

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Case 05-S-

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Steam Rates

February 2006

Prepared Testimony of

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On behalf of

Consumer Power Advocates

1 Q. Please state your name and business address.

2 A. My name is Catherine M. Luthin, and my business address is

3 15 Walling Place, Avon-By-The-Sea, New Jersey 07717.

4

5 Q. What is your educational background and experience?

6 A. I am Principal and Founder of Luthin Associates, an energy management

7 consulting firm established in 1994. I have a Master of Business

1 Administration degree and a Bachelor of Science degree in Marketing from
2 Fairleigh Dickinson University. Over the past decade Luthin Associates has
3 advised and represented the interests of public utilities, non-profit and
4 corporate entities on issues ranging from utility deregulation to strategic
5 energy planning and management. I am the former executive director of the
6 New York Energy Buyers Forum and currently serve as the regulatory advisor
7 to Consumer Power Advocates (CPA), an association of large, non-profit
8 institutions whose primary goal is to decrease the cost of energy by focusing
9 on regulatory decisions and programs which impact energy consumers in
10 New York City. Member organizations include:

11 Beth Israel Medical Center
12 New York University
13 Columbia University
14 New York Presbyterian Hospital
15 Long Island College Hospital
16 NYU Downtown Hospital
17 Memorial Sloan Kettering Cancer Center
18 NYU Medical Center
19 Mount Sinai Medical Center
20 Roosevelt Hospital
21 New York Eye & Ear Infirmary
22 St. Lukes Hospital

23 CPA members are typically high load factor and high density customers
24 taking the majority of their steam service under Con Ed's SC-2 or SC-3 rates.

1 CPA has represented our members at the New York State Legislature, New
2 York Independent System Operator (NYISO), New York State Public Service
3 Commission and the Federal Energy Regulatory Commission (FERC) since
4 2002. I have filed testimony before proceedings of the Energy Committee of
5 the New York State Assembly, proceedings of FERC, and proceedings of the
6 New York City Council. I am a member of Mayor Bloomberg's New York City
7 Energy Policy Task Force, which developed a comprehensive plan for New
8 York City's energy and infrastructure. In addition, I served as co-chair of the
9 Steam Business Development Plan Unit.

10

11 Q. Have you previously testified before the New York State Public Service
12 Commission?

13 A. Yes, I previously provided testimony in Case 04-E-0572.

14

15 Q. What is the purpose of this testimony?

16 A. My purpose is to discuss the Steam Business Development Plan, the
17 Steam fuel price hedging program and certain aspects of Con Edison's
18 proposed rate design.

19

20 Q. What was your role in the development of the Steam Business
21 Development Plan?

22 A. As a result of the settlement in Case 03-S-1672, Con Edison agreed to
23 form a Steam Business Development Task Force to examine the challenges
24 facing its steam business. In August 2005, the Task Force filed the Steam

1 Business Development Plan with the Commission. As previously mentioned, I
2 was an active part of that effort as co-chair of the working group.

3

4 Q. What were the principal findings of the group that developed the Plan?

5 A. The Task Force found that steam is an important source of energy, not
6 only for Con Edison's 1,800 steam customers, but for all electric consumers
7 in New York City and surrounding areas. Steam displaces approximately
8 375 MW of electric load, reducing the reinforcement of the local electric
9 distribution system, as well as mitigating peak day energy prices, capacity
10 prices and transmission congestion costs, not only in the City, but throughout
11 the region. The conversion of any steam summer cooling load to electricity
12 places further upward pressure on all components of electricity costs, which
13 are already a major concern of CPA members. Regardless of the benefits of
14 maintaining and expanding the steam cooling market, it appears that the
15 combination of higher first costs, higher maintenance costs and, as the Task
16 Force found, Con Edison's failure to involve itself in the early planning
17 process for new and replacement mechanical systems, the steam system is
18 losing opportunities to serve this market. The Task Force reports that steam
19 accounts for less than 10% of the new cooling load, and that the steam
20 system is losing a significant cooling load to electricity. If, as the Plan found,
21 large numbers of steam chillers are nearing the end of their useful service
22 lives, this loss of cooling load may become a trend with unfortunate
23 consequences for both steam and electricity customers.

24

1 The task force issued nineteen (19) recommendations and I believe that two
2 of these recommendations need to be implemented immediately. I would like
3 to review each of these two individually.

4

5 One of the recommendations is that Con Edison should implement an
6 Account Management System. It has been my experience that the steam unit
7 views customers on an account basis, not in a manner in which the
8 relationship as a whole is valued. Frequently, there is one decision maker for
9 multiple accounts. As the business development plan illustrated, 20% of the
10 customers on the steam system account for 40% of its revenue.

11 Unfortunately, an account management system with basic information about
12 the steam system customers does not exist. As a result, the business
13 development unit does not possess the basic knowledge to appropriately
14 value a relationship in order to develop sales and marketing strategies that
15 are targeted within the customer base.

16

17 As the owner of a small business, I am acutely aware of the need to develop
18 information systems in order to identify the needs of my clients; and, of the
19 importance of developing the skills and human resources necessary to meet
20 those needs. Without such a system in place it is impossible to develop a
21 significant ongoing relationship. If you are unable to demonstrate your
22 knowledge of their needs on a continual basis, the relationship you have with
23 your customer will either stall (you will not get new business) or you will be
24 replaced. For a business with only 1800 customers, such systems are

1 necessary and inexpensive. Considering all of the resources Consolidated
2 Edison has at its disposal, there should be no delay in implementing basic
3 information within a customer database to manage steam accounts on their
4 system.

5
6 This is not a difficult job to do. At Luthin Associates, we utilized a summer
7 intern to develop a proprietary customer account management system in a
8 relational database that tracks: contract information, contract dates, account
9 numbers, service class, competitive supply contract information, budget
10 goals, competitive savings to budget comparisons, economic development
11 incentives, unit cost, energy component unit costs, future development
12 activities, etc. Such a system was developed with minimal cost using off the
13 shelf software. It is easily expandable and can be maintained on an ongoing
14 basis.

15
16 The task force found that Con Edison frequently becomes involved in its
17 customers' mechanical systems replacement projects late in the process,
18 often after major decisions have been made. A modern customer information
19 system will allow the Company to develop a clear picture of its customers'
20 present status and any future planned growth. It is an indictment of Con
21 Edison's management of its steam business that those systems had not been
22 in place long before the regulatory process uncovered their absence.

23

1 The second recommendation that needs to be implemented right away is a
2 staff resource plan. I am extremely concerned that the largest steam system
3 in the western world is not staffed at adequate levels. They do not have a
4 resource plan in place that covers internal people, skills and systems to
5 achieve business development activities goals adequately. It is clear that
6 there is a small group of very capable employees within the Steam Business
7 Development Unit who could succeed if the right tools and resources were
8 made available to them. At present this is not the case and the Company
9 seems to be ignoring the task force recommendations that additional internal
10 hires are necessary as illustrated in the following response to the Public
11 Service Commission's question No. 167 from the Company:

12 Question No. :167

13 For every project or activity for which Con Edison intends to
14 retain one or more consultants, please provide an analysis that
15 demonstrates that it is more economic to retain consultants than
16 to hire new steam employees.

17
18 Response:

19 At the present time, we contemplate contracting with consultants
20 to perform studies only. In general, we plan to contract with
21 consultants to perform studies in order to retain or attract
22 customers by offering an SC-5 contract. In particular, these
23 studies help the Company to evaluate the customer's cost of
24 installing equipment, such as internal gas or electric distribution,
25 if it doesn't use steam. The Company expects the need for
26 these studies to increase as a result of increased business
27 development activities (approximately 10 per year), but not
28 enough to justify the hiring of a full-time employee. Because it
29 generally requires one person for one month to conduct such a
30 study, and the number of studies that would be required is
31 uncertain, at this time, it is preferable to employ a consultant
32 rather than making a permanent addition to staff.

33 The response to Staff 164 explains why we believe consultants
34 will be necessary to research market and technical subjects.
35

1 As explained in response to Staff 101, we may also retain
2 consultants to conduct studies related to steam business
3 development plan implementation items.

4
5 As illustrated within Chapter 8 of the Business Development Plan, the
6 following paragraph demonstrates the abilities of Con Edison's staff and
7 professional support.

8 "Con Edison's Steam Sales Team currently has experienced
9 engineers with strong mechanical engineering and consulting
10 engineering backgrounds. These people should take the lead
11 in developing new product offerings and preparing complex
12 proposals."

13
14 However, Con Ed's response indicates that they plan to hire consultants to
15 perform studies in order to retain or attract customers by offering a negotiated
16 contract.

17
18 I was shocked by this response. One of the most significant opportunities a
19 business has to cement a relationship with its customers is when a customer
20 is exploring options to leave or when there is an opportunity to grow your
21 system. Under these circumstances, most successful businesses utilize their
22 best internal assets to retain or attract customers. However, Con Edison
23 plans to hire a consultant to perform this task!

24

25 Q. What were the other important findings of the Task Force?

26 A. The Task Force found that the economic incentive programs were not
27 adequate for the development of the steam system. For example, NYSERDA
28 electric-to-steam and steam load retention incentives may be inadequate,

1 and the NYEDC Energy Cost Savings Program is available only to gas and
2 electric customers.

3

4 Q. What do you recommend?

5 A. At a minimum, the Energy Cost Savings Program should be made
6 available to steam customers, funding for NYSERDA programs aimed at
7 retaining and growing steam cooling load should be increased, and Con
8 Edison should implement its own development programs to defray the
9 incremental cost of steam cooling equipment.

10

11 Q. Do you have any comments regarding Con Edison's fuel price hedging
12 tariff?

13 A. Yes, I do. Within the Commission Order of Case 03-S-1672, the Company
14 was instructed to hedge its fuel adjustments within their gas supply
15 department. Customers expressed concern that the lack of hedging
16 increased the volatility range of the fuel adjustment. Table A shows the fuel
17 adjustment for the years of 2000 through 2005.

18 **Table A:**

Year	Volatility Range in \$/Mlbs
2000	\$ 4.84
2001	\$10.46
2002	\$ 2.37
2003	\$ 6.35
2004	\$ 1.74
2005	\$ 5.91

19 (Note: Volatility Range = Annual Maximum adjustment - Annual Minimum
20 adjustment)

1 The fuel hedging program has been in place since 2004, and as Table A
2 clearly illustrates, volatility has been greatly reduced. This result is a
3 significant benefit to its customers. The Company should be encouraged to
4 continue with the current aggressive program.

5

6 However, the current negotiated fuel hedging program offered to its
7 customers is floundering. Only three (3) customers enrolled in the program
8 during the 05-06 winter season. I believe that the biggest failures of the
9 program are a lack of market timing and clearly defined goals.

10

11 Under the present system, the Company surveys all of its customers that may
12 want to participate in the program. It is requested that customers sign a base
13 agreement. Then, when the agreement is signed and a group of customers
14 are identified, the company will go out to market and obtain pricing for a
15 hedge. This usually occurs just prior to the heating or cooling season. Pricing
16 is obtained for the hedge of the group on a date that is convenient to the
17 administrator of the process.

18

19 I believe that this is the worst possible way to hedge. It is possible that you
20 will be lucky, and the day that you obtain the hedge, the risk premium makes
21 sense. However, in all probability, it is not likely to happen. It makes more
22 sense for the group to define what their expectations for a hedge are. For
23 example, hedging goals could be expressed as 10% less than the average of
24 the fuel adjustments of the prior season, or any other similar mechanism

1 agreed upon. The company would then go to the market to achieve the result
2 desired.

3 This approach does run the risk of establishing a target that will not be
4 achieved. That is OK. Targets could be reestablished and a different goal set.

5 Although no outcome can be expected, it is most important to customers that
6 the Company aggressively tries to hedge their individual supply costs.

7

8 Q. Does this conclude your pre-filed testimony?

9 A. Yes.