THOMAS M. GENCARELLI – UPDATE/REBUTTAL
ELECTRIC

Q. Please state your name.

A. My name is Thomas M. Gencarelli.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. I have.

Q. What is the purpose of your additional testimony?

A. My testimony will: (1) update the Company’s forecast for Electric interference expenses for the rate year; and (2) rebut the interference-related testimony of the Staff Accounting Panel and Consumer Protection Board’s (“CPB”) panel consisting of witnesses Helmuth W. Schultz, III and Donna M. DeRonne (“Schultz & DeRonne”).

UPDATE

Q. Please explain your update.

A. As explained in my initial testimony, Con Edison’s gross O&M interference expenditure is proportional to New York City’s (“City”) infrastructure improvement expenditure forecast. The City’s expenditure forecast is determined by extracting the Water, Sewer, Highway and Bridge projects from the City’s Capital Commitment Plan. The City’s latest revised Commitment Plan was published in April 2007. Another update to this plan is expected in late September, early October.

Q. Is the revision by the City to its plan an unusual event?

A. No. I explained in my initial testimony that the City would be updating its Capital Commitment Plan and based on the changes the City makes, the Company would update its interference forecast during the update phase of this proceeding.

Q. Were there changes in the City's Commitment Plan that affected your interference forecast?

A. Yes. The revised plan updated the City's forecast for its Capital improvement program including the commitment target. The City's revised commitment plan was submitted with the Company's preliminary update in August 2007.

Q. Aside from updating the forecast to reflect the City's April Commitment Plan, did you make any other changes to the initial forecast?

A. Yes. During the course of discovery, some corrections to my initial calculations were discovered and I included these changes in my updated forecast. Those corrections, as similarly described by the Staff Accounting Panel, (1) decreased the four year average of the ratio of New York City capital commitment targets to the actual expenditures from 100.7 percent to 98.3 percent for the 2003-2006 period; (2) decreased the four year average of the ratio of New York City capital expenditures to the Company's interference expenditures from 11.7 percent to 11.6 percent; and (3) removed the escalation factor added by the Company's Accounting Panel since rate year numbers were being used.

Q. Have you either prepared yourself or supervised the preparation of updated exhibits to reflect the changes just discussed?

Q. The changes in the revised Commitment Plan and its effects on Con Edison's Electric interference forecast for O&M and Capital expenditures as well as the corrections mentioned are reflected in my updated Exhibits __ (TMG-1 Revised) and (TMG-2 Revised).

MARK FOR IDENTIFICATION AS EXHIBIT __ (TMG-1 REVISED), and EXHIBIT __ (TMG-2 REVISED)

Q. Has the forecast methodology discussed in your initial testimony changed?

A. No. The methodology used to calculate the rate year forecast remains the same.

Q. What are the changes in your forecast expenditures?

A. The updated rate year forecast for O&M, not including Company labor, is $83.26 million, an increase of $1.91 million over the Company’s initial filing. The updated forecast for Capital is $30.9 million in 2008, $33.65 million in 2009, $34.35 million in 2010 and $35.11 million in 2011, an increase of $5.9 million, $8.65 million, $9.35 million and $10.11 million for calendar years 2008 through 2011, respectively.

Q. Are these the same changes you submitted with the Company’s preliminary update in August 2007?

A. Yes, they are.

STAFF REBUTTAL

Q. Have you reviewed the Staff Accounting Panel testimony regarding interference costs?

A. Yes. At page 51, lines 14-17, the Staff Accounting Panel proposes reducing the electric O&M interference forecast by $11.586 million from the allowance proposed in the Company’s August 2007 update and described above. Staff bases its proposal on two adjustments and suggests a policy change relating to the reconciliation mechanism requested by the Company on interference.

The first adjustment includes escalation on the labor component of the interference expense.

The second adjustment modifies the Company’s formula for forecasting interference expenses (pp. 51-59). In addition, Staff recommends that for interference, the Company only be permitted to reconcile expenses below the level included in rates and “interference expenses in excess of the rate allowance should be borne by shareholders.” (pp. 58-59).

Q. Please explain the first adjustment that Staff made to the interference forecast.

A. Staff includes an escalation on the labor component of the interference expense. Staff notes that the Company’s historic interference expense included $2.326 million of labor not included in the Company’s labor expense element. Using an escalation rate of 6.39 percent, Staff recommends an increase in the interference expense of $148,638.

Q. Do you agree with this adjustment?

A. Yes.

Q. Please comment on Staff’s second adjustment.

A. Rather than using the latest Capital Commitment Plan issued by the City, Staff adjusted the forecast based on the average City commitment target ratio for the last four years. Staff claims that the Commitment percentages vary depending upon which one is being applied and in the end, the best ratio to use is the September report. Based on a four year average of the September ratios, Staff altered the commitment percentage from 89.3 percent to 65 percent.

This adjustment results in a decrease in the interference expense of $11.718 million.

Q. Does the Company agree with this Staff adjustment that would reduce interference expenditures by $11.718 million?

A. The Company does not disagree with this adjustment since it is likely that the target ratio to be issued in the upcoming September Commitment Report will be consistent with Staff’s adjustment. However, the Company would note that the variability in the target ratios identified by Staff in support of this adjustment is equally applicable as a justification for continuing to apply a bilateral true-up mechanism to interference costs. This will be further discussed below.

Q. How does Staff characterize the impact of these adjustments?

A. Staff states on page 56, line 3, that the Company's updated rate year interference expenditures total \$103.656 million (including Lower Manhattan expenditures) and that Staff's proposed adjustments would reduce this by \$11.586 million to approximately \$92 million.

Q. Are your calculations for total rate year expenditures for interference consistent with Staff's?

A. No. My calculations show the total forecasted rate year expenditures, including Lower Manhattan, to be \$104.98 million. I have reviewed Staff's work papers and concluded that in calculating the Company's rate year expenditure forecast Staff utilized the historic year interference labor of \$2.326 million instead of the forecasted rate year labor of \$3.741 million.

Q. Turning to Staff's recommended change to the currently effective interference true-up mechanism, please explain your disagreement with Staff's recommendation?

A. There is no basis for Staff's proposal to institute a one-way true-up mechanism that requires the Company to return to customers unspent amounts below forecasted levels while absorbing actual expenditures above forecasted levels. Interference expenditures have historically been recognized as not within the Company's direct control and subject to material factors outside of the Company's control, much like property taxes, and therefore, properly the subject of a symmetrical reconciliation mechanism. These factors include, but are not limited to, the number of interference projects undertaken by the City and Westchester County, the location of these projects, the complexity of the projects and the variability of the City's commitment targets. Above all of these uncontrollable variables is the City's budget and its ability to undertake interference projects.

Q. What rationale does Staff provide for this proposal?

A. Staff claims at page 59, lines 11-14, that this proposal will encourage the Company to coordinate its interference expenditure work closely with the City to ensure efficient use of resources.

Q. Is Staff's rationale for this proposal valid?

A. No. Staff provides no evidence to support its suggestion that the Company does not coordinate closely with the City and therefore requires any inducement to do so.

The Company works closely with New York City’s Department of Design and Construction (“DDC”) on all of the City Infrastructure improvement projects. Public Improvement engineering generally has several meetings with DDC’s engineering during the engineering process of a City project. Interference of Company facilities with the City’s proposed project is identified by comparing the City’s proposed plans with the Company drawings and in addition exploratory test pits are done to confirm the location of certain critical Company facilities. This information is then conveyed to DDC engineering to be taken into consideration during their planning and engineering process.

Furthermore, as discussed in my initial testimony, the methodology used to forecast interference expense is a useful guideline but not a precise formula due to all of the variables that affect expenditures and the process the City utilizes to implement their Capital infrastructure improvement program. Hence, the probability of spending below the target is just as likely of spending above the target.

In fact, the Commission has recognized the unpredictability in the forecasting of future expenditures in that for the last several years, the Commission has routinely adopted rate plans for Con Edison that contains bi-lateral reconciliation mechanisms for interference costs. As recently as this past week, the Commission issued an order approving these mechanisms in the Company’s gas case, 06-G-1332, that contained bi-lateral reconciliation mechanisms for both capital and O&M interference costs.

And now, with the Lower Manhattan expenditures being included, I believe the unpredictability will be even greater. Therefore, it is only reasonable and fair for the Company as well as customers to have reconciliation above and below the target, as is the case for the reconciliation mechanism provided for in the current rate plan.

Q. How do you respond to Staff’s assertion that the rate year forecast is 27 percent higher than the average over the last four years?

A. Staff’s statement that the rate year interference forecast is 27 percent greater than the last four year average is mainly due to the added expenditure in Lower

Manhattan initiated by the WTC incident, currently financed by special federal funding. As explained below, when combining the Lower Manhattan expenditures with the regular interference spending, the increase is much smaller.

Q. Please explain the change to include the World Trade Center related interference expenses in the rate year.

A. As explained in my initial testimony, until December 31, 2007, interference projects resulting of the WTC incident have been set aside in the Company's accounting as there is a Federal Fund that is expected to offset some of these costs. This fund is scheduled to expire on December 31, 2007 and the Company will seek (as it has done before) for reimbursement of any funds in Category 3 up until that date. As I have noted before (and as Mr. Rasmussen has also stated), there is no guarantee that we will get further reimbursement of these expenses.

Q. Will the absence of a reconciliation mechanism for actual costs above forecasted levels impact the Company's interference work?

A. No. Staff's proposed reconciliation mechanism would not influence Company interference expenditures since the

Company does not dictate interference projects and schedules. Hence, Staff's proposal would do no more than unfairly penalize the Company for circumstances beyond its control while continuing to protect ratepayers for the very same risks that actual expenses may be different from forecasted costs for reasons outside the Company's control. There is no basis for this asymmetrical treatment.

Q. What is your recommendation?

A. I recommend that the Commission reject the Staff position and adopt the Company's proposal for reconciliation both above and below the target similar to the reconciliation provided in the current rates.

CPB REBUTTAL

Q. Is the claim by CPB witnesses Schultz & DeRonne that the Company is requesting an increase of more than 97 percent for interference O&M costs accurate?

A. No. Schultz & DeRonne's assertion on page 74, lines 2 through 6 that the Company is requesting an increase of more than 97 percent is inaccurate. As noted above, like Staff, Schultz & DeRonne fail to account for the inclusion of World Trade Center interference related costs in the Company’s interference forecast, which is a change from the Company’s prior practice. Including interference costs for the World Trade Center increases the overall amount by $17.98 million. The historic year expenditure of $51.64 million did not reflect historic year WTC interference expenditures, which had been previously accounted for separately.

Q. How do you respond to CPB’s concerns with the methodology utilized to forecast interference expenditures?

A. CPB states that there is a large increase in these costs and claims (p. 74) that the City’s commitment plan for 2008 and beyond is “uncharacteristically high in comparison to historical levels.” I disagree.

Q. Please explain your disagreement.

A. First, I would note that CPB’s own comparison of the Company’s actual to budget between 2002 and 2005 demonstrates that prior to 2006, the Company was basically on target (page 75, lines 14-16). In fact, a rolling average of our budget vs. actual expenditure prior to 2006 demonstrates that the Company’s forecast has a deviation of less than 1 percent as shown on Exhibit __ (TMG-4). For 2006, CPB states that actual expenditures were only 74.2 percent of budget. As a result, Schultz & DeRonne make a $27.46 million adjustment based on this one year's budget to actual experience.

Q. Do you agree?

A. No. Making an adjustment of $27.46 million solely based on one year's budget to actual ratio is unfair and unjustifiable. There is no reasonable basis for assuming this one-year deviation will continue in the rate year in light of the Company's budget-to-actual experience during the prior multi-year period.

As I have explained, the Company's interference expenditures are directly correlated to the spending undertaken by the municipalities. The Company has little, if any, control over these costs and thus the reason that these costs have traditionally been reconciled. The forecasting methodology used is a guideline, not a precise formula, due to a number of variables outside the Company's control, such as the numbers of projects implemented, the location of the projects and the complexity of the projects. For example, underground facilities are more expensive to support and protect than overhead facilities, and the presence of oil filled transmission feeders or gas transmission mains within the project area will contribute to higher than average interference expenditures.

Since the forecasting is not based on a precise formula and since the Company has no control over the variables which impact costs, the only fair and reasonable approach is a bilateral true-up mechanism, as is in place today.

Q. Turning to CPB’s claim regarding their request for additional documentation relating to Lower Manhattan projects, does the Company use the same forecasting method?

A. The forecasting methodology for Lower Manhattan projects are different because it is being implemented under a new program called “Joint Bidding.” Under this program the utility’s interference scope of work is competitively bid along with the City’s scope of work. Prior to consenting to this program, the City DDC and the New York State Department of Transportation jointly audited our project estimating practices and rendered their approval.

Therefore, in my initial testimony and in response to

CPB-17, I explained that the O&M and Capital forecasts for Lower Manhattan projects are developed by preparing order of magnitude estimates for each project based on the past experience of similar projects in the Lower Manhattan area.

Q. Does this conclude your update and rebuttal testimony?

A. Yes. It does.

CONSOLIDATED EDISON COMPANY OF NEW YORK INC.
ELECTRIC INTERFERENCE EXPENDITURE FORECAST

O&M FORECAST

Rate year 1

Electric Interference expenditure forecast for rate year including Company labor	$87,000,000	
Company Labor 4.3%	$3,741,000	
Net expenditure forecast excluding labor		$83,259,000

Historic year

Electric interference expenditure for historic year, twelve months ending Dec 31st 2006	$53,969,290	
Company labor	$2,326,110	
Net expenditure		$51,643,180
Program change		$31,615,820

CAPITAL FORECAST

	2008	2009	2010	2011
Electric Interference capital expenditure forecast	$30,900,000	$33,655,000	$34,355,000	$35,115,000

CONSOLIDATED EDISON COMPANY OF NEW YORK INC.
NEW YORK CITY CAPITAL COMMITMENT & EXPENDITURES
AND CON EDISON INTERFERENCE FORECAST 2008 - 2011

(millions)

NYC Capital Commitment (April 2007 Publication)	2007	2008	2009	2010	2011
Water (WM - 1 & WM - 6 Budget Categories)	135	121	157	215	266
Sewer	238	187	291	283	287
Highway (Excluding WTC)	509	558	472	382	403
Bridges	287	1066	859	179	117
Total Commitment	**1169**	**1932**	**1779**	**1059**	**1073**
Commitment target @ 65% or 2007 and 89% for 2008 and beyond	760	1719	1583	943	955
City Expenditure Forecast @98.3% of target(4Yr Avg)		747	1690	1556	926

Con Edison's Interference Forecast:	**2008**	**2009**	**2010**	**2011**
Con Edison's gross Interference forecast @ 11.6% of City forecast (4 Yr Avg)	87	196	181	107
Electric O&M Interference @ 76% of Con Ed gross forecast(4 Yr.Avg)	66	149	137	82

RATE YEAR FORECAST	**With Lab.**	**W/O Lab**
Electric Interference forecast for rate year 4/01/08 - 3/31/09 (**RY1)**	87	83.26
Electric Interference forecast for rate year 4/01/09 - 3/31/10 (**RY2)**	146	140.68
Electric Interference forecast for rate year 4/01/10 - 3/31/11 (**RY3)**	123	118.67

Exhibit __ (TMG-2) Revised

CONSOLIDATED EDISON COMPANY OF NEW YORK INC.

Interference O&M Budget vs. Actual Expenditure 2001 - 2005

Year	2001		2002		2003		2004		2005		Total
Budget	85		89.9		89.9		78.2		80		423
Actual expenditure	98.9		88.9		73.6		73		86.6		421
Ratio Actual vs. Budget	1.16		0.99		0.82		0.93		1.08		0.9953

Exhibit__ (TMG-4)