ACCOUNTING PANEL –- UPDATE AND REBUTTAL
ELECTRIC

Q. Please state your names.

A. Richard G. Muzikar, Helen L. Lee and Richard A. Kane.

Q. Have you previously testified in this proceeding?

A. Yes, we have.

Q. What is the purpose of your additional testimony?

A. First, our testimony will discuss the updates to the Company’s filing. The update produces a base rate increase of $1,201,457,000 as compared to $1,225,451,000, the increase requested in the Company’s filing on May 4, 2007.

Second, we respond to:

- the Consumer Protection Board (“CPB”) witnesses Schultz and DeRonne’s allegations that the Company’s filing is deficient in that it lacks supporting documentation, organization and failed to provide information requested by them;
- the inappropriateness of removing prepaid pension costs from the Earnings Base/Capitalization (“EB Cap”) computation made by the Department of Public Service’s Accounting Panel (“Staff Accounting Panel”);
- the recommendations of the County of Westchester (“COW”) and the New York Power Authority (“NYPA”)

to increase the level of transmission congestion credits (“TCCs”) embedded in base rates;

- various adjustments related to payroll associated with the Finance and Auditing, and Shared Services Administration organizations; the normalization of historic labor costs; adjustments to the labor component of all program changes; adjustments to overtime and management compensation, and executive compensation, made by the Staff Accounting Panel and CPB witnesses Schultz and DeRonne;
- the productivity adjustments recommended by the City of New York (“City”) and COW;
- the elimination of various programs proposed by the Public Affairs Department (Staff’s Accounting Panel);
- the appropriate amortization periods that should be used for recovery of deferred World Trade Center costs, carrying charges on T&D investments, Direct Current program incentives, environmental remediation costs, excess deferred state income tax and the pass back of various credits addressed

by Staff’s Accounting Panel, CPB’s witness Elfner, COW and NYPA;

- Staff Accounting Panel’s rejection of reserve accounting for major maintenance costs at East River Units 1 and 2 and CPB witnesses Schultz and DeRonne’s adjustment to the Company’s proposal for a storm reserve;
- Staff Accounting Panel’s rejection of our proposal for deferral accounting for property taxes and their modification to the current true up mechanism in place for interference costs;
- the elimination of Directors and Officers (“D&O”) liability insurance and other insurance premium increases, by CPB witnesses Schultz and DeRonne;
- the reduction of escalation on several expense items by Staff’s Accounting Panel and CPB’s witnesses Schultz and DeRonne; and
- NYPA’s elimination of the Company’s Excess Rate Base Over Capitalization Adjustment (“EBCAP”) from the average rate base.

We also would note that other Company witnesses address other adjustments made by these and other parties.

UPDATE OF PRIOR TESTIMONY AND EXHIBIT

Q. Have you prepared an update of your electric Exhibit __ (AP-8) and Exhibit __ (AP-9)?

A. Yes, we have.

Q. I show you Exhibit __ (AP-9) REVISED, the first page of which is entitled, "OPERATING INCOME, RATE BASE AND RATE OF RETURN FOR ELECTRIC OPERATIONS SHOWING THE EFFECT OF THE PROPOSED INCREASE IN RATES – TWELVE MONTHS ENDING March 31, 2009," and ask if it was prepared under your direction and supervision?

A. Yes, it was.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AP-9) REVISED

Q. Will you please describe Exhibit ___ (AP-9) REVISED?

A. Exhibit ___ (AP-9) consists of four schedules. Schedule 1 consists of five columns with column 1 reflecting the operating income, average rate base and rate of return data as shown in the original filing on Exhibit ___ (AP-9), Schedule 1, column 3. Column 2 reflects the latest revisions to the data in column 1. Column 3 is the sum of columns 1 and 2 and reflects the Company's current position in the rate year, absent rate relief. Column 4 shows the effect of the revised revenue requirement and column 5 reflects the rate year after factoring in the revisions.

Q. What results are shown on Schedule 1 of your revised exhibit?

A. As presented in Exhibit ___ (AP-9), the Company's rate of return on average rate base during the rate year was originally projected to be 3.17 percent, before any rate relief. With the revisions made to the data, as reflected in column 2, the Company's projected rate of return is 3.30 percent, before any rate relief.

Q. Please continue with your explanation of the remaining schedules of this exhibit.

A. Schedules 2 and 3 detail the income taxes and operating income data updates, respectively, shown on Schedule 1, column 2. Schedule 4 reflects a revised level of ratepayer credits and debits.

Q. Please describe your adjustments to sales revenues as shown on Schedule 3.

A. Our adjustment to sales revenues of $4,010,000 reflects a revised level of ERRP carrying charges to be collected through the MAC. This increased level of revenues is offset by an equal amount of ERRP carrying charges expenses (O&M Adjustment #1 below), and thus, there is no effect on the revenue requirement related to this adjustment.

Q. Please describe your adjustments to other operating revenues as shown on Schedule 3.

A. Our first adjustment of $3,769,000 reflects a lower requested annual level of recovery with respect to previously deferred World Trade Center (WTC) expenditures. The downward revision is based upon actual data through August 31, 2007 and reflects the sum of the following significant changes applicable to electric operations from the Company’s original filing: 1) governmental reimbursement of $54.4 million received in June 2007, 2) the transfer of $60.3 million of expenditures to plant in service and 3) a correction to reflect the prior recovery from ratepayers of interest on WTC expenditures that was erroneously omitted from the original filing.

Our second adjustment of $(13,651,000) reflects an increase in the requested recovery over a three-year period of carrying charges on Transmission and Distribution Plant in Service to be accrued during the third rate year of the existing rate plan. In the initial filing, the Company requested recovery of $157,869,000 of such carrying charges over a three-year period or $52,623,000 per year. Based upon actual data through August 31, 2007 and a forecast through March 31, 2008, the level of such deferred carrying charges is estimated to be $198,822,000. Recovery of this amount over a three-year period equates to $66,274,000 per year or an increase of $13,651,000 over the amount included in the original filing.

Our third adjustment returns to customers over a three-year period an estimated $9 million of DC service revenues collected over amounts expended during the program period. The DC conversion program is coming to a successful end and these excess funds should be returned to customers. This amount is subject to final reconciliation with any difference between the estimated $9 million and the actual amount of excess funds to be refunded/collected at a later date.

Q. Please describe your adjustments to operation and maintenance expenses.

A. Adjustment 1 reflects a higher level of ERRP carrying charges during the rate year. This amount will be collected through the MAC as discussed previously, and therefore, has no effect on the requested base rate increase. Adjustment 2 of $(947,000) relates to the level of pension/OPEB expenses during the rate year and is based upon actuarial data received from the Company’s actuary, Buckconsultants, since the original filing. Adjustment 3 in the amount of $(1,674,000) corrects the level of shared services expenses transferred, and primarily relates to a normalizing adjustment for pension costs excluded from the original filing. Adjustment 4 of $1,064,000 relates to a normalizing adjustment in the original filing related to Long Island City (“LIC”) outage costs. In the initial filing, the normalization was overstated because $1,064,000 had been transferred to a capital account. Adjustment 5 of $(2,713,000) relates to rate year interference expenses and reflects the net effect of the removal of cost escalation of $(4,776,000) erroneously included in the original filing, offset by $2,063,000 to reflect the revised forecast of such expenditures based upon revised data from New York City.

Q. Please continue.

A. Adjustment 6 of $(5,481,000) relates to MGP/Superfund costs and primarily reflects a reduced level of spending in the January 1, 2007 through March 31, 2008 period for which the Company is seeking a three-year amortization. Adjustment 7 of $(509,000) reflects an updated allowance for the level of injuries and damages expenses based upon the latest three-year period ended June 30, 2007. Adjustment 8 in the amount of $6,115,000 reflects the incremental cost of “increased line clearance” near trees in Westchester County. In 2006, tree-related outages accounted for approximately 23 percent of all outages in Westchester. Adjustment 9 of $563,000 relates to the increased cost level associated with Emergency Preparedness, which reflects four additional employees at a cost of $350,000 and $213,000 related to increased maintenance and testing of 12 mobile electric generators recently purchased by the Company. Adjustment 10 of $908,000 relates to a revised estimate in the level of fuel costs (gas and diesel fuel) used to power the Company’s fleet of vehicles. In the original filing, the weighted average cost to the Company of gasoline/diesel fuel was $2.60 per gallon. Based upon current market conditions, the weighted average cost has increased to approximately $2.80 per gallon.

Q. Please continue.

A. Adjustment 11 in the amount of $(896,000) relates to a revised level of duplicate miscellaneous charges transferred during the rate year. The adjustment relates to escalation of the historic year amount that was not previously included in the original filing. Adjustment 12 reflects a reduced rate year level of insurance premiums totaling $(1,220,000). The bulk of the reduction relates to property and liability insurances. Adjustment 13 of $284,000 relates to a revised level of regulatory commission expenses during the rate year. The revision relates to the latest level of the PSC assessment. Adjustment 14 of $(836,000) reflects the normalization of costs in the historic year related to executives that retired during 2006 that should not have been forecast to continue into the rate year. Adjustment 15 of $6,233,000 reflects a higher level of forecasted employee welfare expenses during the rate year and was provided to us by Company witness Reyes. Adjustment 16 in the amount of $1.1 million was provided to us by the Electric Emergency Preparedness Panel and reflects the cost of 13 new employees associated with coastal storm mitigation. The direct testimony had indicated this item would be updated.

Q. Please discuss your adjustment to depreciation and amortization expenses.

A. Our adjustment to depreciation and amortization expenses was provided by Company witness Hutcheson, and reflects minor revisions to the original forecast level of capital spending.

Q. Please discuss your adjustment to taxes, other than income taxes.

A. Our adjustment of $(26,388,000) relates to New York City Property Taxes and reflects the latest rates and assessments effective July 1, 2007 and a revised forecast for the rate year. This adjustment was also provided to us by Company witness Hutcheson.

Q. Please discuss Schedule 4.

A. Schedule 4 reflects an update of the level of customer credits and debits included in the revenue requirement in this proceeding. When compared to the original filing, the update reflects a revised level of regulatory assets (WTC recovery and T&D carrying charge recovery) and the inclusion of two new regulatory liabilities, previously deferred excess New York State Income Tax ("SIT") and DC Service Revenues. The excess deferred SIT related to electric operations totaled $11,168,000 at December 31, 2006 and resulted from a reduction in the tax rate from 7.5 percent to 7.1 percent effective January 1, 2007. Refunding this amount over a three-year period results in a refund to customers of $3,723,000 per year. We have previously mentioned that the refund of DC Service Revenues would be $3 million per year.

Q. Has the Accounting Panel updated the average rate base for the twelve months ending March 31, 2009?

A. Yes, we have.

Q. I show you Exhibit ___ (AP-8) REVISED, the first page of which is entitled, "RATE BASE – ELECTRIC, AVERAGE TWELVE MONTHS ENDING MARCH 31, 2009" and ask if it was prepared under your direction and supervision?

A. Yes, it was.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AP-8) REVISED

Q. Will you please describe Exhibit __ (AP-8) REVISED?

A. Page 1 of the Exhibit summarizes our updates. They total ($48,909,000), which reduces the rate base from $13,324,070,000 to $13,275,161,000.

Q. Please describe your updates.

A. The adjustments on lines 1, 2 and 4 reflect the changes in net plant and non-interest bearing CWIP based on latest known data. The next adjustment on line 6 of $743,000 represents a higher average balance for unamortized debt discount, premium and expense as a result of various financing changes.

The fifth adjustment on line 12 of ($4,990,000) to the working capital component of rate base reflects various adjustments as shown on Exhibit __ (AP-8) Revised, Page 2. It includes an update of $12,692,000 in the average balance for insurance premiums, $166,839,000 for property tax payments, $7,968,000 for the latest PSC Assessment and $81,151,000 for pension/OPEBs as a result of the latest known actuarial data in cash working capital. It also includes the cash working capital effect, using the 1/8th formula, applied to our various updates to operation and maintenance expenses, excluding items on lines 13 through 18.

Q. Please continue.

A. The sixth update to the average rate base on line 13 of ($39,504,000) to the excess rate base over capitalization adjustment represents the net impact of four changes to the historic year calculation of rate base, which affected the excess rate base over capitalization adjustment. These changes represent items excluded in the historic year or corrections of the historic year for: (1) the exclusion of Mid-Hudson site deferred costs of $434,000 from the interest bearing items; (2) the exclusion of Retail Access Phase 5 costs of $1,747,000 from the interest bearing items;

(3) recalculation of historic year pension expense to include the Medicare Prescription Part D subsidy, which results in an adjustment of $2,942,000 to cash working capital; and (4) the inclusion of $49,267,000 in working capital to correct the Test Year level of purchased power expense. As a result of items 3 and 4, the historic working capital was higher by $52.2 million and the excess rate base over capitalization was lower by $39.5 million based on items 1-4.

Q. What is the next adjustment?

A. The adjustment of $(5,151,000) on line 19 is the average rate base effect of the Company’s proposed major maintenance at East River Units 1 and 2.

Q. Please continue with the adjustments on lines 20, 21 and 23.

A. These adjustments represent interest accruals related to the Gain from the Sale of the First Avenue Properties ($4,137,000); correction of ADR taxes ($380,000) and overcollection of NYS Tax Law Changes ($1,208,000) which were not included in the original filing.

Q. What are the last two adjustments?

A. Line 26 represents the average rate base effect of the ADR/ACRS/MACRS deductions due the change in net plant as mentioned above. Line 36 is an update of deferred state income tax to reflect the lower tax rate of 7.1 percent and updates related to WTC expense and carrying charges on T&D expenditures that reduce deferred SIT by $344,000. The update also includes the amortization of previously deferred excess SIT in the amount of $1,862,000.

Q. Have you computed a revised revenue requirement based upon the Company’s updated position?

A. Yes. As can be seen from our Exhibit ___ (AP-9) REVISED, Schedule 1, column 5, the overall rate of return is 8.58 percent. The revenue requirement based upon the Company’s updated position, and set forth in column 4, is $1,201,457,000.

REBUTTAL TO PARTIES’ TESTIMONY

DOCUMENTATION

Q. CPB witnesses Schultz & DeRonne claim that the Company failed to provide adequate supporting documentation and that the Company’s filing lacks proper organization, cross referencing and that their “…attempts to tie the respective exhibits to the Company's lead schedules (i.e. Exhibit __ (AP-5), Schedule 6) are frustrated because the lead schedules contain a reference only to the applicable witness." Do you agree?

A. No. Their claims are without merit. In this filing, the Accounting Panel added new pages in Exhibit __ (AP-5) to assist with the organization and flow of a large amount of information which, in a case of this magnitude, is unavoidable. The new pages, 2 through 6 of Schedule 6, reference, by program change or normalization, the exhibit and the responsible witness. The Company added these additional five pages, in order to help the parties easily identify the source of each program change and normalization. The pages also list each program change and normalization by categories, state the total amount of the individual program change as well as the amount allocated to electric, the supporting witnesses, and the supporting exhibits. Furthermore, the footnotes on the bottom of page 6, Schedule 6, even go so far as to indicate the section of the exhibit in which the amount of the program change can be found. This applies to Exhibit __ (IIP-8), which is broken down in to various sections such as "Support Economic Growth," Improve Reliability," Public Safety & Environmental," etc. The footnotes not only cite the exhibit but the section of the exhibit. In past Con Edison electric, gas, and steam filings, Schedule 6 consisted of only one page, which is the first of the 6 pages that comprise Schedule 6 in this filing.

Q. Do you agree with the CPB's contention that the Company's filing lacked supporting documentation for costs?

A. No. The Company provided supporting documentation for costs in its filed testimony and exhibits as well as in work papers. Furthermore, the Company provided more detailed information in response to nearly 1,200 interrogatories, many of which were multi-part interrogatories, including 43 from the CPB. Additionally, the Infrastructure Investment Panel explains why some of the documentation the CPB feels is necessary (but the Company does not) is unavailable at this time.

PREPAID PENSION BALANCE

Q. The Staff Accounting Panel proposes (page 87, line 1) that “the Commission consider the portion of the prepaid pension balance that is equivalent to the pension credits that were not reflected in rates as a non-regulated asset” and adjusts the Company’s capitalization to eliminate the capital supporting this asset. Do you agree with Staff's proposal?

A. No. Staff's proposal is based on two premises: (1) that "the majority of the pre-paid pension balance was amassed while the Company was off the Statement of Policy and Order Concerning the Accounting and Ratemaking for Pensions and Post Retirement Benefits Other Than Pensions" ("Pension Policy Statement") (page 81), and (2) that to the extent that pension credits recorded by the Company were greater than the level included in rates, they did not provide a benefit to customers or result in a cash financing requirement for the Company. We disagree with both of these premises.

Q. Please address Staff's assertion that the majority of the pre-paid pension balance occurred when the Company was not on the Pension Policy Statement.

A. First, it should be noted that Staff's testimony omits the fact that this issue was addressed and resolved in the Company's 2004 electric as well as the 2003 gas and steam base rate proceedings. As we explained in our direct testimony (page 69):

> …the Joint Proposal adopted in Case 04-E-0572 states the following at the top of page 14: The electric pension/OPEB expense or credit recorded

> prior to April 1, 2005 (i.e. prepaid pension balance) will not be eliminated from the Company’s earnings base or capitalization for ratemaking purposes.

Accordingly, the inclusion of the amounts in the Company’s earnings base is pursuant to the terms of rate plan adopted by the Commission, which was based on a negotiated position that resolved many complicated issues related to the Company’s prior accounting for pension credits. As a result of these negotiations, the Company agreed to record a one-time charge to electric operating income of $100 million (pre-tax), begin accounting for pensions under the Commission’s Pension Policy Statement, and bring closure to the issue of past pension credits. There is no basis for revisiting in this case, or any future rate proceedings, the issue of pre-paid pension expense in earnings base on the basis that these amounts occurred prior to April 1, 2005.

Q. Please address Staff’s claim that the pension credits did not result in benefits to customers or a cash financing requirement for the Company.

A. We disagree with Staff’s argument that pension credits did not result in benefits to customers or a cash financing requirement for the Company for the several reasons.

First, as discussed above, the Company is currently passing back to the benefit of customers $100 million as part of the current electric rate plan. The Staff Accounting Panel did not address or recognize the benefit of this cash refund received by customers in their testimony.

Second, in developing their proposed adjustment to exclude a portion of the prepaid pension balance from rate base, Staff imputed a “cap” on the level of shared earnings applied against pension cost for the rate years ending March 31, 2003 and 2004. Exhibit __ (AP-15) contains Staff’s response to Company Data Request 85 concerning this issue.

MARK FOR IDENTIFICATION AS EXHIBIT __ (AP-15)

The response indicates that the “governing rate plan provided for equal (50/50) sharing of excess earnings.” This, in fact, was not the case, the governing rate plan provided for a 65/35 ratio for sharing earnings above the threshold. Additionally, the sharing was limited to pension over recoveries for just that year. It is the Company’s view that if the Accounting Staff’s proposed adjustment is adopted, the entire amount of earnings passed back to customers should have been recognized in the calculation. In addition, Staff's proposed adjustment should be updated to reflect the additional customer sharing benefits resulting from the Commission's recent decision in Case 06-E-0990, whereby $9.029 million and $9.547 million of additional shared earnings for the twelve months ended March 31, 2003 and 2004, respectively, will be passed back to customers. Third, to the extent the Company's actual pension costs were lower than the level included in rates, customers benefited from the fact that the Company was able to either delay filing for rate increases or when it did file, it was able to request a lower rate increase than if the pension credits were not available. Staff's point that our financing requirements were not impacted by the pension credits is incorrect when one considers the cash refunds referred to above totaling $100 million were passed back to customers. The cash refund caused by a non-cash pension credit means the Company financed the cash refunds through its capitalization.

Q. Please continue.

A. Taking the above argument into consideration, we would like to emphasize two points. First, the level of

Staff's adjustment is incorrect and should be reduced by $100 million and by the aforementioned shared earnings adjustments. Second, the issue of retroactive ratemaking seems obvious when Staff points to earnings from a prior period impacting current rates. If this argument holds up, every element of our income statement could be subject to the same question where a rate case estimate of sales, expenses or taxes was different than the actual results. Income and therefore capitalization are affected resulting in an earnings base that Staff would say requires an adjustment.

Q. Have you recalculated the Staff Accounting Panel's adjustment to Earnings Base / Capitalization taking into account the $100 million currently being passed back to customers and for the correct shared earnings adjustments?

A. Yes, Exhibit __ (AP-16) contains the Company's recalculation of Staff's proposed adjustment.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AP-16)

TRANSMISSION CONGESTION CREDITS

Q. Please address an adjustment to the revenue requirement proposed by both COW and NYPA regarding transmission congestion credits (“TCCs”).

A. Both parties recommend that $150 million of such credits be embedded in base rates as compared with the Company’s proposal to continue at the current $60 million level established in Case No. 04-E-0572. In NYPA’s case, it would lower the delivery revenue increase allocated to them by some $12 million.

Q. What is the basis of NYPA’s adjustment?

A. NYPA references the Company’s response to their interrogatory, NYPA 46. That interrogatory response provides that the average annual TCC revenue for the three-year period 2004 - 2006 was $150 million. In your view, does that provide a basis for imputing $150 million for this item in the rate year?

A. No, it does not. While the average of TCCs shown there for the three-year period averages some $150 million, there is no basis for projecting that the Company will achieve TCC revenues approaching this amount in the Rate Year.

Q. Please explain why.

A. In response to an order from the Federal Energy Regulatory Commission (“FERC”), the New York

Independent System Operator ("NYISO") has filed with FERC a proposal to sell TCCs on a long term basis. The NYISO proposal has been supported by all the New York Transmission Owners ("NYTOs"), including NYPA. Long term TCCs would be a new product, the demand for which is uncertain thus creating more uncertainty with respect to the Company's projected TCC revenues. The NYISO proposal is currently pending at FERC and subject to litigation in FERC Docket ER07-521-000. Moreover, as NYPA is well aware, the NYISO proposal has received protests from parties seeking long term TCCs at below market rates. If such requests are granted, the Company's TCC revenues would be negatively impacted.

Q. Please continue.

A. There is also a chance that FERC could require the NYISO and the NYTOs to implement a long term TCC proposal similar to the one that exists in PJM. If that were the case, the Company's TCC revenues could decrease while its costs associated with administering TCCs would increase. The circumstances surrounding the NYISO's proposal, including the potential modifications that FERC could make as well as the lack of demand for a long term TCC product, creates uncertainty as to the Company's continuing to receive the current level of

TCC revenues. Moreover, a review of historic Company TCC revenues shows that the amount of TCC revenues fluctuated by as much as $108 million per year. That is, the Company received $99 million in 2004, $207 million in 2005 and $149 million in 2006. Accordingly, the imputation of an additional $90 million in TCC revenues is unwarranted and unsupported and should be rejected.

Q. Con Edison's current rate plan requires the Company to true up the actual level of TCC revenues received with the level imputed in rates and to passback the excess or collect the shortfall from customers through the MAC. Wouldn't this mechanism accomplish the goals that NYPA is seeking and should it be continued?

A. The current true up mechanism should be continued, but as it is currently designed would not accomplish what NYPA is seeking because they do not pay the MAC and some would argue are not entitled to TCC's.

LABOR ADJUSTMENTS

Employee Levels for Finance and Auditing and Shared Services Administration:

Q. Does the Staff Accounting Panel make any adjustments to the Company's proposals to increase staffing?

A. Yes. They made two adjustments. First, they adjusted the Company's proposal for new hiring in the Finance and Auditing Department by 12 employees, or $1.024 million, and second, they adjusted the Shared Services Administration by 13 employees, or $909,000, net of productivity savings.

Q. Please address their adjustments to the Finance and Auditing Departments.

A. The Staff Accounting Panel eliminated 12 employees for the Tax Department, Treasury Department, Financial Reporting, Real Estate and Regulatory Filing sections. Staff claims that it "does not see the benefit" to add six Senior Tax Accountant/Attorney ($750,000) and the Vice President-Tax ($230,000) based solely on a peer group analysis performed by KPMG that Staff did not have the opportunity to review. Thus, Staff eliminated the gross cost totaling $980,000.

Q. Do you agree with Staff's adjustment?

A. No, we do not. As to the KPMG study, we would note that the Company has subsequently provided the pertinent pages of this confidential self-critical analysis performed with the assistance of KPMG, which was inadvertently not provided to Staff. In our direct testimony, we indicated that this assessment determined that the resource levels of the Tax Accounting and Tax Compliance functions were neither sufficient nor comparable with peer companies. The study determined the additional employees were needed to adequately staff these functions. Specifically, the study states "In comparison to companies with similar revenues and presumably similar tax jurisdiction obligations, Con Ed is at the very low end of staffing." There is neither a reasonable question as to the need for these positions or the Company's intention to fill these positions.

Q. What progress has the Company made in hiring additional personnel?

A. The Company has hired the Vice President and two additional staff members at the managerial level. Due to the increasing complexity of tax laws and the importance and size of the dollars involved, it is difficult to attract qualified tax professionals. Because one employee has announced his retirement, we are actively pursuing the hiring of five employees.

Q. Please comment on Staff's elimination of the balance of the 12 positions.

A. The balance of the 12 positions is needed in the Financial Reporting (1), Regulatory Filing (1), Real

Estate (1) and Treasury (2) sections of the Finance and Auditing Departments. Staff argues that these positions also should not be funded.

Q. Please comment on Staff’s rejection of the additional employee for Financial Reporting.

A. This position would coordinate a complete “plain English” review of the Company’s 10K. Re-writing this document is a huge effort, which would help investors and potential investors better understand the Company’s business and its financial performance. This is significant in light of the large amount of financing the Company is doing to support our construction program. The current staffing level does not allow time to perform this significant effort.

Q. Please comment on Staff’s rejection of the new employee for Regulatory Filings.

A. The Company has been involved in an increasing level of regulatory filings for all of our services, including electric, gas and steam. The extensive work involved demands that we have enough qualified employees to address the multitude of issues that arise. We recently hired an accountant for this position.

Q. Are the two positions in Treasury that Staff rejected justified?

A. Yes. These positions will allow the development of financial expertise in the Company. The Company will rotate highly talented employees into the key areas of Treasury, specifically Risk Management and Financings, which require extensive experience to acquire the knowledge necessary to fulfill the demands of the areas.

Q. Why does the Company require an additional Lease Administrator in Real Estate?

A. The Company's real estate transactions have increased significantly over the past few years and we project they will remain at a high level for the foreseeable future. The increase in demand for real estate by the Company is for substations and other utility requirements. Real Estate is not only difficult to acquire in New York City and Westchester but has also become more expensive and is in great demand. In addition, the position will handle cellular antenna requests from wireless telecom providers. The Commission is reviewing the Company's first Section 70 for these types of transactions and when the Company will be able to process new applications, the workload will increase in this area.

Q. Please continue with the Shared Services Administration.

A. The Staff Accounting Panel eliminated the entire Shared Services Administration labor cost, net of imputed productivity, or $909,281. Staff also eliminated $277,000 of the organization’s O&M expenses.

Q. What reason did Staff provide for not funding these positions?

A. As part of our direct testimony, we explained that there would be savings as a result of this organization but that it would take time to reflect the savings. In the Company’s filing we reflected $222,000 of labor savings for the Shared Services Administration based on the assumption that the cost of the group will be funded by achieved savings within five years. Staff claims that in the rate year we would be over half way into the time frame and that “the Company should be able to achieve significant program savings in an amount equal to at least the costs of operating the Shared Services Administration.” Thus, they eliminated the entire cost of the organization.

Q. Do you agree?

A. No, we do not. This group is made up of 13 employees. They are needed to assist the Shared Services and

Operating Organizations in their standardization efforts and process review. The Staff adjustment unfairly assumes productivity resulting from this effort is instantaneous. It is not.

As a result of the implementation of shared services and the new shared service organization structure, the Company recognizes and expects that over time, benefits will include increased efficiency, better utilization of personnel, improved and integrated systems, leveraged technology, and improved effectiveness through standardization of processes and the sharing of expertise and best practices across organizations and companies. However, these benefits are not easily achieved and will take time to realize. The Company reflected in this filing 25 percent of the group’s labor cost as productivity savings, or $222,000 allocated to electric operations. Assuming a higher level of productivity savings at this time would be unrealistic. Moreover, any efficiencies actually realized above this projected amount will be reflected in future rates to the benefit of customers.

Q. Please continue.

A. The Shared Services effort initially results in increased labor cost associated with establishing the group and training its members in process review and project management. The Company has incurred cost as a result of this training, which is ongoing, and will be incurring additional training cost for the newer members recently hired. This is a long-term process and commitment and to quantify future cost benefits at this time is difficult. Savings may be generated in many forms, from increased purchasing power, reduced material costs and/or labor savings. The savings as they occur will work their way into the individual organizations actual O&M and capital expenditures. In addition, it is expected that this group, through its process reviews, will train employees and establish a constant process review mindset throughout the Company. To assume the productivity that is the objective of these efforts will be achieved at the outset of these efforts as opposed to gradually over time ignores the process described above, which involves ongoing training, reorganization, and process development..

Q. Do you agree with Staff’s contention that there will be “significant program savings in an amount equal to at least the costs of operating the Shared Services Administration” in the rate year?

A. No. We agree with Staff that there will be savings in an amount equal to at least the cost of operating the Shared Services Administration group but do not agree that it will all be realized immediately in the rate year. The Company proposal that 25 percent of the group's cost as rate year savings is a fair projection of potential savings, recognizing that over time the group's total cost will be offset by the types of savings just identified.

Q. Do you have any other issues with this adjustment?

A. Yes. The adjustment represented 13 employees even though one devotes his time 100 percent to O&R. The Staff Accounting Panel's response to Company Data Request 84 included in Exhibit __ (AP-15) indicates that this was not recognized, along with other computational errors. As a result, their adjustment is overstated by $87,000 [i.e., $822,000 - $909,000 (see DPS Staff Exhibit __ AP-2, Schedule 8, page 2 of 4)].

Q. Did the Staff Accounting Panel make any further adjustments related to this expense?

A. Yes. Staff also made an overall adjustment to reduce employee benefits costs and payroll taxes associated with their labor adjustments mentioned. Because the Company has demonstrated that these positions are necessary, the overall adjustment should be rejected as well.

Q. Did the CPB witnesses make any adjustments regarding staffing for these two organizations?

A. Yes. CPB witnesses Schultz and DeRonne state in their testimony at page 9 that the costs of the Finance and Auditing and Shared Services organizations are justified. However, they recommend only 75 percent of the normalization adjustment of $1.216 million, or $912,000. They contend that the Company failed to adjust for vacancies that have occurred, or will occur.

Q. Do you agree?

A. No. Their adjustment should be rejected. Any vacancies that occurred in the historic year are reflected in the costs in that year. We are normalizing the costs for those vacancies that are expected to be filled before and during the rate year. As for vacancies that may occur in the future, the Company would seek to fill the positions immediately and it is not practical to forecast these amounts. The Company’s projection of its workforce for the rate year reflects the staffing needed.

<u>Other Adjustments to Labor, Overtime and Management Compensation</u>

Q. Are there any other adjustments proposed by the CPB that you would like to address?

A. Yes. Witnesses Schultz and DeRonne also made several adjustments to the Company’s payroll dollars, specifically, an overall adjustment to the total labor component of program changes, and overtime and compensating time.

Q. What adjustment do they propose for the labor component of program changes?

A. CPB witnesses Schultz and DeRonne at pages 9-12 arbitrarily reduced the Company’s program changes for labor totaling $49.0 million by 5 percent, or $2.45 million. They claim that their adjustment was justified on the basis of their perceived lack of support provided by the Company despite lengthy testimony submitted by various witnesses, back up papers and responses to a multitude of interrogatories submitted by Con Edison. As we explained earlier regarding CPB’s complaints about supporting documentation, the premise for CPB’s argument, and therefore its adjustment, is unsupported and should be denied. The voluminous support for the various programs sponsored by various Company witnesses speaks for itself in terms of providing a rational basis for the nature and amounts of costs at issue.

Q. CPB's witnesses Schultz and DeRonne made two adjustments for weekly overtime and management compensation. Please explain their adjustments.

A. First, as the Company does not maintain records on allocations of O&M overtime and management compensatory time to the electric department, the CPB sought to develop an estimate of this cost. Their calculations result in the assumption that in the historic year, electric weekly overtime and management compensation is $65.913 million. Then, they seek to justify reducing overtime and management compensation by an arbitrary 10 percent or $6.5 million, claiming that the Company's significant additions to the work force will eliminate the overtime they attribute to unusual storms.

Second, they eliminated all labor escalation on their estimated historic overtime and management compensation amount of $65.913 million, or $4.2 million.

Q. Do you agree with their adjustments?

A. No, we do not.

Q. Why not?

A. First, it makes no sense not to escalate overtime and management compensation as employees do receive increases annually and therefore, the costs for overtime and management compensation increase at the same level. Second, per Exhibit ___ (AP-5), Schedule 1, page 3, lines 43 and 75, the Company normalized the historic year expense for extraordinary overtime and management compensation paid to employees due to the Long Island City outage and storms. It goes without saying that overtime and management compensatory pay will be required at some level. The additions to personnel in this filing are to address new initiatives and programs. CPB provides no basis for assuming the level of overtime and management compensatory pay will be lower by 10 percent, or, for that matter, any other amount, as compared to the historic year. As noted above, the Company has already normalized costs in this category for the LIC outage and storms. No further adjustment is justified.

<u>Executive Compensation</u>

Q. The Staff Accounting Panel reduced the Company's labor expense for $4.867 million of labor and other costs related to officers. Please comment on their adjustment.

A. Their adjustment of $4.867 million represents an allocation of the costs in 2006 of two officers who retired during the year. The source of their data came from the Company’s annual FERC Form 5 report, pages 104 and 105. While the Company can agree that it is not unreasonable to normalize out of the rate filing the cost of retired officers, we do not agree with the amount of the proposed adjustment.

Q. Please explain.

A. The data from the FERC annual report used by Staff includes the salaries paid during 2006 and “Other.” The footnote to “Other” for the officers listed describes this compensation as representing “amounts for the aggregate change in the actuarial present value of the accumulated pension benefit, personal use of Company vehicle, driver costs (where applicable), life and supplemental health insurance and Company matching contributions to the Savings Plan and Deferred Income Plan.” The Company’s 2007 Proxy Statement also includes this information and shows that for the two officers, the actuarial present value of the accumulated pension benefit is worth $5.097 million and the balance for other is $266,231. The footnote there explains that the change in pension value amounts does not represent actual compensation paid in 2006 and that “the amounts represent the aggregate change in the actuarial present value of the accumulated pension benefit based on the difference between the amounts required to be disclosed under the Pension Benefits table for the 2006 fiscal year and the amounts that would have been required to be reported for the Named Executive Officer under the Pension Benefits table for the 2005 fiscal year."

Q. What does this mean?

A. This means that this particular item is not a cost included in the Company's various O&M expenses in the historic year.

Q. Has the Panel reviewed the data provided in the 2006 annual FERC report and the Proxy Statement and come to any conclusions?

A. Yes. We agree that the salaries for these two officers and their paid vacation pay should have been normalized out of our revenue requirement. The amount for this allocated to electric is $769,152. With regards to the other costs shown in the reports, the use of vehicles by one officer allocated to electric of $5,710 should also be normalized.

Q. Are there any other costs that should have been normalized?

A. Yes. The cost of life insurance, supplemental life insurance, financial counseling provided and supplemental health insurance should also be normalized. These costs are all included in Company witness Reyes’ Exhibit ___ (HJR-1), page 1, in lines 2, 15, and 23. The electric allocation of these costs is $61,164. In addition, the cost of their participation in the supplemental savings plan and the dividend investment plan were normalized in our initial filing. These eliminations were discussed in our direct testimony beginning on line 9 of page 32 and are also included in Company witness Reyes’ Exhibit __ (HJR-1) footnotes (D) and (E).

Q. Please summarize the proper normalization.

A. The normalization allocable to electric operations would be $769,152 for labor, $5,710 for other and $61,164 for health benefits for a total of $836,026, not the Staff Accounting Panel’s $4.867 million. Staff’s response to the Company’s interrogatory 80 confirms our point and is included in our Exhibit __ (AP-15).

Q. Did you reflect this normalization in September 2007 update of the revenue requirement?

A. Yes, we did.

Productivity Adjustment

Q. What is the next area of your rebuttal testimony?

A. We would like to address the City witness Arnett’s proposed 3 percent productivity factor and COW’s suggestion that the Company’s host of new programs be funded through increased productivity and not added customer funding.

Q. Does the Company reflect any productivity savings in its filing?

A. Yes, it does. It has reflected a 1 percent per annum productivity factor in its calculation of the labor escalation factor. This has been the historical practice in many prior rate case filings to the Commission, not only by Con Edison but also various other New York State utilities. This productivity adjustment has also long been accepted by the Commission as a reasonable objective. In addition, the Company reflected $1.8 million in labor savings from the AMI/AMR project and, as discussed above, savings from the Shared Services Administration group.

Q. What is the City’s specific productivity adjustment?

A. Mr. Arnett’s Exhibit ___ (HA-7) delineates O&M and capital programs provided by the Company’s Infrastructure Investment Panel with indications of the projects he and his consultants believe present opportunities for productivity savings. However, as discussed above productivity enhancements are achieved over time, not instantaneously, and not necessarily through labor savings. As savings are actually realized, customers will reap the benefits in future rate filings as these savings will be reflected in the historic year. Parties should bear in mind that new infrastructure investments that increase the system's reliability also require the Company to incur incremental expenditures annually to maintain the new equipment.

Q. What is the County of Westchester's position regarding productivity?

A. COW's witnesses Liberty and Radigan, beginning with page 16 of their testimony, suggest that the Company's O&M changes are so high that they might be achieved through productivity increases and not by added funding from customers. They do not provide any basis for this conclusion other than to point to the size of the Company's historic O&M expense and the increase requested. In recognition that their recommendation has no basis in analysis or study, they recommend that the Company be allowed a cap of $50 million for O&M increases.

Q. Do you concur?

A. We do not. The Company is requesting some $300 million of necessary program changes for the rate year, all of which have been documented and substantiated. COW's proposed adjustment is not supported by any analysis and has no basis in reason and should therefore be rejected.

INFORMATIONAL ADVERTISING – PUBLIC AFFAIRS

Q. Please describe the request for funding for informational advertising.

A. Public Affairs proposed an increase in funding of $8.5 million in each rate year to fund energy education and public awareness communications programs. Electric's allocation is $6,897,000. We described how these funds would be used in our initial testimony and workpapers. In responses to interrogatories from Staff, we detailed the costs related to placing advertisements in an array of media. For example, in response to Staff 373, we presented daily publications, radio stations, weekly community and ethnic publications and outdoor advertising that we plan to use, and cost data and frequency of advertising. Our response to Staff 373 is included in our Exhibit ___ (AP-15).

Q. What is the reason for the requested increase in funding?

A. As described in our initial testimony and in response to Staff 392 (included in our Exhibit ___ (AP-15), the expansion of the program will allow Con Edison to more effectively reach a broad audience in the New York City metropolitan media market. The communication program would, among other things, allow us to educate customers about how to reach Con Edison during emergencies and how to monitor emergency responsiveness through the Web. In the New York market, a communication program of this nature requires advertising in numerous media outlets, from daily print publications, to radio to outdoor advertising to over one hundred different community and ethnic publications. The ability to communicate with the public requires maintaining an active communications effort throughout the year, not just after an emergency situation. Absent the requested increase in funding, we would only have funding for a summer communication program, with some minor additional placements.

Q. Can you describe the community and ethnic neighborhood publications referenced above?

A. Yes. An important part of the communication plan is to reach beyond the mainstream media and place advertisements in many local and ethnic community publications. Based on our experience, these publications are essential to reaching many of the communities throughout our service territory, which will enhance our ability to communicate with these communities during emergencies. We plan to advertise in bilingual publications that allow us to reach non-English speaking customers.

Q. Can you provide some examples of these community and ethnic publications?

A. Yes. They include the Haitian Times, El Diario/La Prensa, the Jewish Week, the bilingual Manhattan Times, the Korean Daily, the New York Amsterdam News, Novoye Russoye, the Queens Gazette, and the Filipino Reporter.

Q. What adjustment did Staff propose to this request for funding?

A. Effectively, the Staff Accounting Panel claimed that the Company did not provide sufficient justification for the program and denied the request to expand the communications program in its entirety. Staff claims that providing customers with more information on how they can control their energy usage is insufficient to justify any spending in this category.

Q. Was this adjustment consistent with what has been discussed in various reports by Commission Staff to the Commission this past year?

A. No. The need for a stronger communications program that will provide more information to the public and Con Edison's customers was raised by the Public Service Commission staff in their recent reports on the Long Island City incident and Westchester storms. In their January 2007 report on Long Island City, Staff made numerous comments about the need to improve the corporate Web site, particularly in the areas of outage reporting and service status information. The report on Westchester storm outages, released in February 2007, also pointed to the need to educate customers about valuable information on storm preparation available on the corporate site. The report states, "…Con Edison still needs to take steps to ensure that its customers are better informed of the Company's outage and restoration program before…an event," and adds the company should pursue "…an aggressive education campaign prior to an outage…." While the Company uses Customer News and the homepage of the Web to promote the availability of improved information on the Web, paid advertising plays an important role in reaching customers in the New York area, the world's busiest media market. In addition, developing a broader communications program was also discussed with Staff. In those reports and discussions, Staff advocated for greater communications efforts. This position by the Staff Accounting Panel does not reflect the message sent by other Staff members relating to the Company's communications.

Q. What will be the impact of not receiving the additional funds for the communications programs?

A. As indicated above, the lack of additional funds will significantly curtail Con Edison's ability to maintain proactive communications throughout the year. Rather than a communications plan that is sustained throughout the year and is designed for seasonal changes in communication messages, we will only have sufficient funds for a limited program. More specifically, Con Edison's ability to remind customers how to contact the Company during an emergency will be limited. Without the funding, we will not be able to get the message out as broadly about conserving energy and reporting problems. Important communications about public safety, energy efficiency and growing infrastructure needs will also be limited. Finally, our ability to reach a large number of communities and ethnic groups by advertising in their local publications will be curtailed. Advertisements that would be translated into other languages will have to be cut back. We will be forced to limit our use of community and ethnic publications that we advertise in.

AMORTIZATION PERIODS

Q. The amortization period for deferred World Trade Center costs, carrying charges on T&D investments, environmental remediation costs, excess deferred state income tax and the pass back of various credits are addressed by the Staff Accounting Panel, CPB witnesses Schultz and DeRonne, COW and NYPA. Each proposes to extend the period of amortization from the Company's proposal. Are their proposals appropriate?

A. No. The CPB and COW recommend a ten-year recovery for deferred environmental costs. COW recommends a ten-year recovery for the carrying charges on T&D plant.

NYPA recommends 20 years for deferred environmental costs and the Staff Accounting Panel recommends five years for environmental costs. The CPB recommends recovery of deferred WTC costs over a ten-year period.

Q. Why are these proposed recovery periods unreasonable?

A. The costs delineated above have accumulated over a three year period and should be recovered over a similar time period. COW and CPB witnesses Schultz and DeRonne and Elfner have offered no compelling rationale for allowing customers to pay these amounts over a longer period of time; their stated purpose is to mitigate rates. NYPA offers no explanation for their recommended 20-year recovery period. Staff Accounting Panel proposes the use of five-year recovery, i.e., to continue the current amortization period and noted that it also mitigates customer bill impacts.

Q. Why are these proposals improper?

A. The lengthening of the amortization period would only add to the Company’s financing requirements and further weaken our cash flow position. Moreover, these amortizations are materially outside the normal periods for cost recovery of these types of costs. The desire to mitigate a proposed rate increase does not establish a reasonable basis for an unreasonably long amortization period for deferred costs due the Company from customers.

Q. Please continue.

A. The Staff Accounting Panel recommends a one-year, i.e., the rate year, return to customers of the deferred excess DC Service Revenues and Excess Deferred State Income Taxes. For the latter item, COW not only recommends a one-year return but the same time period for various deferred credits, such as the gains on the sale of the Company’s First Avenue Properties, interest on Federal income tax audit adjustments, the overcollection of NYS tax law changes and the correction of ADR tax amortizations due customers. These parties explain that the purpose of their recommendations is to mitigate the Company’s rate increase.

Q. Do you agree with their proposals?

A. No, we do not. We propose that these credits be returned to customers over a three-year period. This corresponds to our recommendation for a three-year amortization of deferred charges. Passing back all available credits over a period of one year will produce what is often referred to as the “hockey stick” effect. Rates would be artificially kept low for the period of one year and then rise dramatically thereafter as all available credits have been exhausted.

Q. Please continue.

A. In recommending the recovery of deferred costs over an extended period of five, ten or in some cases twenty years, Staff, COW, NYPA and CPB have ignored that the Company proposed passing back credits that have accumulated over the current rate plan over three years to help mitigate the impact of recovering deferred expenditures over a similar period. In addition, if the Company should pass back all credits in the first year and then build up additional deferrals over the next three years, customers in years 2 and 3 would be saddled with paying for these additional costs as well as the unamortized balance of current deferrals, without the benefit of any offsetting credits from the current rate plan.

PROPOSED ACCOUNTING FOR MAJOR MAINTENANCE AT EAST RIVER UNITS 1 AND 2 AND STORM COSTS

Q. The Accounting Panel testified to a proposal regarding the accounting for major maintenance costs at East River Units 1 and 2 (“ERRP”). The proposal was rejected by the Staff's Accounting Panel. Please comment on their adjustment and proposal.

A. The Company pointed out that it was collecting in current rates $7.5 million on a levelized basis per Case 04-E-0572. The Joint Proposal from that case contained the following provision:

> Actual maintenance expenses may not be incurred ratably as they are reflected in rates. In order to normalize earnings impacts, the Company may defer revenues to match maintenance expenses as incurred during the Electric Rate Plan.

Pursuant to this provision, the Company has deferred revenues collected from customers of $7.5 million per year with a journal entry debiting Other Operating Revenues and crediting a Regulatory Liability account. Actual maintenance costs incurred have been charged against the regulatory liability account. The liability account as of March 31, 2007, the end of the second rate year, is $7.888 million. Per our Exhibit ___ (AP-14), Schedule 1, we show the estimated net accumulation of revenues and expenses for the following four rate years.

Q. What does the exhibit show?

A. The exhibit shows that while the Company collects from customers the $7.5 million on a levelized basis, expenditures are not levelized. There is a timing difference as to the incurrence of major maintenance overhauls. While the Regulatory Liability balance is estimated to be $8.683 million at the end of the current rate plan, the major expense will occur in the April 2010 – March 2011 time frame. The deferral accounting would match the revenues with the expenses.

Q. Staff contends that there is no benefit to customers to fund a reserve and that the Company can reasonably estimate the amount and has relative control over the timing of the occurrence of such costs. Do you agree?

A. No. The Electric Production Panel addresses issues relating to estimating these costs in their rebuttal testimony. As to the issue of reserve accounting, such accounting would allow the Company to perform work when it is needed without the budget or financial constraint inherent in a fixed annual rate allowance. The use of reserve accounting would also eliminate any intergenerational subsidies by providing that all customers pay the same level of maintenance cost for the benefits they receive over the useful life of the plant. In fact, in the last rate plan, the parties understood that the costs would be recovered ratably, even though the spending may be lumpy. This spending is clearly not even over time and the reserve should be allowed.

Q. Did the Staff Accounting Panel make a proposal regarding the reserve balance?

A. Yes. The Staff Panel recommends that the estimated balance at March 31, 2008 of $8.683 million be returned to customers as a rate moderator.

Q. Do you agree?

A. We do not. The actual balance is not known at this point and more importantly, there are no provisions in the current rate plan to either surcharge or pass back to customers any variation in spending for the ERRP maintenance. The Company’s proposal to utilize unexpended funds is based solely with the understanding that it would be allowed to fund a reserve with these funds for future maintenance. Absent authorization to establish a reserve, there is no basis for passing back or collecting any variation in spending during the current rate plan.

Q. Please describe CPB witnesses Schultz and DeRonne’s adjustment to your proposal for storm costs.

A. In our direct testimony, we proposed establishing a reserve for storm costs in the amount of $8 million. CPB’s witnesses proposed to reduce the level down to $5 million. Their opinion is that our request for storm costs is excessive and a worst case scenario.

Q. Do you agree?

A. No, we do not. In 2006, the Company incurred $24.7 million of these types of costs, which is more than what CPB considers to be a worst case scenario. One can not predict Mother Nature nor when the Company will incur or how much it will incur for storms, no matter what category of storm.

Q. Please explain the nature of the proposed reserve.

A. The $8 million the Company has requested be included in rates for storm costs is based on historical data for the last 15 years. The storm reserve funding is comprised of 3 elements:

- Establishment of a storm reserve of $4.1 million per year to provide coverage for any level 3 storm where over 15,000 customers are affected. Over the last 15 years we have had 12 level 3 storms, 7 level 3A storms with an average cost of $2.2 million per event and 5 level 3B storms with an average cost of $9 million per event. Since this is a reserve, the money will only be used if a level 3 storm occurs.

- Storm restoration normalization of $1.5 million funding is being included since there were no level 2 storms in the rate year 2006. We seek coverage for 2 level 2 storms per year. Over the last 15 years, we have had 30 level 2 storms, an average of two per year, at an average cost of just over $0.7 million per event.
- Storm mobilization normalization of $2.4 million per year for the annualization of mobilization costs. As a result of the feedback, we received after the Long Island City incident and the summer storms experienced in Westchester in 2006, we have enhanced our plans and initiated our preparation and mobilizations more proactively. While all these mobilizations don’t always materialize into storms that damage the system, we are ready in the event they do. The $2.4 million is the difference between our storm mobilization forecast of $4.1 million less the actual costs incurred in the later part of 2006 of $1.7 million.

CPB has not shown that Company’s proposal is improper. In fact, we would note that most other utilities in the state have such a reserve.

PROPOSAL FOR RECONCILATIONS

Q. Does the Staff Accounting Panel discuss true-up mechanisms?

A. Yes. They state that they do not support the true-up for property taxes proposed by Company witness Rasmussen. In addition, for reconciling interference costs, they recommend only reconciling actual interference expense up to the rate allowance, deferring any over-recovery for future refund to customers and that any under-recovery would be at the Company's expense. Staff also proposed an asymmetrical true-up mechanism for infrastructure spending. In addition, Staff made adjustments to the target levels of expense for these costs, all of which are lower than the Company's forecasts.

Q. Please explain.

A. For example, in the case of property taxes, Staff states in their testimony at page 77 that it was unlikely that the expense would vary significantly from the forecasted levels in the rate year and that a portion of the rate year expense is already known.

Q. Do you agree?

A. No.

Q. Why is it necessary to true-up property taxes?

A. With the increased capital spending program and the uncertainty as to future tax rates there is a significant potential for an over-recovery or under-recovery of property taxes. Property taxes are largely out of the Company’s control and can vary substantially from year to year and from estimates as witnessed historically. In addition, the taxing authorities may have less reason to limit tax increases if they know that the Company will have to absorb all or some portion of such increases, until rates are readjusted. Staff, on the one hand, rejects a mechanism that would protect both customers and the Company from a change in a material cost outside of its control, and, on the other hand, proposes an adjustment that would subject the Company to a material underrecovery of costs if Staff’s projection of property taxes proves to be incorrect. This position is not reasonable. If there is to be no true-up mechanism, then the projected cost for property taxes must be updated later in the proceeding if necessary.

Q. What is Staff’s proposal with regard to the true-up for interference costs?

A. Staff’s Accounting Panel recommends that, due to the size of the rate request and the fact that the rate year forecast for interference expense is 27 percent greater than the average expense over the last four years, the Company be required to reconcile its actual expense up to the rate allowance of $92 million and any over-recovery to be deferred for customers benefit. Any expenses over the rate allowance are to be borne by the shareholder to encourage the Company to coordinate its interference expenditure work closely with the City of New York in order to ensure efficient use of resources.

Q. Please comment on their recommendation.

A. Company witness Gencarelli addresses Staff’s proposal in his rebuttal testimony.

Q. Do you have any comments on the reconciliations proposed by the Staff Infrastructure Panel for infrastructure investment?

A. The Company’s Infrastructure Investment Panel address this proposal in their rebuttal testimony.

Q. Please summarize your position on reconciliations.

A. The reconciliations proposed by the Company are designed to protect both customers and the Company from costs outside the Company’s control on a reasonable and comparable basis. Such mechanisms have been part and parcel of multi-year rate plans adopted by the Commission and are equally appropriate in the context of a one-year rate plan since, among other factors, it may enable the Company to delay a rate increase filing that it would otherwise make. Staff has not provided any reasonable bases for their asymmetrical proposals that serve to continue protections for customers while eliminating protections for the Company.

COST OF INSURANCE

Q. CPB witnesses Schultz and DeRonne proposed a number of other adjustments to the Company’s revenue requirement. Can you please address their proposed adjustments for Directors and Officers Liability Insurance (“D&O”) and other insurance premium increases?

A. Yes. CPB witnesses Schultz and DeRonne proposed the removal of the D&O expense from the Company’s cost of service. They based this adjustment on their belief that D&O is designed solely “to protect directors and officers from inappropriate activities they may have participated in and/or from decisions that they made” and benefits shareholders, not ratepayers. Their argument ignores the fact that the insurance not only covers directors and officers but also the Company itself under the Corporate Reimbursement Section of the policy. Most claims of a D&O nature are covered under this section of the D&O policy. In addition, the Company would not be able to retain any qualified individual to act as an officer or director if it did not provide this insurance. Despite the implementation of additional controls and procedures to comply with the requirements of Sarbannes Oxley, insurance carriers have not reduced their premiums to reflect that additional safeguards have been implemented by the Company. The argument that D&O costs have increased significantly since 2001 is not through any fault of Con Edison’s management. It was caused by forces outside the direct control of the Company. Furthermore, if the Company’s officers or directors were sued and were later exonerated, D&O would pay for the necessary legal expenses incurred. D&O insurance represents a reasonable and necessary cost of providing service to customers. Accordingly, CPB’s adjustment should be rejected.

Q. Please discuss the adjustment recommended to other insurance expense by CPB witnesses Schultz and DeRonne.

A. CPB witnesses Schultz and DeRonne proposed the removal of the Company’s projected increase in insurance premiums because they indicated that the Company did not meet the burden of proof by providing supporting documentation.

Q. What is the effect of the proposed adjustment?

A. By eliminating the $5.354 million increase in premium costs, the CPB Panel limited the cost to the historic 2006 level.

Q. Did the Company support these cost increases?

A. Yes. In our response to CPB 24 the Company provided documentation showing how insurance premium expense was forecasted. The Company’s forecast represented the best estimate for 2007 based on the market at that time, the input of the Company’s insurance brokers, the hurricanes of 2004 and 2005 which had significant impact in the industry, and the Company’s own historic loss experience. Additional changes increasing or decreasing insurance premiums are reflected in the Company’s update. In our update for insurance premiums, we reflected the known premiums for 2007 and the latest forecast which is the 2008 budget. As we have previously said, the update shows a decrease in insurance premium cost of some $1.2 million.

ESCALATION

Q. In their discussion of escalation, CPB witnesses Schultz and DeRonne indicate that the escalation should be removed from the injuries and damages cost element and from the “Other” category of costs for program changes. Please comment on their adjustments.

A. We will first discuss the CPB’s witnesses’ dismissal of escalation on the cost element of injuries and damages. They contend that this expense is not tied to inflation like materials and supplies.

Q. Do you agree?

A. No, we do not. The Company’s cost element for injuries and damages represents the historic three year average of actual payments. As such, escalation is needed. Second, witnesses Schultz and DeRonne, eliminated escalation on all program changes with the cost element categorized as “Other” on line 62 of our Exhibit ___ (AP-5), Schedule 1, page 3. They agree that the historic year cost should be escalated with the exception of program changes in the “Other” element of expense. This is not correct. They permitted escalation on all of the other elements of expense in the escalation column and the cost element “Other” is no different. We classify the various elements of expenses of all program changes and when the element does not fit those listed on the schedule, we classify them as “Other” on line 62. Program changes are calculated without labor or general escalation, with the exception of a few elements of expense. Their adjustment of $2.237 million should be rejected.

Q. Do you have further comments on the subject of escalation?

A. Yes, we believe the Staff Accounting Panel overstated the general escalation on their various adjustments by some $700,000. We are referring to their Exhibit ___ (AP-2), Schedule 8, page 3, adjustment #2o. The general inflation adjustment on the last line for $814,000 for their proposed adjustments appears correct. It was calculated based on the adjustments shown in #2o. However, the calculation assumed that their proposed elimination of stock options total $14.146 million which the Company submitted in response to an interrogatory. Not the $14.811 million shown. The latter amount includes escalation of $665,000 ($14.146 mil x 104.7% = $14.811 million). This is a double count and should not be accepted.

EXCESS RATE BASE OVER CAPITALIZATION ADJUSTMENT

Q. What is the NYPA Panel's issue with the Company's excess rate base over capital adjustment ("EBCAP") to the average rate base?

A. The Company's historic year 2006 electric average rate base includes a positive EBCAP adjustment that increased the average rate base by $382 million, i.e., the capitalization is higher than the Company's earnings base. The fact is that the EBCAP equalizes the earnings base with the capitalization. The capitalization supports the utility business. This calculation of the EBCAP (as well as the working capital using the FERC 1/8 formula) has been accepted by the Commission for many years. NYPA's proposed rejection of the Company's EBCAP in total because it is a positive adjustment that increases the rate base rather than a credit adjustment decreasing rate base is not proper. The EBCAP is not a one-way adjustment.

Q. Does this conclude your update and rebuttal testimony?

A. Yes, it does.

EXHIBIT __ (AP-8)
PAGE 1 OF 2
REVISED

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC
RATE BASE - ELECTRIC
AVERAGE TWELVE MONTHS ENDING MARCH 31, 2009
(Thousands of Dollars)

Line No.		Rate Year Rate Base Per Original Filing (Column 1)	Company Update (Column 2)	Rate Year Rate Base Fully Adjusted (Column 3)
	UTILITY PLANT			
1.	BOOK COST OF PLANT	$ 17,505,526	$ 2,587	$ 17,508,113
2.	ACCUMULATED RESERVE FOR DEPRECIATION	(3,789,936)	38	(3,789,898)
3.	NET PLANT	13,715,590	2,625	13,718,215
4.	NON-INTEREST BEARING CWIP	347,912	1,946	349,858
5.	PREFERRED STOCK EXPENSE	2,366		2,366
6.	UNAMORTIZED DEBT DISCOUNT PREMIUM AND EXPENSE	135,204	743	135,947
7.	DEFERRED FUEL - NET OF TAX	37,008		37,008
8.	F.I.T. REFUND DEFICIENCY- INCL. INTEREST - NET OF TAX	18,971		18,971
9.	UNAMORTIZED BALANCE - HUDSON FARRAGUT	1,800		1,800
10.	CUSTOMER ADVANCES FOR CONSTRUCTION	(206)		(206)
11.	M.T.A. SURTAX - NET OF TAX	1,789		1,789
12.	WORKING CAPITAL	560,994	(4,990)	556,004
13.	EXCESS RATE BASE OVER CAPITALIZATION ADJUSTMENT	382,035	(39,504)	342,531
14.	EARLY RETIREMENT TERMINATION BENEFIT (1999) - NET OF TAX	9,095		9,095
15.	DC SERVICE INCENTIVE - NET OF TAX	(5,808)		(5,808)
16.	SYSTEM BENEFITS CHARGE/RETAIL PORTFOLIO STANDARD - NET OF TAX	(3,845)		(3,845)
17.	AMOUNTS BILLED IN ADVANCE OF CONSTRUCTION - NET OF TAX	(5,218)		(5,218)
18.	B I R DISCOUNTS - RECOVERY - NET OF TAX	3,339		3,339
19.	EAST RIVER MAINTENANCE RESERVE - NET OF TAX	-	(5,151)	(5,151)
	RATE CASE RECONCILIATIONS - NET OF INCOME TAXES			
20.	REFUND OF GAIN FROM SALE OF 1ST AVE PROPERTIES	(46,315)	(4,137)	(50,452)
21.	REFUND OF CUSTOMER BENEFITS FROM THE CORRECTION OF ADR TAXES	(23,758)	(380)	(24,138)
22.	REFUND OF INTEREST ON FEDERAL INCOME TAX AUDIT ADJUSTMENTS	(11,129)		(11,129)
23.	REFUND OF OVER COLLECTION OF NYS TAX LAW CHANGES	(12,632)	(1,208)	(13,840)
24.	RECOVERY OF CARRYING CHARGES ON T&D EXPENDITURES	79,099		79,099
25.	RECOVERY OF WTC COSTS	156,508		156,508
	ACCUMULATED DEFERRED INCOME TAXES			
26.	ADR / ACRS / MACRS DEDUCTIONS	(1,642,582)	(1,059)	(1,643,641)
27.	CHANGE OF ACCOUNTING SECTION 263A	(298,381)		(298,381)
28.	VESTED VACATION	12,101		12,101
29.	PREPAID INSURANCE EXPENSES	(1,729)		(1,729)
30.	UNBILLED REVENUES	105,914		105,914
31.	CONTRIBUTIONS IN AID OF CONSTRUCTION	14,231		14,231
32.	CAPITALIZED INTEREST	4,861		4,861
33.	REPAIR & MAINTENANCE ALLOWANCE - 2002-2006 IRS AUDIT	6,193		6,193
34.	CUSTOMER DEPOSITS	33,799		33,799
35.	CALL PREMIUM	(20,307)		(20,307)
36.	DEFERRED S.I.T.	(232,829)	2,206	(230,623)
37.	Total Rate Base	$ 13,324,070	$ (48,909)	$ 13,275,161

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC
WORKING CAPITAL - ELECTRIC
AVERAGE TWELVE MONTHS ENDING MARCH 31, 2009
(Thousands of Dollars)

Line No.		Rate Year Rate Base Per Original Filing (Column 1)	Company Update (Column 2)	Rate Year Rate Base Fully Adjusted (Column 3)
	MATERIALS AND SUPPLIES			
1.	LIQUID FUEL INVENTORY	$ 5,715		$ 5,715
2.	MATERIALS AND SUPPLIES, EXCLUDING FUEL	86,787		86,787
3.	TOTAL MATERIALS AND SUPPLIES	92,502	0	92,502
	PREPAYMENTS			
4.	INSURANCE	12,653	39	12,692
5.	RENTS	15,138		15,138
6.	PROPERTY TAXES	172,755	(5,916)	166,839
7.	P.S.C. ASSESSMENT	7,949	19	7,968
8.	INTERFERENCE	1,694		1,694
9.	EPRI	173		173
10.	OTHER	12,012		12,012
11.	TOTAL PREPAYMENTS	222,374	(5,858)	216,516
	CASH WORKING CAPITAL			
12.	TOTAL ELECTRIC OPERATION AND MAINTENANCE EXPENSES	4,750,583	6,001	4,756,584
13.	LESS: PURCHASED POWER EXPENSES	2,781,137		2,781,137
14.	GAS PORTION OF FUEL	232,879		232,879
15.	RECOVERABLE FUEL COSTS	25,382		25,382
16.	INTERDEPARTMENTAL RENTS	4,834		4,834
17.	UNCOLLECTIBLES	37,124		37,124
18.	PENSIONS	82,098	(947)	81,151
19.	CASH WORKING CAPITAL SUBJECT TO 1/8TH ALLOWANCE	1,587,129	6,948	1,594,077
20.	CASH WORKING CAPITAL @ 1/8TH	198,392	869	199,261
21.	ADD:CASH WORKING CAPITAL @ 1/12 ON RECOVERABLE FUEL COSTS	2,116	0	2,116
22.	TOTAL CASH WORKING CAPITAL	200,507	869	201,376
23.	TOTAL	515,383	(4,990)	510,393
24.	ADD: WORKING CAPITAL RELATED TO PURCHASED POWER ($2,781,137 X 1.64%)	45,611	0	45,611
25.	TOTAL WORKING CAPITAL	$ 560,994	$ (4,990)	$ 556,004

Exhibit ___ (AP-9)
Schedule 1
REVISED

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

OPERATING INCOME, RATE BASE AND RATE OF RETURN FOR ELECTRIC OPERATIONS
SHOWING THE EFFECT OF THE PROPOSED INCREASE IN RATES
TWELVE MONTHS ENDING MARCH 31, 2009
(Thousands of Dollars)

	Twelve Months Ending March 31, 2009 As Reflected in Exhibit (AP-9) (Column 1)	Rate Case Adjustments (Schedule 3) (Column 2)	Rate Year As Adjusted (Column 3)	Proposed Rate Increase (Column 4)	Rate Year As Adjusted For Proposed Rate Increase (Column 5)
OPERATING REVENUES					
SALES REVENUES	$6,658,977	$4,010	$6,662,987	$1,201,457	$7,864,444
OTHER OPERATING REVENUES	84,545	(6,882)	77,663	0	77,663
TOTAL OPERATING REVENUES	6,743,522	(2,872)	6,740,650	1,201,457	7,942,107
OPERATING REVENUE DEDUCTIONS					
FUEL AND PURCHASED POWER	3,041,326	0	3,041,326	0	3,041,326
OTHER OPERATION AND MAINTENANCE	1,709,257	6,001	1,715,258	6,608	1,721,866
DEPRECIATION AND AMORTIZATION	599,506	93	599,599	0	599,599
TAXES OTHER THAN INCOME TAXES	1,035,890	(26,388)	1,009,502	34,842	1,044,344
GAINS FROM DISPOSITION OF UTILITY PLANT	(30,812)	0	(30,812)	0	(30,812)
TOTAL OPERATING REVENUE DEDUCTIONS	6,355,167	(20,294)	6,334,873	41,450	6,376,323
OPERATING INCOME BEFORE INCOME TAXES	388,355	17,422	405,777	1,160,007	1,565,784
NEW YORK STATE INCOME TAX (Schedule 2, Page 1)	(1,635)	(3,216)	(4,851)	82,360	77,509
FEDERAL INCOME TAX (Schedule 2, Page 2)	(32,094)	4,183	(27,911)	377,176	349,265
OPERATING INCOME AFTER INCOME TAXES	$422,084	$16,455	$438,539	$700,471	$1,139,010
AVERAGE RATE BASE (Exhibit (AP-8))	$13,324,070	($48,909)	$13,275,161		$13,275,161
RATE OF RETURN	3.17%		3.30%		8.58%

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

NEW YORK STATE INCOME TAX - ELECTRIC
TWELVE MONTHS ENDING MARCH 31, 2009
(Thousands of Dollars)

Line No.		Twelve Months Ending March 31, 2009 As Reflected in Exhibit (AP-9) (Column 1)	Rate Case Adjustments (Schedule 3) (Column 2)	Rate Year As Adjusted (Column 3)	Proposed Rate Increase (Column 4)	Rate Year As Adjusted For Proposed Rate Increase (Column 5)
1	Book Operating Income Before Income Taxes	$388,355	$17,422	$405,777	$1,160,007	$1,565,784
	FLOW THROUGH ITEMS					
	Deduct: Non-Taxable Income and Additional Deductions					
2	Interest expense	395,556	8,872	404,428	0	404,428
3	Medicare Part D Subsidy - Post Employment Benefits	15,824	0	15,824	0	15,824
4	Total Deductions	411,380	8,872	420,252	0	420,252
	NORMALIZED ITEMS					
	Add: Additional Income and Unallowable Deductions					
5	Book Depreciation	599,506	93	599,599	0	599,599
6	Contributions in Aid of Construction	1,855	0	1,855	0	1,855
7	Capitalized Interest	10,055	0	10,055	0	10,055
8	Pensions / OPEB expense - Per Books	82,098	(947)	81,151	0	81,151
9	Total Additions	693,514	(854)	692,660	0	692,660
	Deduct: Non-Taxable Income and Additional Deductions					
10	NYS Depreciation	586,293	(483)	585,810	0	585,810
11	Removal Costs	160,688	0	160,688	0	160,688
12	Repair Allowance	14,553	0	14,553	0	14,553
13	Amortization of Capitalized Interest	3,881	0	3,881	0	3,881
14	Loss on MACRS Retirements	44,763	0	44,763	0	44,763
15	Pensions / OPEB expense - Funding	108,134	33,605	141,739	0	141,739
16	Westchester Property Tax adjustment	597	0	597	0	597
17	Correction of ADR Tax amortization	16,059	0	16,059	0	16,059
18	Interest on Federal income tax audit adjustments - net	7,404	0	7,404	0	7,404
19	New York State Tax Law Changes	9,207	0	9,207	0	9,207
20	Interest on First Avenue Properties	2,752	0	2,752	0	2,752
21	WTC expenses	(37,270)	3,769	(33,501)	0	(33,501)
22	Carrying Charges on T&D expenditures	(52,623)	(13,651)	(66,274)	0	(66,274)
23	DC Service Revenues	0	3,000	3,000	0	3,000
24	Gain on the Sale of First Avenue Properties	30,812	0	30,812	0	30,812
25	Total Deductions	895,250	26,240	921,490	0	921,490
26	Taxable Income - New York State	($224,761)	($18,544)	($243,305)	$1,160,007	$916,702
	Tax Computation					
27	Current New York State Income Tax @ 7.10%	($15,958)	($1,317)	($17,275)	$82,360	$65,085
28	Deferred New York State Income Tax @ 7.10%	14,323	1,924	16,247	0	16,247
29	Sub-total New York State Income Tax	($1,635)	$607	($1,028)	$82,360	$81,332
30	Brownfield Credit	0	(100)	(100)	0	(100)
31	Amortization of Previously Deferred Excess SIT	0	(3,723)	(3,723)	0	(3,723)
32	Total New York State Income Tax	($1,635)	($3,216)	($4,851)	$82,360	$77,509

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

FEDERAL INCOME TAX - ELECTRIC
TWELVE MONTHS ENDING MARCH 31, 2009
(Thousands of Dollars)

Line No.		Twelve Months Ending March 31, 2009 As Reflected in Exhibit (AP-9) (Column 1)	Rate Case Adjustments (Schedule 3) (Column 2)	Rate Year As Adjusted (Column 3)	Proposed Rate Increase (Column 4)	Rate Year As Adjusted For Proposed Rate Increase (Column 5)
1	Book Operating Income Before Income Taxes	$388,355	$17,422	$405,777	$1,160,007	$1,565,784
2	New York State Income Tax	(1,635)	607	(1,028)	82,360	81,332
3	Book Operating Income Before Federal Income Tax	389,990	16,815	406,805	1,077,647	1,484,452
	FLOW THROUGH ITEMS					
	Add: Additional Income and Unallowable Deductions					
4	Book Depreciation	599,506	93	599,599	0	599,599
5	Hudson-Farragut Amortization - Per Books	477	0	477	0	477
6	Capitalized Interest	10,055	0	10,055	0	10,055
7	Total Additions	610,038	93	610,131	0	610,131
	Deduct: Non-Taxable Income and Additional Deductions					
8	Interest expense	395,556	8,872	404,428	0	404,428
9	Statutory Depreciation - at current book rates	276,385	(173)	276,212	0	276,212
10	Statutory Depreciation - change at proposed book rates	27,829	(21)	27,808	0	27,808
11	Statutory Depreciation - change with reserve deficiency	5,049	0	5,049	0	5,049
12	Removal Costs	160,688	0	160,688	0	160,688
13	Medicare Part D Subsidy - Post Employment Benefits	15,824	0	15,824	0	15,824
14	Amortization of Capitalized Interest	2,039	0	2,039	0	2,039
15	Westchester Property Tax adjustment	597	0	597	0	597
16	Dividends Paid on $5 Cumulative Preferred Stock	3,327	0	3,327	0	3,327
17	Total Deductions	887,294	8,678	895,972	0	895,972
	NORMALIZED ITEMS					
	Add: Additional Income and Unallowable Deductions					
18	Contributions in Aid of Construction	1,855	0	1,855	0	1,855
19	Pensions / OPEB Expense - Per Books	82,098	(947)	81,151	0	81,151
20	Deferred State Income Tax	14,323	1,924	16,247	0	16,247
21	Total Additions	98,276	977	99,253	0	99,253
	Deduct: Non-Taxable Income and Additional Deductions					
22	Statutory Depreciation - at current book rates	377,690	(741)	376,949	0	376,949
23	Statutory Depreciation - change at proposed book rates	(27,829)	21	(27,808)	0	(27,808)
24	Statutory Depreciation - change with reserve deficiency	(5,049)	0	(5,049)	0	(5,049)
25	Repair Allowance	14,553	0	14,553	0	14,553
26	Loss on MACRS Retirements	26,426	0	26,426	0	26,426
27	Amortization of Capitalized Interest	1,842	0	1,842	0	1,842
28	Pensions / OPEB expense - Funding	108,134	33,605	141,739	0	141,739
29	Correction of ADR Tax amortization	16,059	0	16,059	0	16,059
30	Interest on Federal income tax audit adjustments - net	7,404	0	7,404	0	7,404
31	New York State Tax Law Changes	9,207	0	9,207	0	9,207
32	Interest on First Avenue Properties	2,752	0	2,752	0	2,752
33	WTC expenses	(37,270)	3,769	(33,501)	0	(33,501)
34	Carrying Charges on T&D expenditures	(52,623)	(13,651)	(66,274)	0	(66,274)
35	DC Service Revenues	0	3,000	3,000	0	3,000
36	Gain on the sale of First Avenue Properties	30,812	0	30,812	0	30,812
37	Total Deductions	472,108	26,003	498,111	0	498,111
38	Taxable Income - Federal	($261,098)	($16,796)	($277,894)	$1,077,647	$799,753
	Tax Computation					
39	Current Federal Income Tax @ 35%	($91,384)	($5,879)	($97,263)	$377,176	$279,913
40	Deferred Federal Income Tax @ 35%	130,841	8,759	139,600	0	139,600
	Amortization of Previously Deferred Federal Income Tax					
41	Depreciation - ADR / ACRS / MACRS - at current book rates	(38,759)	0	(38,759)	0	(38,759)
42	Depreciation - ADR / ACRS / MACRS - proposed book rates	(1,436)	0	(1,436)	0	(1,436)
43	Depreciation - ADR / ACRS / MACRS - reserve deficiency	(2,539)	0	(2,539)	0	(2,539)
44	Loss on MACRS Retirements	(3,232)	0	(3,232)	0	(3,232)
45	Repair Allowance	(9,617)	0	(9,617)	0	(9,617)
46	Capitalized Overheads	(11,197)	0	(11,197)	0	(11,197)
47	Investment Tax Credit	(4,771)	0	(4,771)	0	(4,771)
48	Excess Deferred SIT	0	1,303	1,303	0	1,303
49	Total Federal Income Tax	($32,094)	$4,183	($27,911)	$377,176	$349,265

Exhibit ___ (AP-9)
Schedule 3
REVISED

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

ADJUSTMENTS TO OPERATING INCOME - ELECTRIC
TWELVE MONTHS ENDING MARCH 31, 2009
(Thousands of Dollars)

	Amount
SALES REVENUES	
1. Increase in MAC revenues related to ERRP carrying charges	$4,010
Total Adjustments to Sales Revenues	$4,010
OTHER OPERATING REVENUES	
1. To recover previously deferred WTC expenditures	$3,769
2. Carrying charges on T&D expenditures	(13,651)
3. To refund excess DC service revenues	3,000
Total Adjustments to Other Operating Revenues	($6,882)
FUEL AND PURCHASED POWER	$0
OPERATION AND MAINTENANCE EXPENSES	
1. ERRP carrying charges	$4,010
2. Pension / OPEB expenses	(947)
3. Shared services expenses	(1,674)
4. Adjustment to amounts previously normalized	1,064
5. Interference expenses	(2,713)
6. MGP Superfund expenses	(5,481)
7. Injuries and Damages expenses	(509)
8. Incremental line clearance law expense	6,115
9. Emergency preparedness expenses	563
10. Company vehicles - fuel expenses	908
11. Duplicate Miscellaneous Charges	(896)
12. Insurance Premiums	(1,220)
13. Regulatory Commission expenses	284
14. Normalization of labor and other benefits	(836)
15. Employee welfare expenses	6,233
16. Coastal Storm Preparedness	1,100
Total Adjustments to Operation and Maintenance Expenses	$6,001
DEPRECIATION AND AMORTIZATION EXPENSES	
1. Increase in depreciation expense resulting from revised plant forecast:	
a. At rates in effect	$81
b. Additional amount at proposed rates	12
Total Adjustments to Depreciation and Amortization Expenses	$93
TAXES OTHER THAN INCOME TAXES	
1. Revised level of New York City Property Taxes	($26,388)
Total Adjustments to Taxes Other Than Income Taxes	($26,388)
GAINS FROM DISPOSITION OF UTILITY PLANT	$0

Exhibit ___ (AP-9)
Schedule 4
REVISED

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

CUSTOMER CREDITS AND DEBITS - ELECTRIC
(Thousands of Dollars)

		Rate Year 1	Rate Year 2	Rate Year 3	Total
Customer Credits					
	Regulatory Liabilities				
1	Customer benefits resulting from the correction of ADR taxes	$16,059	$16,059	$16,059	$48,177
2	Interest on Federal income tax audit adjustments - net	7,404	7,404	7,404	22,212
3	New York State Tax Law Changes	9,207	9,207	9,207	27,621
4	DC Service Revenues	3,000	3,000	3,000	9,000
5	Sale of First Avenue Properties	33,564	33,564	33,564	100,692
	Total	$69,234	$69,234	$69,234	$207,702
	Deferred Taxes				
1	Excess Deferred NYS Income Taxes	$3,723	$3,723	$3,723	$11,169
Customer Debits					
	Regulatory Assets				
1	WTC expenses	$33,501	$33,501	$33,501	$100,503
2	Carrying Charges on T&D expenditures	66,274	66,274	66,274	198,822
	Total	$99,775	$99,775	$99,775	$299,325

Consolidated Edison Company of New York, Inc.

Case No. 07-E-0523

Exhibit__ (AP-15)

DPS Responses to Company Data Requests

- DPS Staff (Accounting Panel) Response to Company Question 80
- DPS Staff (Accounting Panel) Response to Company Question 84
- DPS Staff (Accounting Panel) Response to Company Question 85

Company responses to DPS Interrogatories

- Response to DPS Interrogatories, Set Staff 21, Question 373
- Response to DPS Interrogatories, Set Staff 22, Question 392

Exhibit __(AP-15)

INFORMATION REQUEST TO DPS Staff Set 1

Consolidated Edison Company of New York, Inc.
Case No. 07-E-0523

Data requests to DPS Staff (Accounting Panel) (question 80):

Question 80:

The Accounting Panel recommended eliminating "executive compensation" of Mr. McGrath and Ms Freilich in the amount of $4.867 million (see Exhibit __ (AP-2, Schedule 8, adjustment 2b. Based on workpapers supplied by Staff to the Company, the breakdown of the $4.867 million is as follows:

2006 Salary		$ 820,917
2006 Pension expense		5,097,351
2006 Vehicle & Medical expense		266,231
Total		6,184,499
Electric Allocation (78.7%)		78.7%
Net	$4,867,200	

(a) Please explain why the entire adjustment was made to employee labor expense.
(b) Please explain what pension expenses the Accounting Panel believes are in the Rate Year for Mr. McGrath and Ms. Freilich and why this adjustment is appropriate.
(c) Please explain what medical insurance expenses the Accounting Panel believes are in the Rate Year for Mr. McGrath and Ms. Freilich and why this adjustment is appropriate.

Response:

The above breakdown is not representative of what the Panel provided in its workpapers. Attached is the Executive Compensation worksheet the Panel provided, which indicates:

Salary	$ 820,917
Other (Includes Life Ins. and Savings)	$5,363,582
	$6,184,499
Electric	x.787
	$4,867,201

(a) The Panel's adjustment was based on data reported by Con Edison in its FERC Annual Report on pages 104 &105 "Officers and Directors (Including Compensation)". The Panel interpreted this compensation as a labor cost. Upon review of the Company's Proxy Statement Form DEF 14A "Other" is divided between "Change in Pension Value and Non-Qualified Deferred Compensation Earnings" and "All Other Compensation", the Panel is withdrawing an adjustment of $3,997,000 ($5,097,351 x .787) from Labor. This is based on the break-out of Compensation on pages 26-27 of the Form Def 14A which lists a combined total for Mr. McGrath and Ms. Freilich as $5,097,351 under "Change in Pension Value and Non-Qualified Deferred Compensation Earnings". The amendment to the adjustment reflects the Electric portion (78.7%) of the Salaries for the two Officers $646,062 (820,917 x .787) and also their total accrued vacation pay of $118,837 ($151,000 x .787) listed on pages 26-27 of the Form Def 14A. The Panel is also reducing Insurance Expense by $49,789 (63,265x.787) based on the Company's inclusion of life insurance, supplemental life insurance and supplemental health insurance for Mr. McGrath and Ms. Freilich (see, footnote 5 on pages 26-27 of the Form Def 14A in which it appears under "All Other Compensation").

(b) See response to (a).

(c) See response to (a).

Exhibit __ (AP-15)

INFORMATION REQUEST TO DPS Staff Set 1

Consolidated Edison Company of New York, Inc.
Case No. 07-E-0523

Data requests to DPS Staff (Accounting Panel) (question 84):

Question 84:

The Staff Accounting Panel recommended the elimination of 13 employees from the Shared Services Department (see testimony at page 39). The Panel referred to the Company's response to their interrogatory #496 as the basis for the adjustment. The testimony indicates that the rate year level of salaries for this group is estimated at $1.552 million excluding escalation. The Panel indicated on page 40, line 5 that the Company will allocate $1.131 million of shared service administrative labor to electric.

The Company's response to DPS #496 indicated that the salary for one of the 13 positions, a Section Manager hired July 1, 2006 at $131,000 was charged entirely to O&R. The level of salaries allocated by the Company to electric operations in the rate year would have been done as follows:

Rate Year level of salaries	$1,552,000	
Less O&R Employee	(131,000)	
Total CECONY Salaries	1,421,000	
Less allocated to subsidiaries (26.5%)		(377,000)
Net CECONY Salaries		1,044,000
Less allocation to Gas and Steam (21.3%)	(222,000)	
Net allocation to Electric	$ 822,000	

Please provide the calculation used to allocate the $1.552 million to electric to arrive at $1.131 million.

Response:

The $1.131 million is based on the $1,551,900 provided in the Company's response to Staff IR DPS-496 d) wherein the Company indicates that: "The rate year level of labor costs will be approximately $1,552K excluding wage award." Using the allocations from the Company's Workpaper Line 58 Shared Services Administration, the Panel deducted the O&R allocation of 7.35% or $114,065 to arrive at $1,437,835. We then applied the Electric allocation of 78.7% to the $1,437,835 to arrive at the $1,131,576. This amount was reduced by the $222,000 in proposed productivity savings for an adjustment of $909,281. Based on the above referenced Section Manager charged entirely to O&R, our adjustment should be revised to reflect an adjustment of $814,000 (instead of $909,000). Please see the attached calculation.

Exhibit__(AP-15)

INFORMATION REQUEST TO DPS Staff Set 4

Consolidated Edison Company of New York, Inc.
Case No. 07-E-0523

Data requests to DPS Staff (Accounting Panel):

Question 85:

The workpapers submitted by the Accounting Panel in support of the EB/Cap adjustment for pensions reflects an adjustment of $28,464,730 for share earnings for the twelve months ended March 31, 2003.

(a) Please provide the source for this adjustment. The Company's records indicate that $49,741,000 of earnings above the threshold for that period were deferred for customers.

(b) For the twelve months ended March 31, 2004, Company records indicate that $615,000 of earnings above the threshold for that year were deferred for customers in that period. The workpaper show no amounts were shared. Please indicate whether or not an adjustment should be made to the workpaper for that year.

Response:

(a) The purpose of this adjustment in Staff's analysis was to measure the impact of pension expense over-recoveries on earnings and, if applicable, earnings shared with customers. For the twelve months ended March 31, 2003, we calculate that the company over-recovered its electric pension expense by $56,929,461 (2002 over-recovery $73,922,467*.75 + 2003 over-recovery $5,950,441*.25). The company's then governing rate plan provided for an equal (50/50) sharing of excess earnings. Therefore, for the twelve months ended March 31, 2003 the maximum level of customer benefit (shared earnings) that can be attributed to pension over-recoveries is $28,464,730.

(b) No adjustment is appropriate.

Company Name: Con Edison
Case Description: Electric Rate Filing
Case: 07-E-0523

Response to DPS Interrogatories – Set Staff21
Date of Response:
Responding Witness: Accounting Panel

Question No.: 373
Subject: Energy Education and Customer Awareness –

a) In the Accounting Panel Workpapers to Exhibit_ (AP-5), Schedule 8, page 2 of 4 Program Changes, Line 63 Public Affairs under Informational Advertising the amount reflected is $6,897,000. Provide a list of forecasted costs, listed by date and description, of material, media and intended vendors for the RYE 2009 included in the $6,897,000.
b) Provide the supporting documents, workpapers and calculations used to arrive at the $6,897,000 in Exhibit _ (AP-5) Schedule 8 Page 2 of 4 on line 63 under Informational Advertising.

RESPONSE:

Forecasted costs are reflected in the attached tables. They are based on an estimated cost of $8.5 million, with electric's allocation of approximately $6.9 million.

For the Energy Education program, the estimated amount is $6.9 million. Approximately $4 million is for print publications, $1.3 million for radio and $865,000 is for outdoor advertising on telephone kiosks, in subways, and on Metro North posters. In addition, the production cost is estimated at approximately $650,000. For the Working for You program, the estimated amount is approximately $1.6 million. Approximately $1.1 million is for print publications and $300,000 is for radio. In addition, the production is cost estimated at approximately $200,000.

The specific schedule for the placement of advertising in the rate year has not been determined. Generally, if funding is available, the programs are developed on a seasonal basis.

The specific breakdown of radio, print and outdoor placements is an estimate. The specific publications and radio stations for 2009 have not been determined. However, below is a sample of the media outlets we have used in the past.

Radio Stations
WAXQ-FM
WBLS-FM
WCBS-FM
WXAQ-FM

WFAN-AM
WFAS-FM
WINS-AM
WKTU-FM
WLTW-FM
WPAT-FM
WQCD-FM
WRKS-FM
WSKQ-FM
WNPR-AM/FM

Daily Publications
New York Times
New York Post
Newsday
Crain's NY
Staten Island Advance
Wall Street Journal
Westchester Journal News

Community and Ethnic Publications (sample)
Bronx Press
Riverdale Review
Brooklyn Daily Eagle
Carribean Life
Cobble Hill Courier
Brooklyn Heights Courier
Bay Ridge paper
Brooklyn Family
Big Apple parent
Downtown Express
Villager
Tribeca Trib
Upper East Side Resident
Upper West Side Resident
Chelsea Clinton News
Westchester County Times
Westchester Business Journal
Rye Record
Westchester Parent
Pelham Weekly
Scarsdale Inquirer
River Journal
Queens Family
Southeast Queens Press
Queens parent

Queens Gazette
Queens Chronicle
Haitian Times
Novoye Russoye
El Diario/La Prensa
El Aguila
Jewish Post
Jewish Week
Westchester Jewish Chronicle
Manhattan Times (bilingual)
Korean Daily
The Filipino Reporter
Harlem News
New York Amsterdam News

Company Name: Con Edison
Case Description: Electric Rate Filing
Case: 07-E-0523

Response to DPS Interrogatories – Set Staff22
Date of Response:
Responding Witness:

Question No. :392
Subject: Public Affairs Program Change Company Exhibit AP5, Schedule 8, included \$6.897 million program change on line 63 under Informational Advertisement. This program change represents the electric allocation of \$8.5 million total company costs for expanding the Energy Information and the We're Working for You 24 7 communication programs, according to the Accounting Panel testimony. This program change represents 81 percent of the \$10,501 million total historic year spending on public awareness and energy information programs. a. What are the circumstances which drive the Company to expand the two communications programs? Provide justification for the need to expand the programs. b. How would the increase benefit customers? Provide a cost-and-benefit analysis. c. Did the Company perform any activities under the Energy Information and We're Working for You 24 7 programs during the historic periods? If yes, provide costs incurred for the 12-month periods ended December 31, 2004 through 2006. d. If the answer to c) is no, why not?

RESPONSE:

a) As described in the Accounting Panel testimony, communication and public outreach are critical to Con Edison. Our goal is to keep the public and our customers educated about energy consumption, energy efficiency and how they can communicate with Con Edison on a regular or emergency basis. We want to inform our customers and the public about topics such as the need to maintain and enhance the electric infrastructure, energy conservation and potential minority or women-owned business opportunities. Con Edison uses a wide array of media and vehicles to convey these messages. But the most effective tool for reaching a broad audience is marketing and advertising. This is the best mechanism for reaching millions of people in our customer service area. We rely on a wide variety of outlets including major daily print publications. We also advertise in more than 100 local weekly community and ethnic publications, as well as "in-language" publications that reach customers who do not speak English. Our radio advertising allows us to reach a broad spectrum of the population, including bi-lingual communities. The outdoor advertising campaign, which includes subways, telephone kiosks and Metro North platform posters, is highly effective because it reaches millions of people who live or work in our service territory.

The expansion of the program will allow Con Edison to more effectively reach a broad audience in the New York City metropolitan media market. In a media market that is as competitive and large as New York's, an effective marketing campaign must be sustained over a period of time. Placing advertisements that only appear for a short period or in a few publications gets lost in the mix. Conveying information about topics such as energy efficiency or the importance of the electric infrastructure for New York City's growth needs to be part of an ongoing, annual campaign. The current funding, given the large number of publications and media outlets in New York and high expense, is not sufficient to maintain an annual program. We are generally limited to a summer program, with sporadic advertisements throughout the rest of the year. Furthermore, with increased funding, we can reach out to the diverse populations of New York City by increasing our placements in community and ethnic publications.

b) As indicated above, the enhanced program will benefit Con Edison's customers because they will become more educated consumers of Con Edison's services. The information that will be presented to them may help them reduce costs, avoid unnecessary delays in getting service or help them conserve energy. The benefit to the customer is that they will have access to more information on how they can take control of their energy usage. Though a cost/benefit analysis has not been prepared, there is wide recognition that greater communication and outreach with the public Con Edison's customers is important.

c) Yes, the Company did perform these programs from 2004 to 2006. The costs are listed below:

YEAR 2004
Energy Education: $3,300,000
Working for You: $520,000

YEAR 2005
Energy Education: $3,400,000
Working for You: $545,000

YEAR 2006
Energy Education: $3,200,000
Working for You: $2,800,000

Consolidated Edison of New York Inc
Electric Pension Expense
Rates and Actual

	9 months Dec-97	1998	1999	2000	2001	2002	2003	2004	Jan-Mar 2005	Total
Rate Allowance	$ 5,475,000	$ 7,300,000	$ 7,300,000	$ (92,807,750)	$ (126,177,000)	$ (126,177,000)	$ (126,177,000)	$ (126,177,000)	$ (31,544,250)	$ (608,985,000)
Actual	5,717,135	(32,028,256)	(61,017,233)	(154,396,018)	(202,188,623)	(200,099,467)	(132,127,441)	(102,482,055)	(6,969,128)	(885,591,086)
Rates vs. Actual	(242,135)	39,328,256	68,317,233	61,588,268	76,011,623	73,922,467	5,950,441	(23,694,945)	(24,575,122)	276,606,086
Less: Share Earnings	-	-	(10,256,000)	-	-	-	(48,471,000)	(615,000)	-	(59,342,000)
: ADR Order	-	-	-	-	-	-	(9,029,000)	(9,547,000)	-	(18,576,000)
: Global Adj.	(9,375,000)	(12,500,000)	(12,500,000)	(12,500,000)	(12,500,000)	(12,500,000)	(12,500,000)	(12,500,000)	(3,125,000)	(100,000,000)
Net Over / (Under) Recovery	(9,617,135)	26,828,256	45,561,233	49,088,268	63,511,623	61,422,467	(64,049,559)	(46,356,945)	(27,700,122)	98,688,086
Net of Tax Over / (Under) Recovery	$ (6,251,138)	$ 17,438,366	$ 29,614,801	$ 29,195,247	$ 37,979,951	$ 36,930,258	$ (38,509,797)	$ (27,872,113)	$ (16,654,698)	**$ 61,870,877**

State tax rate	0.000%	0.000%	0.000%	8.500%	8.000%	7.500%	7.500%	7.500%	7.500%
State net of Federal	0.000%	0.000%	0.000%	5.525%	5.200%	4.875%	4.875%	4.875%	4.875%
Federal tax rate	35.000%	35.000%	35.000%	35.000%	35.000%	35.000%	35.000%	35.000%	35.000%
Total income tax	35.000%	35.000%	35.000%	40.525%	40.200%	39.875%	39.875%	39.875%	39.875%
Retention factor	65.000%	65.000%	65.000%	59.475%	59.800%	60.125%	60.125%	60.125%	60.125%

Exhibit __ (AP-16)