

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Case 05-S-1376

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Steam Rates

February 2006

Prepared Testimony of

JOHN J. DOWLING, P.E.

Associate

Luthin Associates

15 Walling Place

Avon-By-The-Sea, New Jersey 07717

- 1 Q. Please state your name and business address
- 2 A. My name is John J. Dowling, and my business address is 15 Walling place,
- 3 Avon-By-The-Sea, New Jersey 07717.
- 4
- 5 Q. What is your educational background and experience?
- 6 A. I received a Bachelor of Engineering degree in Mechanical Engineering
- 7 from Polytechnic University, then known as the Polytechnic Institute of
- 8 Brooklyn, in 1970. Upon graduation, I accepted employment with the New

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1 York State Department of Public Service. My responsibilities have included
2 all engineering analyses for major rate cases, as well as review of operating
3 practices and construction programs.

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5 Q. Have you previously testified before the New York State Public Service
6 Commission?

7 A. Yes. I have presented testimony in a variety of proceedings before this
8 Commission, including Case 03-S-1672, the last Con Edison steam rate case.

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10 Q. What is the purpose of this testimony?

11 A. My purpose is to discuss the development of demand charges for the
12 largest steam customers, and to comment on the Company's depreciation
13 proposal.

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15 **Steam Demand Charges**

16 Q. Do you support the application of a demand charge to the winter peak
17 usage of the largest customers?

18 Yes. The steam system appears to be reaching its maximum capacity on peak
19 days, yet that capacity is fully utilized on very few hours of the year. The
20 Steam Business Development Task Force found that the system reaches near
21 capacity only 50 hours per year. Under these circumstances, a demand charge

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1 will encourage customers to control peak usage, hopefully to avoid the
2 necessity for costly system upgrades. Collection of more of the revenue
3 requirement through Winter Demand Charges will support both the economic
4 stability of the steam system, and the use of promotion rates to increase
5 penetration of the summer cooling market.

6

7 Q. Have you examined the development of those rates in the Company's
8 proposal?

9 Yes. The Company has proposed apply demand charges to SC.2 and SC.3
10 customers whose annual consumption is greater than 22,000 Mlbs. These rates
11 are proposed to collect 25% of the winter base revenue (net of fuel, electric,
12 water chemicals and Customer Charge) for those groups. From Exh.39, it
13 appears that approximately two-thirds of non-customer, non-fuel related
14 O&M costs are attributable to demand, and virtually all non-customer, non-
15 fuel rate base is attributable to demand in these two service classes. There is
16 no reason to believe that the cost causality for the group for which demand
17 charges are proposed is any different than that for the two service classes as a
18 whole. Under these circumstances, it is reasonable to consider even greater
19 demand rates than those proposed by the Company.

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21 Q. What do you propose?

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2 A. As a first step, the demand charge should be designed to recover one-third
3 of the net revenue. This is a conservative proposal to move toward rates
4 based on cost principles. In subsequent years, the proportion of revenue
5 collected through demand charges should increase until proper cost based
6 rates are achieved.

7

8 Q. Do you have other reservations concerning the Company's proposal?

9 A. Yes. The Company proposes to reconcile the revenue from demand-billed
10 customers and to make a corresponding adjustment to the subsequent bills of
11 all demand billed customers. The stated reason for this reconciliation is that
12 the use of estimated demand amounts may cause the actual demand revenue to
13 differ from that amount which it is designed to recover. This part of the
14 proposal is unacceptable. The use of estimated demand amounts negates the
15 value of demand charges by preventing customers to control demand to limit
16 costs, and the collection of the reconciliation amounts from other than that
17 estimated bill customers negates proper cost allocation principles. The
18 application of Demand Charges should be limited to metered customers only,
19 negating any need for this unfortunate proposal.

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21 **Depreciation**

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2 Have you previously testified concerning depreciation before the
3 Commission?

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5 Yes. As a member of the Department of Public Service staff, I testified on
6 depreciation in numerous rate proceedings, including Cases 94-E-0334 (Con
7 Edison) and 95-E-0491 (Orange & Rockland) as well as many other cases.
8 These cases involved both statistical studies and the use of various accelerated
9 or novel depreciation methods, including reallocations of depreciation
10 reserves among departments.

11

12 Q. Have you examined the Company's proposal concerning the recovery of
13 future net salvage costs related to the 74th Street Generating Station?

14 Yes. At the time that the 74th Street Station was transferred to the steam
15 department, the Commission determined that no further depreciation expense
16 would be accrued for that plant. The Company has proposed to re-establish
17 accruals to recover the cost of net salvages related to the future retirement of
18 that plant on the basis that the exclusion of this accrual was an "unintended
19 oversight." Leaving aside what is virtually and undeniably an untimely appeal
20 of a Commission order, the Company's proposal is wrong. The transfer of that
21 plant to the steam department, in and of itself, would not have required

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1 discontinuance of depreciation accruals, regardless of the age of the plant.
2 Utility plant continues to accrue depreciation, even if it survives far beyond its
3 average service life. This accrual by long-surviving members of the members
4 of the plant group is necessary to recover the under-accrual caused by early
5 retirements. The fact that the Commission disallowed depreciation for this
6 particular plant under the particular circumstances at that time implies that
7 some lost recovery was expected. This lost recovery must also include future
8 net salvage accruals, which are no different than any other depreciation
9 accrual. Net salvage is accrued for in the same depreciation reserve as any
10 other depreciable cost, and that reserve is fully fungible.

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

13 A. Yes.

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