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I. INTRODUCTION

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

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

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

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

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

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

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

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

Q. Ms. Merritt, by whom are you employed and in what capacity?
A. I am also employed by Con Edison. I hold the position of Accounting Supervisor in the Property Tax and Depreciation group. I am responsible for the payment and accounting functions for the Company’s property taxes.

Q. Ms. Merritt, please briefly outline your educational background and business experience.
A. I graduated from Le Moyne College in 2004 with the degree of Bachelor of Science in Accounting as well as a Bachelor of Arts in Economics. I have been employed by Con Edison since 2005 and have held various positions of increasing responsibility within the Finance area. After approximately two years in Corporate Accounting, I transferred to the Tax Department where I was promoted to Staff Accountant in the Property Tax and Depreciation Group. In that position, my major responsibilities included the
preparation and interpretation of the Company’s
depreciation studies in connection with rate
proceedings. I have held my current position of
Accounting Supervisor since 2010.
Q. Ms. Li, by whom are you employed and in what capacity?
A. I am also employed by Con Edison. I hold the position
of Senior Accountant in the Property Tax and
Depreciation group and am responsible for the book
depreciation accounting functions for the Company.
Q. Ms. Li, please briefly outline your educational
background and business experience.
A. I earned a Bachelor of Science degree from Wuhan
Science and Technology University and in 2002 was
graduated from Bowling Green State University with the
degree of Master of Science in Accountancy. From 1990
to 1999 I worked in the accounting area at Bao Steel
Group, starting as a Staff Accountant and holding
positions of increasing responsibility. I rose to the
title of Assistant Project Manager. In 1997, I became
a Certified Cost Engineer. I later worked as a Senior
Accountant in the health care and education fields. I
have been employed by Con Edison since March 2012 as a
Senior Accountant.
Q. Have any members of the PTD Panel previously testified
A. (Hutcheson) I have submitted testimony and testified on the subject of depreciation and/or property taxes in numerous cases for Con Edison and Orange and Rockland Utilities, Inc. before this Commission; before the New Jersey Board of Public Utilities (on behalf of Rockland Electric Company); and before the Pennsylvania Public Utility Commission (on behalf of Pike County Light & Power Company).

II. PURPOSE OF TESTIMONY

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

A. Our testimony covers two areas -- depreciation and property taxes.

Concerning depreciation, our testimony:

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

- Details our conclusions regarding the variations between the book and computed reserves at existing and proposed rates for Steam plant; and
- Discusses a book depreciation reserve deficiency related to Steam plant; the relationship of that deficiency to the retirement of the Hudson Avenue Station during 2011, and proposals related to the reserve deficiency.

The property tax portion of our testimony:
- Presents general background information on property taxes;
- Describes the level of property taxes experienced recently by the Company;
- Presents our property tax forecast and explains the methodology and certain assumptions used in that forecast;
- Explains the limitations on the Company’s ability to control, and as a consequence, reasonably estimate, the level of its property tax obligations; and
- Discusses the Company’s efforts to pay no more than its fair share of property taxes.
Q. Please summarize any changes to depreciation and property tax expense levels for the twelve months ending December 31, 2014 (the “Rate Year”) that result from the PTD Panel’s proposals.

A. Changes related to depreciation will increase depreciation expense in the Rate Year by $9.5 million based on projected Rate Year plant balances. Our property tax forecast is $2.0 million less than the level currently included in steam rates.

III. DEPRECIATION

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

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

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

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

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

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

A. Yes, Exhibit ___ (PTD-1) entitled “CONSOLIDATED EDISON
COMPANY OF NEW YORK, INC., PROPOSED DEPRECIATION RATE
CHANGES FOR STEAM PLANT AT DECEMBER 31, 2011.”

Q. Was Exhibit ___ (PTD-1) prepared by you or under your
direction and supervision?

A. Yes, it was.

Q. Please describe Exhibit ___ (PTD-1).

A. The exhibit compares the annual provision for
depreciation on a “BOOK BASIS” (i.e., at current
depreciation rates) and on a “PROPOSED BASIS” (i.e.,
at the depreciation rates proposed to be adopted in
this proceeding). The exhibit also includes a
comparison of the book reserve at December 31, 2011 to
the theoretical reserve for depreciation computed
using the depreciation factors currently in effect and
to what the theoretical reserve would be using the
depreciation factors we are proposing in this case.

Q. What is the basis for the PTD Panel’s selection of
depreciation factors in this proceeding?

A. As we have indicated, the selections are based on a
review and analysis of the historical data comprising
the Company’s mortality and net salvage studies.
These statistical studies are the primary, but not the
only, basis for determining an appropriate average
service life, h-curve (i.e., life table) and net
salvage factor. Examples of other factors that
influence plant retirement expectations are
technological change and obsolescence. In those
instances where the accounts do not have sufficient
retirement history to produce statistically reliable
mortality or net salvage data, we propose to continue
existing depreciation factors.

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

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

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

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

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

A. As to average service lives, we are proposing to increase the average service life of five Steam accounts that will decrease annual depreciation expense and decrease the life of seven accounts that will increase expense.
We have estimated that the average service life changes we are proposing will result in an increase in annual depreciation expense of approximately $2.8 million for Steam plant based on plant balances as of December 31, 2011.

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

A. In terms of dollar impact, we have estimated the change by plant account as follows:

<table>
<thead>
<tr>
<th>ACCOUNT NUMBER</th>
<th>EXISTING</th>
<th>PROPOSED</th>
<th>AMOUNT (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>311300</td>
<td>50</td>
<td>40</td>
<td>$1,133</td>
</tr>
<tr>
<td>311100</td>
<td>50</td>
<td>40</td>
<td>465</td>
</tr>
<tr>
<td>312100</td>
<td>40</td>
<td>35</td>
<td>1,688</td>
</tr>
<tr>
<td>353010</td>
<td>70</td>
<td>75</td>
<td>(693)</td>
</tr>
<tr>
<td>Other (net)</td>
<td></td>
<td></td>
<td>189</td>
</tr>
<tr>
<td>Total Steam</td>
<td></td>
<td></td>
<td>$2,782</td>
</tr>
</tbody>
</table>

Concerning life tables, we are proposing to change those for seven Steam accounts that will decrease the computed reserve for depreciation offset by a change to one account that will increase the computed reserve.
Q. Please generally describe life tables.

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

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

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

Q. How are the data in Exhibit ___ (PTD-2) organized?
A. The data are summarized by grouping it into what is referred to as “bands.” Rolling and shrinking bands refer to the periods over which historical experience is analyzed. Rolling bands are bands of constant width (e.g., ten years) developed by deleting the earliest year’s experience from the prior rolling band and adding an additional year’s experience. For example, rolling bands ten years in width developed from data for the period 2000 - 2011 would produce the following rolling bands: 2000 - 2009; 2001 - 2010; and 2002 - 2011. Shrinking bands are bands that initially accumulate all historical experience and then delete one year at a time, usually beginning with the earliest year until a band one year in width is developed. Therefore, using the period 2000 - 2011, the shrinking bands would be produced as follows: 2000 - 2011; 2001 - 2011; 2002 - 2011; . . . 2011 - 2011.

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

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

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

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

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

Q. Is the PTD Panel sponsoring an exhibit containing the
graphical comparisons you have discussed?

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

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

A. Yes, it was.

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

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

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

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

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

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

B. PROPOSED NET SALVAGE FACTORS AND RELATED STUDIES

Q. What part does salvage play in the determination of depreciation rates?

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

Q. Please generally describe the changes you propose to net salvage factors.
A. We have estimated that the net salvage changes we are proposing will increase annual depreciation expense by approximately $5.4 million for Steam plant based on plant balances as of December 31, 2011.

Q. Please identify your net salvage proposals by plant account.
A. As to net salvage factors, we are proposing to change 15 Steam accounts, all of which will result in an increase in annual depreciation expense due to a move to a higher negative net salvage factor. In terms of dollar impact, we have estimated the impacts as follows:

<table>
<thead>
<tr>
<th>ACCOUNT NUMBER</th>
<th>NET SALVAGE FACTOR</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>312300</td>
<td>(40)</td>
<td>(50)</td>
</tr>
<tr>
<td>312100</td>
<td>(40)</td>
<td>(50)</td>
</tr>
</tbody>
</table>
Q. Are you sponsoring an exhibit containing the data you considered when determining the proper net salvage factor to be used in developing depreciation rates?

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

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

Q. What is the source of the data for Exhibit ___ (PTD-4)?

A. The historical data shown for each account is based on the Company’s books and records.

C. STEAM PLANT RESERVE DEFICIENCY

Q. Please provide some background information on depreciation reserve variations.

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

Q. Is there a book reserve deficiency with respect to Steam plant as of December 31, 2011?
A. Yes.

Q. What would lead to a book reserve deficiency?
A. A reserve deficiency develops because historic depreciation rates have not adequately provided for the level of annual depreciation expense necessary to match actual experience. Reasons for "inadequate" rates can be average service lives not short enough to recover the plant at a fast enough rate, or a negative net salvage component of the depreciation rate that does not provide an adequate level of recovery for removal costs. In addition to service lives and salvage factors, the actual dispersion of retirements (when retirements occur in relation to average service life) may have changed or varied from the historical pattern that led to the selection of the h-curves such
that more retirements occur earlier than the average age that the selected h-curve assumes.

Q. What is the amount of the reserve deficiency as of December 31, 2011?

A. Exhibit ___ (PTD-1) shows that the depreciation reserve for total Steam plant at December 31, 2011, as recorded on the Company’s books, was approximately $352.3 million. The computed reserve on the “BOOK BASIS” is approximately $455.1 million and on the “PROPOSED BASIS” it is approximately $471.5 million. Therefore, based on currently effective depreciation factors, the reserve deficiency is $102.8 million, or 22.6%, and based on the depreciation factors we propose be adopted it is $119.3 million, or 25.3%.

Q. Is the reserve variation for Steam plant within what should be considered a reasonable range?

A. No, the variation is exceedingly large because of the retirement of the Hudson Avenue Station during 2011.

Q. Please explain.

A. When the Hudson Avenue Station was retired, the book cost of depreciable plant was $127.5 million and the accumulated depreciation reserve was $35.2 million. The effect of the retirement, therefore, was to reduce the $35.2 million balance in the depreciation reserve
by $127.5 million, $92.3 million more than had been accrued to the reserve. Therefore, the actual book reserve balance of $352.3 million that we mentioned would have been $479.8 million, $127.5 million higher, absent the retirement of the Hudson Avenue Station.

Q. What would the reserve variation for Steam plant have been at December 31, 2011 without the effects of the retirement of the Hudson Avenue Station?

A. We can only estimate that because we don’t know what plant additions and retirements related to the Hudson Avenue Station would have occurred during 2011 had the plant not been retired as of the end of April that year, but Exhibit __ (PTD-1) estimates the book and computed reserves excluding the retirement of the Hudson Avenue Station. Allowing for rounding of the numbers in the exhibit, the book reserve would have been approximately $479.8 million and the computed reserve $493.9 million on the “BOOK BASIS” and $510.3 million on the “PROPOSED BASIS.” That book reserve of $479.8 million is approximately $14.2 million, or 2.9% less than the computed reserve on the “BOOK BASIS” and approximately $30.6 million, or 6.0% less than the computed reserve on the “PROPOSED BASIS.”

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

A. As addressed in the testimony of the Company’s Steam Infrastructure and Operations Panel and Company witness Muccilo (Steam Accounting Policy), the Company proposes to transfer the $92.3 million unrecovered investment in the Hudson Avenue Station from the Steam department to the Electric department. The variation between the book reserve and the theoretical reserve after adjustment for the retirement of the Hudson Avenue Station is a book reserve deficiency we believe to be within a reasonable range on both the BOOK BASIS and the PROPOSED BASIS. Consequently, we recommend that no action be taken to mitigate that variation at this time.

D. IMPACT OF PROPOSED CHANGES IN DEPRECIATION

Q. Please summarize your depreciation proposals.

A. We recommend the Commission approve the various depreciation changes we have proposed as summarized on Exhibit ___ (PTD-1) to more closely align the average service lives, life tables, and net salvage factors employed with those supported by the depreciation studies we have conducted and presented in this proceeding. In addition, we recommend that the
Commission take no action with respect to the Steam plant reserve variation absent the effect of the retirement of the Hudson Avenue Station as we have discussed.

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

A. As summarized on Exhibit ___ (PTD-1), the amount of the annual provision for depreciation expense for the Company’s total Steam plant is $62.5 million under existing rates and $70.7 million under proposed rates. It should be noted that these expense amounts are based on the book cost of plant investment at December 31, 2011 rather than Rate Year amounts. The Rate Year impact of our proposals was identified earlier in our testimony and was computed by the Company’s Steam Accounting Panel reflecting the proposed depreciation factors we provided and the forecasted changes to plant balances.

IV. PROPERTY TAXES

A. BACKGROUND INFORMATION

Q. Please explain the general basis upon which property taxes levied upon the Company have historically been determined.
A. Historically, the property taxes Con Edison has paid were based on the “value” of property and include taxes on land and the structures and/or equipment erected or affixed to the land, known as real estate taxes. In New York State, utilities also pay property taxes on utility equipment located on or under the public streets and highways, known as special franchise taxes.

In New York State, public utility property is valued under a method known as the “cost approach.” The New York State Office of Real Property Tax Services (“ORPTS”) and most of the larger local assessors in the Company’s service territory determine value by using a Reproduction Cost New Less Depreciation (“RCNLD”) methodology for utility property. RCNLD calculates what it would cost to reproduce property at current construction costs based on a trending index, subtracts an allowance for depreciation and obsolescence, if any, and adds the value of land to arrive at a “value” for the entire property. RCNLD is used only to value certain of the Company’s structures and all of its equipment. The value of land is determined by comparable sales data.

In New York City (or “the City”), there are four
“classes” of property. Classes 1 and 2 pertain to various types of residential property. The Company’s property, depending on its type, is included in Class 3 (utility property) or Class 4 (general business property).

B. SUMMARY OF RECENT AND PROJECTED PROPERTY TAXES

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

A. The Company pays property taxes on its steam facilities only to New York City. During calendar year 2011, $84.6 million of property taxes were charged to steam service. For calendar year 2012 and 2013 we have forecasted steam property taxes to be $82.7 million and 87.9 million, respectively.

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

A. Yes. Our forecast of steam property taxes for the Rate Year is $101.2 million.

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

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

C. NEW YORK CITY TAX FORECAST

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

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

Q. What was the five-year average percentage change in the tax rate resulting from your calculations?

A. The five-year average change in the tax rates indicated increases of 1.51% and 0.45% for Classes 3 and 4, respectively.

Q. What percentage change in rates did you use?

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

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

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

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

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

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

A. Yes.

Q. Is New York State’s property tax “2% cap” law applicable to the Company’s property taxes related to its steam business?
A. No. The "2% cap" law is not applicable to New York City as all of the Company’s steam facilities are in New York City.

D. INABILITY TO REASONABLY FORECAST PROPERTY TAXES

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

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

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

A. Yes. Absent any other changes in the forecast, a 1% increase in New York City’s tax rates above the rates we have used in our forecast for both Classes 3 and 4 would increase Rate Year taxes by $1.0 million, so even a minor change in the forecasted tax rate can have a significant impact on property tax levels.

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

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

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

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

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

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

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

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

We share DPS Staff’s concern about removing an incentive for the Company to minimize its property tax expenses. However, the record in these cases shows that the Company has aggressively sought to minimize its property tax assessments. Indeed, there is no assertion to the contrary. Moreover, our long standing policy is that a utility will be allowed to retain a share of property tax refunds, frequently in the 10-15% range, to the extent it can be established conclusively that the utility’s efforts contributed to that outcome. Taking these two factors into account, we conclude that the Company already has and will retain an incentive to minimize its property tax assessments.

E. EFFORTS TO MINIMIZE PROPERTY TAXES

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

Q. Please discuss the Company’s efforts to keep property taxes to a minimum.

A. Property tax amounts are a function of a tax rate multiplied by an assessed value. The Company has no influence on the tax rates that municipalities set; therefore, our basic effort is to focus on the fairness of assessed values set by the municipalities.

Q. How do you determine which assessments should be challenged?

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

Q. Please describe recent efforts in that regard more specifically.

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

Q. Does the Company challenge its special franchise taxes?

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

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

• Spikes in steel prices;
• Depreciation due to use of an artificial property age ceiling in relation to the property’s average service life; and
• The proper level of Economic Obsolescence (“EO”) and Functional Obsolescence (“FO”).

Although challenging the obsolescence allowances in the complaints, Con Edison continues to apply for and
receive EO and FO benefits. A request for an EO benefit is filed for on all services (electric, gas and steam) and the FO benefit is applied for on low-pressure gas pipes and on electric, gas and steam facilities in the vicinity of the World Trade Center site. Con Edison has been approved for each of these benefits for many years and during 2012 again received approval from the ORPTS for the 2013/14 fiscal year, although the FO benefit on the facilities near the Trade Center no longer applies due to cost recoveries from the federal government.

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

A. Yes. The Company diligently seeks available benefits that reduce its taxes. For several years the Company secured the benefit of the Industrial and Commercial Incentive Program ("ICIP") in New York City. The ICIP was created to encourage the development, expansion, and preservation of commercial and industrial real estate. The ICIP grants a property tax exemption for the additional real property taxes that would otherwise be payable as
a result of eligible industrial and commercial construction work. Con Edison has filed ICIP applications for projects involving the construction of new facilities and substations, substation renovations, and substation upgrades. Con Edison filed for and received the exemption regarding 17 different projects, some of which included multiple filings, which are estimated to generate more than $1 billion in tax savings over the course of their benefit periods which range from 12 to 25 years. The ICIP expired as of June 30, 2008, despite efforts by the Company for the program to be extended. The ICIP was replaced by a similar tax benefit program which, again, despite Company efforts, was made inapplicable to utility property. The Company continues, however, to receive benefits for the projects that were eligible under ICIP and, absent future law to the contrary, expects to receive them for the duration of their tax exemption benefit periods. During the 2012/13 fiscal year, it is estimated that the tax savings will amount to $69 million. Our steam customers currently benefit from an exemption on the East River Repowering Project that is
estimated to provide $31.6 million of tax benefits in fiscal year 2012/13 and is estimated to provide $286 million of benefits over the entire exemption period, assuming no changes in tax rates. Those benefits will continue through June 2016.

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

Q. Please explain.

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

Q. Please explain.

A. Only a few other taxpayers share in the Class 3 tax burden so the Company must absorb nearly 80% of the increase on Class 3. If Class 3 and Class 4 were merged, the Company would absorb a much smaller share because the Company would be a smaller percentage of a much larger tax class. This is especially important because the City tends to favor a shifting of tax burden away from homeowners and onto the utility and general business classes.

In addition, combining Classes 3 and 4 would be revenue neutral for the City. Under pending legislation to merge Classes 3 and 4, the proposed three-class system would generate the same tax revenue as the existing four-class system.

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

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

Q. Please describe the Company’s efforts regarding the merger of Classes 3 and 4.

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

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

A. Yes. The Company prepares an annual report of its efforts to reduce its property tax obligations. The report is filed with the Commission and provided to Staff and the parties to the Company’s rate proceedings as well. The Company also meets with Staff to update them on accounting and finance issues. Property tax issues, including legislative efforts, have regularly been part of that agenda.

Q. Despite the Company’s efforts to mitigate property taxes, do the Company’s property taxes continue to increase?

A. Yes.

Q. Why?

A. Property taxes are used to finance local governments and public schools. The funds raised via the property tax levy are often the major revenue source for the taxing entity. The Company bears the levied tax obligations determined by the taxing authorities seeking to raise the funds they determine are
necessary. Those needs, in concert with the Company's activities resulting in increased capital investment, have historically resulted in higher tax bills for the Company despite successful Company challenges to assessed valuations of its property.

Q. Does that conclude the PTD Panel's testimony?

A. Yes, it does.