research and Procedures ("ARP") sections of Corporate Accounting in increasing levels of responsibility up to and including Manager.
of ARP. In 1999, I was promoted to Assistant Controller, responsible for General Accounts and ARP. In 2002, I assumed the responsibilities for Financial Forecasting and Budgets and Electric Revenue and Volume Forecasting sections of Corporate Accounting, and in 2003 continuing through 2006, I assumed the additional responsibility of Regulatory Accounting and Regulatory Filings sections of Corporate Accounting. As part of a career developmental opportunity, in 2006 I assumed the position of General Manager, Stores Operations where I was responsible for operating and managing the central warehouse and distribution facility for electric, gas and steam materials. In April 2008, I returned to Corporate Accounting to assume a special assignment as Assistant Controller and team leader for the Finance Transformation Project. The team was responsible for implementing process, people, and system changes designed to minimize financial reporting risk. I have also served on and led several corporate teams, including the establishment of the Holding Company corporate structure and the Orange and Rockland (“O&R”) Merger Transition Team.
Q. Have you been involved in industry-wide utility issues?

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

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

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

**Purpose of Testimony**

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

A. My testimony will cover the following topics:

- First, I will provide an overview of the revenue requirement factors that have resulted in the Company filing for a rate decrease for the twelve months ending December 31, 2014 (“Rate Year”) as shown in Exhibit __ (RM-1), including the Company’s plans to make investments of approximately $1 billion in storm hardening of our electric, gas and
steam infrastructure over the next four years, and
the Company’s efforts that have contributed to that
result;
- Second, I will discuss the Company’s proposal for a
Weather Normalization Adjustment Clause ("WNA");
- Third, I will discuss how the Company proposes to
apply the provisions of the current steam rate plan
to the three-month “stub” period covering October
1, 2013 through December 31, 2013. This is the
period between the end of the third rate year of
the current steam rate plan (i.e., September 30, 2013) until steam base rates would be reset as a
result of this filing (i.e., January 1, 2014);
- Fourth, I will outline the Company’s request to
continue currently authorized deferred accounting
for a variety of items and purposes, address
Company proposals to modify or eliminate some of
the deferral or reconciliation mechanisms and
address new items for which the Company believes
deferral accounting or reconciliation is
appropriate. This includes a description of an
accounting and ratemaking process that the Company

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proposes be authorized to facilitate investments
designed to “harden” the Company’s steam system to
provide for greater resilience to severe weather
conditions;

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

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

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

- Eighth, I will address regulatory reforms the
  Company is actively supporting that, if adopted,
  would lower Company costs without impairing the
  level of service provided.
I. **Overview of Company’s Revenue Requirement and Cost Mitigation Measures**

A. **Costs and Credits Reflected in the Revenue Requirement**

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

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

The Company has taken significant steps to instill a cost-management culture that pervades management of all aspects of its operations starting with long range planning, project prioritization and optimization continuing to short term budgeting and culminating in daily implementation as is addressed by many Company witnesses. While there are a number of significant increases in the Company’s costs of providing service that are, for the most part, outside its control, cost
mitigation efforts by the Company and the availability of credits for the benefit of customers have resulted in the Company being in a position to provide for reduced rates to the extent reflected in this filing. As is described throughout this filing, the Company continues to mitigate costs – some to be realized in the short term and some in the longer term – some that can be more specifically quantified or estimated than others, and some that are avoided increases rather than savings from current levels. Many increases in costs, however, are outside the Company’s direct control, cannot be mitigated or offset to a degree the Company can absorb without significantly curtailing or eliminating necessary programs, negatively affecting overall service quality, jeopardizing the Company’s ability to provide reliable service and failing to provide a reasonable return to investors. Nonetheless, circumstances at this time enable the Company to propose a base rate reduction.

Q. Please summarize the steam base rate and any non-base rate bill reductions that are anticipated.

A. Our submission for steam service proposes a $5.4 million decrease in base rates for our 1,800 steam
customers in Manhattan. This decrease is on top of a reduction of up to an estimated $66 million in fuel cost savings as a result of two Company steam generating plants converting from fuel oil to gas during 2013. These delivery rate and fuel cost reductions reflect the proactive approach the Company has taken to reduce overall steam system costs and their combined effect is equivalent to an overall decrease in customers’ bills of approximately 10.1%. The overall decrease is 13.8% considering the elimination in October 2013 of the $32 million temporary surcharge included in the levelized rates for the last rate year of the current steam rate plan. In addition, the one percent temporary portion of the Public Service Law § 18-a surcharge is scheduled to expire March 31, 2014. The annual surcharge is revised each year and billed over a twelve-month period that runs from July through June. As a result, the Company estimates that customers will realize approximately $4 million of additional savings during the last six months of the Rate Year and customer savings will then be $8 million annually. As discussed later in my testimony, the $5.4 million
reduction does not reflect the impact of additional planned storm hardening expenditures in 2014 of approximately $26.5 million or the additional rate base reduction that will be available due to the extension of bonus depreciation.

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

A. In late October 2012, Superstorm Sandy caused extensive damage to the Company’s steam system. To restore service to customers and repair the steam system, the Company has or will incur substantial costs. The Company has reflected recovery of $10 million of costs over three years in this filing and will petition the Commission for authorization to defer these incremental costs.

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

A. The Company’s Steam Infrastructure and Operations Panel addresses Company plans to make storm hardening investments in 2013 through 2016. All of the projected storm hardening investments are reflected in the revenue requirements developed for the Rate Year and for two additional years for illustrative
purposes, with the exception of approximately $26.5 million in 2014, which we will reflect in the Company’s update to be submitted later in this proceeding.

Q. What factors are the principal factors contributing to the determination that a $5.4 million base rate decrease is possible?

A. There are several. They are summarized in the following table. Additional detail is shown in Exhibit __ (RM-1) entitled “CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. – MAJOR ITEMS DRIVING RATE DECREASE” which was prepared under my supervision and direction.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Amount ($ millions)</th>
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<tr>
<td>Amortization of net Deferred Credits</td>
<td>(17)</td>
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<tr>
<td>Carrying Cost of Infrastructure Investments</td>
<td>(13)</td>
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<tr>
<td>Lower Operating Expenses</td>
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<td>Higher Deduction for Removal Cost</td>
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<td>Lower Property &amp; Other Taxes</td>
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<td>Lower Steam Sales Revenues</td>
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<td>Pension/OPEB &amp; Employee Welfare Expenses</td>
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<td>Book Depreciation Changes</td>
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<td>Higher Cost of Capital</td>
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<td>Lower Intercompany Rents / Late Payment Charges</td>
<td>5</td>
</tr>
<tr>
<td>Other Items</td>
<td>(4)</td>
</tr>
<tr>
<td>Decrease</td>
<td>$(5.4)</td>
</tr>
</tbody>
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Q. Please discuss the first item contributing to the rate
decrease of $17 million for the amortization of
previously deferred items.
A. Current steam rates include the amortization of net
deferred charges of approximately $7 million per year.
In this filing the Company is proposing to amortize
net deferred credits instead, at approximately $10
million per year. The net impact of the change in
annual amortization of deferred items reduces the
revenue requirement in the Rate Year by approximately
$17 million.

The deferral accounting and ratemaking approach is
intended to protect the interests of customers and
investors by avoiding a “windfall” for one or the
other. Customer credits are comprised of property tax
deferrals of approximately $5 million, cash flow
benefits from bonus depreciation of approximately $6
million, Section 263A capitalized overheads and the
repair allowance tax deduction of $2 million.

Interest due to the true-up of the Company’s weighted
average cost of long term debt accounts for $2 million
of customer credits and recoveries from former
employees and contractors contribute another $1
Similarly, the deferral accounting and ratemaking approach gives rise to deferred charges to be recovered comprised primarily of $2 million of Site Investigation and Remediation ("SIR") costs related to former manufactured gas plant ("MGP") and Superfund sites and lower-than-projected proceeds from the sale of SO2 allowances of $1 million. Resetting what is currently an excess imputation of SO2 allowance credits is expected to increase the Company’s revenue requirement by $0.3 million. SIR costs are projected to result in a $0.4 million increase of the Company’s revenue requirement, including the effect of an amortization period adjustment from ten to five years that I will address later in my testimony. In addition, as I indicted earlier, recovery of approximately $3 million per year related to incremental costs incurred as a result of Superstorm Sandy are also included.

On a net basis, the amortization of deferred costs and credits serves to reduce the revenue requirement by $17 million when compared to the level reflected in current rates.
Q. Please discuss the status of the Company’s efforts to recover costs related to the World Trade Center incident.

A. The Company’s efforts to obtain recovery of costs incurred for restoration of facilities damaged as a result of the attack on the World Trade Center have resulted in the mitigation of the rate increase. To date, the Company has recovered approximately $400 million through lawsuits, insurance recoveries and from the federal government. These recoveries combined with the amount of costs funded by customers have offset the deferred restoration costs leaving about $400,000 available to be credited to steam customers, which the Company proposes to do over three years. To the extent additional litigation costs are incurred and/or proceeds are awarded from the pending lawsuits, the Company proposes to continue to defer these costs and proceeds until all of these matters are resolved.

Q. What is the current and projected net balance of deferred items?

A. As shown on the Accounting Panel Exhibit ___(AP-9), Schedule 4, at June 30, 2012 the net balance was $20
million with deferred charges exceeding deferred
credits by that amount. This net deferred charge
balance is projected to become a net deferred credit
balance of $26 million at December 31, 2013. The
three items that are driving this shift are
anticipated property tax deferrals, adjustments to
defered pension costs, and cash flow benefits from
the bonus depreciation and repair allowance tax
deductions.

Q. Please discuss the component of the rate change
relating to plant additions listed on Exhibit __ (RM-
1).

A. It is necessary to continue to maintain a safe and
reliable system. As discussed by the Company’s Steam
Infrastructure and Operations Panel, the projected
level of spending reflects the investments determined
to be necessary due to replacement of aging
infrastructure, current customer needs and planning
for future customer needs. Capital spending decisions
are made following extensive and rigorous analysis
including an optimization assessment and are guided by
long and short term planning processes. The net
change to the revenue requirement related to carrying
costs of plant is a $13 million reduction from current rates. Several factors are involved. The ongoing need for capital investment and new investments to address storm hardening is being offset by depreciation accruals on existing plant. While the net increase in the carrying cost on new plant is approximately $5 million, this amount reflects additional depreciation expense of $6 million on the new plant investment at the Company’s currently authorized depreciation rates. There is also a reduction in rate base attributable to ongoing recoveries of the significant plant investments made at the East River Plant several years ago. The overall change in rate base resulting from new infrastructure investments has been reduced by two additional factors. First, the impact of deferred tax benefits related to bonus depreciation, repair allowance deductions and Section 263A-capitalized overheads which reduce financing costs by $8 million in the Rate Year. Second, the transfer of the land and the undepreciated cost of the retired Hudson Avenue Generating Station (“Hudson Avenue Station”) structures and equipment from steam to electric, as
discussed later in my testimony, reduces the steam revenue requirement by $10 million. The overall impact of infrastructure investment, therefore, decreases the revenue requirement by $13 million.

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

A. Yes. As indicated above, the Company’s electric, gas and steam contemporaneous rate filings demonstrate a Company commitment to this objective made immediately following Superstorm Sandy. As detailed by the Company’s various infrastructure panels, the Company’s capital programs were adjusted to reflect approximately $1 billion of storm hardening projects in 2013, 2014, 2015 and 2016 as a substantial step to strengthening the Company’s infrastructure against future weather events. Consistent with the Company’s continuing efforts to mitigate costs and thereby provide safe and reliable service in the most cost effective manner, some of the planned investments for 2013 will be made in lieu of previously planned
expenditures that the Company determined can be reasonably deferred to a future period. The revenue requirement will be updated at the appropriate stage of this proceeding to reflect the additional investment of $26.5 million for storm hardening. This update would be accompanied by various other updates as is common practice. In this case, the updates would include consequences of the recently enacted Taxpayer Relief Act of 2012 such as the additional rate base reduction that will be available due to the extension of bonus depreciation.

Q. Please discuss the effect of O&M expenses on the revenue requirement.

A. A net reduction in O&M expenses of $9 million is contributing to the lower revenue requirement. The closure of the Hudson Avenue Station has significantly decreased O&M expenses. In addition, reduced O&M expenses for the Ravenswood Generating Station ("Ravenswood") A House that have resulted from using Company forces to perform the work, reduced water treatment expenses, corrective maintenance and other expenses amount to $15 million. These O&M savings are partially offset by $3 million related to completing
the phase-out of excluding O&M expenses from rates by 
austerity imputations under the current rate plan, and 
lower interdepartmental rents from the electric 
department.

The details of labor costs reflected in this filing 
are addressed by the Company’s Accounting Panel. 
Included are contractually required wage increases for 
union employees and a reasonable management wage 
increase along with a one percent productivity 
imputation as a reduction of otherwise expected labor 
costs. The labor cost reflected in the revenue 
requirement includes funding for the variable portion 
of non-officer management employee labor costs, which 
was excluded from rates during the current rate plan. 
The Company’s Compensation and Benefits Panel 
demonstrates the reasonableness of the Company’s 
compensation of its weekly and management employees, 
which supports including the variable portion of non-
officer management pay in the revenue requirement. I 
would note that despite the reasonableness of 
management employee compensation, the Company has 
elected for purposes of this proceeding without 
prejudice to the Company’s position in any future
proceeding, to forgo requesting recovery of the cost of the longer term performance-based equity grant portion of management compensation.

Q. Please discuss the decrease to the revenue requirement related to property and other taxes.

A. The revenue requirement effect of property taxes is projected to be relatively flat at $2 million less than the level included in current rates. The projection is discussed by the Company’s Property Tax and Depreciation Panel. The Company’s efforts to minimize property taxes in New York City are ongoing and are discussed in greater detail by that Panel. Income taxes decreased by $4 million due to higher projected “flow thru” tax deductions for removal costs.

Q. What effect do projected steam sales revenues have on the revenue requirement?

A. As discussed by the Steam Forecasting Panel, the Company is projecting $4 million less net revenue compared to the level assumed in current rates serving to increase the revenue requirement. I would note that while the forecast is in line with the forecast used in the current rate plan for the third rate year,
actual sales revenues for the twelve months ended September 30, 2012, the second rate year of the current rate plan, were approximately $45 million less than levels forecast in current rates. As explained by the Steam Forecasting Panel, the lower sales revenues can be attributed to the much warmer than normal 2011-2012 winter.

Q. Turning now to elements of cost that require an increase in the revenue requirement, please explain the effect of pensions and OPEBs.

A. The Company is faced with a number of increasing costs, many of which cannot be directly controlled by Con Edison. Employee pension and other post employment benefit (“OPEB”) costs are an example. Those costs have increased primarily as a result of the current interest rate environment and have a $7 million effect on the revenue requirement in this filing. Low long-term interest rates manifest themselves in the discount rate that is used to calculate the Company’s pension obligation. Based on information that was available in early December, the Company’s actuary used a 4.0% discount rate when computing the Company’s pension expense for the Rate
Year. This change, when compared to the discount rate used for calendar year 2012, increased the Company’s estimated pension cost for the Rate Year by approximately $4 million. Due to Company efforts to restructure its Voluntary Employee Benefit Association (“VEBA”) plans for its OPEBs, however, that cost has been reduced for the Rate Year by $2 million. The change involved the way Medicare Part D prescription reimbursements are handled. Beginning in 2013, an employer’s tax deduction was reduced to the extent the employer’s drug expenses are reimbursed under the Medicare Part D retiree drug subsidy (“RDS”) program. Previously, such reimbursements were not taxed. As a result of this change, the Company will redirect the Medicare Part D RDS to an Employer Group Waiver Plan (EGWP), which would not be subject to the same tax treatment and thereby avoid an increase in this cost to the Plan. The OPEB projections also reflect the reduction, and in some cases elimination, of the life insurance benefit to be paid to the estates of Management and Weekly retirees effective January 1, 2013. The Company’s Compensation and Benefits Panel
further explains the initiatives used to mitigate pension and OPEB costs. As it has been customary in previous rate case proceedings, the Company will update pension and OPEB costs, reflecting updated information received from the Company’s actuary, Buck Consultants, during the update stage of this proceeding.

Q. Do other aspects of employee benefit costs cause an increase in the Company’s revenue requirement?

A. Yes. Employee welfare expenses require a $4 million increase to rates. Under the current rate plan, health benefit costs were set at levels reflecting general rate of inflation increases, approximately 2% per year. As explained by the Company’s Compensation and Benefits Panel, general inflationary growth is not the proper escalator for this material cost. Simply applying a cost escalation factor does not recognize that a significant portion of the projected increase is due to changes in health care coverage law, the demographics of those covered by the Company’s benefit plan and increased usage of benefits by employees covered by the plan, among other factors, which support a higher expected rate of growth for this
Q. Exhibit __ (RM-1) indicates an increase in
depreciation expense of $12 million, please explain.
A. The increase in depreciation expense is the result of
changes in depreciation rates proposed by the
Company’s Property Tax and Depreciation Panel based on
a study of the appropriateness of the depreciation
rates currently authorized for use. The updated
depreciation rates result in increased depreciation
expense when applied to the projected plant investment
for the Rate Year. I would note that this amount is
stated in terms of its impact on the revenue
requirement so it includes adjustments to reflect
associated federal income taxes.
Q. Please continue by discussing capital costs.
A. Factors contributing to higher capital costs include
an increase of the cost of equity. The return on
equity ("ROE") that is being requested and recommended
by Company witness Hevert is 10.35%. The 10.35% ROE
represents an increase of 75 basis points from the
9.6% ROE reflected in the current rate plan and
accounts for approximately $9 million of the requested
rate change. Also contributing to the proposed change
in rates is a change in the equity ratio from 48% to 49.9%, which is representative of the Company’s current equity ratio. The redemption of preferred stock in 2012 and lower debt costs significantly mitigate capital costs.

Q. Please explain your earlier reference to lower interdepartmental rents from the electric department.

A. The carrying charges billed to the electric department for the East River Repowering Project (“ERRP”) will continue to decrease over time as the steam department recovers its investment in this plant each year through depreciation charges. Rents for the jointly used common areas at the 59th and 74th street stations have been updated and are decreasing by approximately $1.5 million, from $6.5 million to $5.0 million as explained by the Steam Infrastructure and Operations Panel.

B. Cost Mitigation Measures

Q. Has the Company taken steps to reduce its revenue requirement?

A. Yes. The Company has taken numerous measures to keep costs at the lowest practical level without adversely affecting service quality or reliability. It is a
Company-wide imperative to proactively seek ways to responsibly reduce costs.

I have mentioned several already during my explanation of cost increases and decreases resulting in the amount of the rate decrease being proposed in this filing. Examples are (i) aggressively pursuing recovery of costs associated with the World Trade Center matter and succeeding to the point that funds are available in this proceeding to more than offset remaining deferred costs and provide a credit to customers; (ii) the significant savings due to the restructuring of VEBA plans (I would also note by adopting a Cash Balance pension formula for newly hired Local 1-2 union employees); (iii) reduced production O&M expenses from the closure of the Hudson Avenue Station and at the Ravenswood A House; (iv) sound financial management such as the redemption of the Company’s preferred stock serving to reduce financing costs and (v) successful efforts to reduce property tax assessments. These efforts and successes and others as well as embedded practices that have served to avoid unnecessary costs are described by various witnesses including the Steam Infrastructure
and Operations Panel, the Shared Services Panel, the Municipal Infrastructure Support Panel, the Compensation and Benefits Panel, the Property Tax and Depreciation Panel, the Management Audit Panel, Company witness Price as to environmental costs and the Steam Fuel Panel as to fuel costs. These efforts are also consistent with implementing the element of the Cultural Imperatives, as described by the Management Audit Panel, to reinforce cost management consciousness. Various witnesses discuss the implementation of the Cultural Imperatives with respect to their areas of operations.

II. Steam Weather Normalization Clause

Q. In the Company’s last steam rate filing, you sponsored a Company proposal for the Commission to adopt a Steam Revenue Adjustment Mechanism (“SRAM”) commencing with the effective date of new rates. Are you sponsoring such a proposal in this rate filing?

A. No, I am not. The Company does continue to believe that the principles espoused by the Commission for revenue decoupling for electric and gas service are equally applicable to the Company’s steam service.
However, the Company decided to refrain from making a steam revenue decoupling proposal in this steam case in order to minimize the number of matters at issue in this proceeding.

Q. Is the Company making an alternative proposal in this proceeding?

A. Yes. The Company is proposing that the Commission adopt a weather normalization clause for steam service.

Q. Why are you proposing the Commission adopt a weather normalization clause?

A. As advised by the Company’s Steam Forecasting Panel, future weather is clearly beyond the ability of the Company, Staff or any other party to reasonably forecast. Accordingly, any steam sales forecast is subject to material variation from actual customer usage, up or down, solely as a result of actual temperatures being above or below normal temperatures. Accordingly, steam customers and the Company are subject to increases or decreases in costs and revenues respectively, for circumstances outside both the Company’s and customers’ control.

Q. Have there been material variations from normal
weather in recent years?

A. Yes. The Steam Forecasting Panel advised me that the winter of 2010/2011, over the November – April billing months, was 7.2% colder than normal while the winter of 2011/2012 was the warmest winter on record, with weather 29.2% warmer than normal. The Steam Forecasting Panel also explains the impact of weather variations on the calculation of steam earnings pursuant to the terms of the current steam rate plan, where the Company is required to calculate its earnings for each rate year to determine whether there are earnings above the earnings threshold.

Q. Are revenues for the Company’s electric and gas services currently subject to adjustment for weather?

A. Yes. The Company’s electric revenues are normalized in the context of the electric revenue decoupling mechanism, including for weather. The Company’s gas revenues are normalized pursuant to a weather normalization clause that complements the gas revenue decoupling mechanism. The normalization of revenues for weather is consistent with the Commission’s adoption of reconciliation mechanisms for circumstances that have
material impacts beyond the Company’s control and/or circumstances that are not subject to reasonable estimation for purposes of setting rates. The uncertainty of weather meets both criteria.

Q. Is there a basis for treating steam differently from electric or gas with respect to weather normalization? 

A. In my opinion, no. Parties have argued that steam revenues should not be subject to a revenue decoupling mechanism because steam does not have an energy efficiency program comparable to the programs in place for electric and gas service. Without debating the merits of that argument, it provides no reasonable basis for treating steam differently from electric or gas with respect to weather normalization. Moreover, weather normalization of the Company’s gas revenues was in place long before the implementation of gas revenue decoupling.

Q. If steam revenues are weather-normalized, will steam customers still benefit from warmer than normal winter weather? 

A. Yes, they will. During a warmer than normal winter, customers will benefit from lower fuel charges, which are not reconciled through the proposed weather
Q. When do you propose that steam weather normalization take effect?

A. Steam weather normalization should take effect coincident with the effective date of new rates established in this proceeding. The details of the mechanism, which are modeled after the currently-effective gas weather normalization clause, are discussed by the Company’s Steam Forecasting Panel.

III. Application of Current Steam Rate Plan Provisions

Q. The Company’s current steam rate plan, adopted in Case 09-S-0794, has a term that ends September 30, 2013, is that correct?

A. Yes. However, because the Company has delayed filing to change base rates for three months, there will be a “stub” period (i.e., a period shorter than a full year) during which the terms of the rate plan will continue, from October 1, 2013 through December 31, 2013.

Q. Please explain how the current steam rate plan reflects the Company not filing for new base rates to be effective immediately following September 30, 2013.
A. Under the current steam rate plan, unless otherwise expressly provided, the provisions of the current rate plan continue after September 30, 2013 unless and until steam base delivery service rates are changed by Commission order. The current rate plan does not expressly provide for termination of any provision at the end of the third rate year so all provisions will continue beyond September 30, 2013.

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

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

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

- Property Taxes;
- Municipal Infrastructure Support;
- Pensions/OPEBs;
- Medicare Part D Reimbursements;
- Environmental Remediation;
- Long Term Debt Cost Rate;
- Research and Development Expense;
- World Trade Center Costs; and
- SO2 Allowance Sales Proceeds

Specifically, the Company will use 1/12 of the annual Current RY3 targets each month of the partial year in the reconciliation calculations for the above items. Regarding pensions and OPEBs, it should be noted that the applicable Current RY3 target is the amount of pension and OPEB expense before it was adjusted in Case 09-S-0794 to levelize the rate increase over the rate plan’s three-year term.
As to rate base items, (1) for the Average Net Plant-In-Service reconciliation, if the actual average net plant balance for the period of October 1, 2013 through December 31, 2013 is less than the Current RY3 average net plant balance target, the Company will accrue carrying charges for customer benefit in accordance with the Net Plant Reconciliation mechanism of the current rate plan and (2) the 263A deferred tax balance reconciliation will be carried forward during the stub period based on the difference between the deferred tax balance reflected in rate base for current RY3 and the actual deferred tax balance.

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

A. The amortization of deferred charges and credits under the current rate plan nets to a charge of $6.933 million in Current RY3. Nearly the entire net charge amount, $6.916 million of it, relates to deferred items with amortization periods that extend beyond the end of Current RY3 (deferred pension / OPEB costs at
$1.587 million per year, deferred SIR costs at $1.395 million per year, World Trade Center Capital costs at $0.447 million per year and World Trade Center O&M Expenses – Net of Unbilled Revenue at $3.487 million per year) and only $17,000 relates to items for which amortization will be complete at the end of Current RY3. As I explained earlier, the World Trade Center O&M and Capital costs have been provided for by recoveries from lawsuits, insurance and the federal government making continuation of their combined amortization of $3.934 million unnecessary. When that amortization is combined with the $17,000 of expiring amortizations, there will be a total of $3.951 million of annual amortization reflected in rates beyond Current RY3 with no associated deferred costs. Each month of the stub period the Company will defer 1/12 of that $3.951 million each for the benefit of customers.

IV. Deferral Accounting and Reconciliations

A. Other Than Related to Utility Plant

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

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

Q. Is the Company proposing to continue the use of deferral accounting for the costs that the Commission has previously authorized?

A. Yes. With limited exceptions that I will specify, the Company is proposing to continue the deferred accounting and reconciliation mechanisms that are part of the current steam rate plan, with some
modifications I will discuss later in my testimony. The reconciliation mechanisms that are proposed to continue include, but are not limited to, the Fuel Adjustment Clause and reconciliation mechanisms for such items as property tax expense, interference costs, pensions and OPEBs, SIR costs, the weighted average cost of long term debt and that related to legislative, regulatory and related actions. For all mechanisms based on established targets, the target levels in effect under the current steam rate plan should be updated to reflect those established in this proceeding.

Q. Why is the Company proposing the continuation of the existing reconciliation mechanisms?

A. Those related to costs that are significant, highly variable even in the near term and not subject to reasonable estimation, protect the interests of customers and investors and are appropriate. I note in that regard that the Company is subject to the Commission’s Policy Statement on Pensions and Other Post Employment Benefits and is required to true-up its annual pension and OPEB costs to the levels provided in base rates. Moreover, continuing these
true-ups in connection with a one-year rate determination could enable the Company to delay the need for rate relief at the expiration of the Rate Year.

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

A. Yes. The Company proposes that modifications be made to the currently effective reconciliation mechanisms related to: Property Taxes, Municipal Infrastructure Support and Net Plant. The Company also proposes a change to the amortization period associated with the recovery of SIR costs. In addition, the Company proposes that the existing provision for deferral accounting for cost or expense changes due to legislative, regulatory and related actions be modified to include changes in Company revenues due to such circumstances.

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

A. The Company’s Property Tax and Depreciation Panel explains at length why property taxes are not subject to reasonable estimation. The Company’s property taxes are subject to the vagaries of municipal
management, economic circumstances, and political influences. The Panel also points out how a small change in New York City (“NYC”) tax rates can produce large tax amount changes and the City has imposed large and unexpected tax rate changes. In this proceeding, the Company’s property tax forecast reflects a decrease of $2 million that is equivalent to less than 1% and, as a result, variations from this forecast can be material. This is the case during the current steam rate plan where the Company projects a deferral of $15 million in lower property taxes for the benefit of customers and the Company will retain the equivalent of 10 basis points of return on common equity as a result of the over estimation of property taxes. Absent a full and symmetrical reconciliation mechanism, these circumstances create the potential for a significant windfall for either customers or the Company at the expense of the other. There should be no such opportunity and the current sharing mechanism does not foreclose the possibility. As the Company’s Property Tax and Depreciation Panel explains, the Company has historically sought to minimize its taxes.
and that continues on an ongoing basis - it is a normal course of business for the Company including when a full reconciliation was in effect. There should be no concern that full reconciliation would diminish the Company’s incentive to minimize its property taxes and there is no reason to not provide for it because a rate case does not result in a multi-year rate plan. The Commission has addressed those matters specifically for the Company.

In Case 08-E-0539 the Commission last set rates for the Company outside the context of a multi-year rate plan and provided for a full and symmetrical reconciliation of property taxes. Addressing the disincentive issue on pages 106-107 of its April 24, 2009 order in that case, 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.

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

The Commission’s explanation of why a full reconciliation mechanism was appropriate in Case 08-E-0589 remains applicable here in the context of a single rate year filing. The Company has continued to aggressively pursue minimization of its property taxes. Although economic circumstances that the Commission referred to as “unique” are not indicative of today’s economic environment, it can hardly be said that taxing entities no longer face fiscal stress or uncertainty, which prevents the ability to forecast future tax responsibility with any reasonable degree of certainty.

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

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

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

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

A. For the reasons explained in the testimony of the Company’s Municipal Infrastructure Support Panel, the Company is proposing that a full and symmetrical reconciliation mechanism replace the partial and asymmetrical reconciliation mechanism currently in
effect under the Company’s steam rate plan.

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

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

In its Order Concerning Costs For Site Investigation And Remediation, issued November 28, 2012, in Case 11-M-0034 ("SIR" Order), the Commission’s generic proceeding to review and evaluate the treatment of utility SIR costs, the Commission presented (at page 6) the range of current bill impacts for electric and gas residential, commercial and industrial customers in the State. Those of Con Edison are the lowest in every instance and by a wide margin as can be seen in Appendix 1 of the SIR Order. Appendix 1 of the SIR Order also shows Staff forecasts of utility-specific bill impacts for 2012 and forward. Those for Con Edison are the lowest by a wide margin in almost all cases.
The Company understands, however, that its ten-year recovery period for SIR costs is the longest recovery period in the State. In fact, by an order issued in Cases 06-G-1185 and 06-G-1186 on the same day as the SIR Order, the Commission authorized five-year recovery periods for KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island. The ten-year amortization period applied to the Company can be shortened to five years without producing an unacceptable rate burden while reducing the long term costs to customers. Rate Year steam delivery bill impacts at ten-year and five-year amortization periods would be approximately 0.2 percent and 0.5 percent, respectively. The 0.5 percent delivery bill impact for Con Edison’s steam customers would be lower than almost every electric and gas bill impact presented in Appendix 1 of the SIR Order.

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

A. As explained in the testimony of the Company’s Compensation and Benefits Panel, the Company proposes to defer for customer benefit the amount by which
payments under the variable component of the non-
officer management pay are less than the rate
allowance for this expense.
In addition, the Company is proposing to establish a
major storm reserve for Steam, equivalent to the
mechanism currently in place for Electric.
Q. Please explain the rationale for this mechanism.
A. The rationale for a steam major storm reserve is the
same as the rationale for the electric major storm
reserve. The Company’s rates should reflect costs
reasonably anticipated to be incurred by the Company
to respond to major storms. Since the frequency,
nature and intensity of storms, and consequently, the
extent and nature of the Company’s response, cannot be
reasonably predicted, a major storm reserve provides a
mechanism pursuant to which a reasonable amount of
costs may be recovered in rates based upon an average
of storm response costs during an historical period,
subject to reconciliation for actual costs incurred.
Although past major storms that impacted electric
service did not have a material impact on steam or gas
service, that changed with Superstorm Sandy, during
which the Company’s steam and gas services experienced
significant damage and/or incurred significant costs from flooding. For steam, as noted above, the Company plans to file a petition with the Commission to defer costs incurred by the Company in response to Superstorm Sandy.

Accordingly, the Company believes it would be unreasonable to ignore the possibility of future major storms also having material adverse impacts on the steam system.

Q. Does the Company distinguish Electric, from Gas and Steam, in terms of the amount to be included in base rates.

A. Yes. Although the Company did incur major storm-related costs as a result of Superstorm Sandy, the Company recognizes that there is not a reasonable historical period that establishes a basis for including in base rates a representative amount of costs. For that reason, the Company proposes for purposes of this proceeding to establish a major storm reserve for Steam where the initial reserve amount is $1 (One Dollar).
Q. Does the Company propose that any deferral or reconciliation mechanisms in effect under the current steam rate plan be terminated?

A. Yes. First, the mechanism by which the difference between the actual rate base effect of deferred taxes related to deductions under Section 263A of the Internal Revenue Service Code and the rate base amount reflected in rates being subject to carrying charges should cease. As explained by the Company’s Accounting Panel, the issue between the Company and the Internal Revenue Service underlying the employment of the mechanism has been resolved. Second, as explained by Company witness Devries (Steam R&D), the Company proposes that the currently effective reconciliation mechanism for steam Research and Development costs cease.

B. Net Plant and Capital Expenditures

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

A. The Company proposes

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

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

A. Over the last several years, the Company has embarked on comprehensive cost management, capital expenditure prioritization, capital spending optimization and long term planning initiatives aimed at mitigating capital expenditures, as explained by various Company witnesses in this proceeding. As a result, the
Company’s recent and projected capital expenditures are lower today than the capital expenditure forecasts that preceded these initiatives, except for certain expenditures, both actual and anticipated, driven by circumstances outside the Company’s control, such as NYC municipal infrastructure projects, compliance with new environmental regulations, and response to Superstorm Sandy. Accordingly, the Company believes that this feature of recent Company rate plans should be phased out in future rate proceedings beyond this rate proceeding.

Q. Please explain why.

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

For these reasons, the Company is proposing for purposes of this proceeding to continue downward reconciliation, based upon: (1) a single net plant target that includes both categories of capital expenditures that are currently reconciled (i.e., steam production and steam distribution, which included Municipal Infrastructure Support; (2) reasonable forecasts of the Company’s expenditures, some of which may turn out to be somewhat higher than forecasted and others lower; and (3) a limited opportunity for upward reconciliation where the reason for exceeding the aggregate net plant target is
expenditures that result from circumstances outside the Company’s control.

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

A. The current steam rate plan provides for downward reconciliation to specific net plant targets established for two capital expenditure categories, sometimes referred to as silos: (1) steam production and (2) steam distribution, including capital expenditures for Municipal Infrastructure Support. The Company’s proposal for the Rate Year in this proceeding is to combine categories (1) and (2) into a single category and set a single aggregate net plant target for purposes of downward net plant reconciliation.

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

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

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

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

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

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

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

A. As explained by the Company’s Municipal Infrastructure Support Panel, the Company is compelled to respond to municipal infrastructure projects impacting Company facilities in accordance with schedules and scopes of work established unilaterally by the municipality. This work may entail major infrastructure projects, like NYC’s Water Tunnel #3 project, or a myriad of smaller projects, each smaller in scope but material in the aggregate.
As explained by the Steam Infrastructure and Operations Panel, other circumstances for which an immediate response may be required include the implementation of new cyber security requirements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. Does the Company propose any additional rate plan provisions consistent with its cost management initiatives?

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

C. System Hardening Costs

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

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

Q. Under what circumstances would this process be
implemented?

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

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

Q. Please explain what you mean by other governmental
and/or stakeholder processes.
A. Immediately following Superstorm Sandy, there has been
intensified focus on the steps necessary and
appropriate to mitigate the impact of future storms.
As indicated above, strengthening utility
infrastructure is a major initiative of Governor
Cuomo, as detailed in his State of the State message.
It is also a major initiative of the City of New York
and Westchester County.

Q. Please give an example of a government process to
develop storm hardening plans that may be initiated
outside a traditional rate proceeding.

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

For the electric system, Governor Cuomo stated that

the Public Service Commission must require the
utilities to submit plans for the following
critical actions:

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

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

Q. Does the Company’s rate filing reflect any initiatives in furtherance of the Governor’s objectives?
A. Yes. As explained by the Company’s infrastructure panels, the Company already plans to spend approximately $1 billion (electric $800 million, gas $100 million, steam $100 million) during calendar years 2013, 2014, 2015 and 2016 to harden the Company’s electric, gas and steam systems against future storms. The Company’s infrastructure panels explain these projects and programs in their initial testimonies in this steam rate filing and the contemporaneous electric and gas rate filings. Company witnesses also discuss ongoing efforts to evaluate further investments designed to make the Company’s infrastructure more resilient and thereby less prone to damage and service interruptions during major weather events. However, it is apparent that there may be parallel initiatives that are likely to result in plans and/or directives for the Company to make additional, material investments in storm hardening infrastructure. The magnitude and timing of these investments is unknown and not within the Company’s control. Accordingly, a complementary cost recovery
mechanism should be established to facilitate timely implementation of these new initiatives.

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

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

Q. Does the Company intend to also consider storm hardening projects in the context of its overall budget plans and therefore will re-prioritize other capital projects and programs as necessary and appropriate?

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

Q. What is the process that you propose be established to authorize the Company to recover these investments by means of a surcharge?

A. The following are key elements of the process I propose for recovery of storm hardening costs through a surcharge.

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

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

- The Company would also explain why the project(s)
and/or program(s) cannot be accommodated within the
Company's existing capital budget.

- DPS Staff would evaluate the proposed project(s) and
program(s), with input from interested parties, and
present to the Commission all project(s) and/or
program(s) that DPS Staff recommends be initiated by
the Company, within 60 days of the Company's filing.

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

- The surcharge would include a return on and return of
investments. Depreciation rates, return on equity,
and overall return on each project would be as
approved in or derived from the Company's most recent
rate case. The surcharge would also include any incremental O&M, sales taxes and all other operating costs that arise due to a storm hardening project or program.

- The Company would proceed with construction on individual projects following Commission action and commence the surcharge related to each project as it is placed in service.

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

V. **Revenues Subject to Refund**

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

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

Q. Why did the Commission direct the Company to collect revenues subject to refund pending the Commission's determination in the contractor proceeding?

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

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

A. The Company, Staff and Other Parties developed a Joint Proposal that established the annual level of revenues to be made subject to refund. The Joint Proposal was adopted by the Commission on June 25, 2009.
Q. Why are you recommending that the Company cease collecting revenues subject to refund for purposes of the contractor proceeding?

A. Generally, the Company believes that the amount of revenue that will be collected subject to refund through December 31, 2013 will grossly exceed any reasonable expectation of potential refund liability in the contractor case, and continuing to collect revenues subject to refund is both unnecessary and potentially harmful to the Company's customers.

Q. Didn't the Company, along with other signatory parties, propose continuation of the Rate Adjustment Clause as part of the Joint Proposal presented to the Commission in Case 09-S-0794?

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

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

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

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

A. Yes.

Q. Please summarize the testimony of those two panels.

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

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

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

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

Q. Is the Company making any proposals in its concurrent electric and steam rate proceedings regarding the
unrecovered costs of the retired structures and
general facilities applicable to the Hudson Avenue Station?
A. Yes. The Company proposes to transfer the $92.3
million of unrecovered costs from the Steam department
to the Electric department, reflect them in electric
rate base and amortize them in electric rates over a
20-year period.
Q. Please describe the accounting that the Company
proposes to use to effectuate the transfer of the book
value.
A. The Company would charge the Accumulated Provision for
Depreciation of Electric Utility Plant and credit the
Reserve for Depreciation of Steam Plant for $92.3
million. The Company also proposes that the amount
transferred be carried in a separate sub-account of
the Accumulated Provision for Depreciation of Electric
Utility Plant for reasons related to depreciation
accounting and depreciation reserve analyses as
explained more fully by the Company’s Electric
Property Tax and Depreciation Panel in the Company’s
concurrent electric rate case.
Q. Why is it reasonable for the unrecovered costs of the Hudson Avenue Station to be recovered in electric rates?

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

Q. Please explain.

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

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

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

VII. Multi-Year Rate Plan

Q. Has the Company included forecasted financial information for periods beyond the Rate Year in its filing?

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

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

Q. Is the Company proposing a multi-year rate plan for adoption by the Commission?

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

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

Q. Please provide these examples.

A. Without prioritizing the examples, I will start with consideration of a deferral mechanism that would allow the Company to defer incremental O&M costs in the event of inflation notably higher than now anticipated over the term of a multi-year rate plan. A stay out premium added to the ROE to compensate the Company for the additional risk of a multi-year rate plan as discussed by Company witness Hevert would be appropriate. The Company believes that there is considerable merit to exploring a mechanism that would enable the rate plan to be extended beyond the initial multi-year term.
if certain agreed-upon circumstances exist. This would go beyond simply implementing the rate plan beyond its term in the manner that I explained earlier in my testimony. It could reach to automatic modifications of the rate plan that become effective at the end of the stated multi-year term. This would include consideration of the storm hardening surcharge process and mechanism discussed earlier in my testimony.

As a final example, consideration of an earnings sharing mechanism with respect to cumulative earnings over the term of the rate plan in order to provide customers an opportunity to share in productivity or efficiency savings achieved by the Company in addition to those reflected in base rates over the term of the rate plan. Such mechanisms established in recent Company multi-year rate plans have included initial and graduated earnings sharing thresholds and sharing formulae more heavily favoring customers over investors than had traditionally been the case. The purpose of the shift was to permit customers to benefit from potential Liberty Audit cost savings that, at the time, could not be reasonably identified
and (where appropriate) reflected in rates, to the extent that is now possible. Therefore, a return to sharing thresholds in line with traditional levels is now warranted. The customers’ share of such earnings could be used to write down deferred costs that are otherwise chargeable to customers.

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

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

VIII. Regulatory Reforms

Q. Mr. Muccilo, are there regulatory reforms that could be implemented as part of this proceeding, through changes in State legislation or otherwise that, if adopted, would lower costs for customers without significantly impacting the level of service or reliability provided by the Company?
A. Yes, there are a number of programs and requirements that currently add to the Company’s cost of providing service to customers that, if modified or eliminated, would lower customer bills without markedly affecting service quality and not only with respect to the Company’s electric operations. If the Company is successful in achieving reforms in even small programs, the resulting cumulative savings have the potential to be significant.

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

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

Q. Does this conclude your testimony?

A. Yes, it does.