BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Case 07-S-1315

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

Steam Rates

February 2008

Prepared Testimony of

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On behalf of

Consumer Power Advocates.

Q. Please state your name and business address

A. My name is John J. Dowling, and my business address is 15 Walling Place, Avon-By-The-Sea, New Jersey 07717.

Q. What is your educational background and experience?

A. I received a Bachelor of Engineering degree in Mechanical Engineering from Polytechnic University, then known as the Polytechnic Institute of Brooklyn, in 1970. Upon graduation, I accepted employment with the New York State Department of Public Service. My responsibilities have included all engineering analyses for major rate cases, as well as review of operating practices and construction programs

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

A. Yes. I have presented testimony in a variety of proceedings before this Commission as a Department of Public Service employee. Recently, I have provided testimony in various Con Edison rate cases, including Cases 03-G-1671, 03-S-1672, 04-E-0452, 05-S-1376, and 07-E-0523.

Q. What is the purpose of your testimony?

A. I will discuss the development of demand charges, the proposed Steam Revenue Adjustment Mechanism, an incentive to control losses, the Company's proposed energy efficiency incentives and the steam business development performance metrics.

Steam Demand Charges

Q. Have you examined the Company's embedded cost of service study?

A. Yes. I find that 66% of all non-energy costs are allocated by the demand allocator. Based on this finding, I propose that demand rates for SC2 and SC3 be designed to recover 50% of the base revenue (net of fuel, electric, water chemicals and Customer Charge) for the 4 month demand period. This change more closely aligns rates with costs, and will further serve the purpose of encouraging more efficient use of the steam system.

Q. Have you supported the application of a demand charge to the winter peak usage of the largest customers in the past?

A. Yes. Demand charges are an appropriate response to the current situation that Con Edison finds itself in with regard to cost recovery. The steam system appears to be reaching its maximum capacity on peak days, yet that capacity is fully utilized on very few hours of the year. As a result of this, the Commission accepted the Joint Proposal (JP) in the last case to apply demand rates for sales to customers using more than 22,000 Mlbs per year.

Q. Why propose such a large change?

A. This is not a large change in my opinion. In the Joint Proposal (JP) in the last case, the signatories agreed that:

> *…for the winter period, when on-peak and all-time peak demand charges would apply, the rates will be designed to recover 25 percent of winter base revenues, net of base fuel, station electric usage charge, and the Customer Charge, that otherwise would be collected from eligible customers at the October 1, 2007 rate level ("demand revenue requirement").* (JP, p.12)

Subsequently, the demand rate period was reduced from 6 months to 4 months, with a resulting decrease in the total demand revenue requirement. My proposal in this case doubles the current demand revenue requirement, but is still far less than the amount of costs found to be demand based in the COSS. In the JP, all signatories agreed to base demand charges on 25% of the winter period pure base revenues for six months, at a later date it was decided that the winter demand period would be reduced to 4 months. It is important to note that, according to the compliance filing implementing the initial demand rates, no customer experienced significantly increased bills as a result of demand rates. This minimal adverse effect on bills creates an unusual opportunity to align rates with costs.

Q. In your opinion, should demand rates be applied to any other groups of customers?

A. Yes. All SC2 and SC3 customer whose annual use exceeds 14,000 Mlbs should enjoy demand rates. In its September 27, 2004 Order in Case 03-S-

1672, the Commission required the Company to study the cost and benefits of applying demand rates to SC2 and SC3 customers who use less that 14,000 Mlbs annually. As a result of that order, the Company's Operations Panel in Case 05-S-1376 testified that it did not believe that customers who use less than 14,000 Mlbs annually would make a sufficiently large contribution to peak reduction to justify the cost of installing demand meters on all of those services. The Panel did not address whether customers who use greater than 14,000 Mlbs, but less than 22,000 Mlbs should be converted to demand rates.

Q. Why do you recommend demand rates for these customers?

A. It has long been Commission policy that rates should be based on the cost of providing service, and that cost based rates provide the most accurate price signals to customers.

Con Edison's public website describes the benefits of demand billing to the entire system, including both the Company and its customers:

> *... By reducing peak demand, the company benefits by having the capacity to deliver service to additional customers without expanding the steam system. ..*
> *Steam customers who reduce or eliminate spikes in their steam usage during the peak-demand period will see a reduction in their steam costs. Customers with spikes that occur during the peak-demand period will see increases in their steam bills. By encouraging peak-demand reduction, the demand rates will help keep costs reasonable for all steam customers in the long term.*

> *Through demand billing, customers can control costs using strategies that include preheating buildings, keeping building air temperatures slightly lower until the peak-demand hours have past, and others.*

The Company has already installed demand meters for all customers whose annual use exceeds 14,000 Mlbs, after requesting recognition of their cost in the revenue requirement cases since 03-S-1376. Since the Company has installed the meters necessary to provide demand data, there is simply no reason to deny customers the benefit of enhanced cost control available through demand rates, and included that cost in rates these past several years. Considering the benefits to the Company of controlling peak demand, and the enhanced cost control available to customers who enjoy demand rates, and the fact that ratepayers have already paid for the required meters, it is now appropriate to apply demand rates to all customers whose annual use exceeds 14,000 Mlbs.

SRAM

Q. Do you support the implementation of the Steam Revenue Adjustment Mechanism?

A. No.

Q. In general, what is the purpose of RDMs?

A. RDMs are intended to change the incentives that apply to utility sales. Typically, proponents of RDM intend to reduce the incentive for the utility to increase sales so that utilities are at least indifferent to energy efficiency measures. Implicit in the justification for RDM is that the assumption that short-term economic incentives dominate management behavior.

Q. In your opinion, what is the principal issue facing Con Edison with regard to its steam business?

A. The principal issue is the continued decline in sales. This results in a loss of revenue which leads to further rate increases as growing fixed costs must be recovered from a smaller and smaller base of sales. This increase in rates can only reinforce the decline in sales. In this situation, there should be a strong incentive for the Company to promote new steam sales and to retain current steam loads. SRAM, as proposed by the Company, protects the Company from the loss of revenue due to declining sales, and eliminates the very incentives that would lead the Company to find solutions for the problem of declining sales.

Q. Has the Commission required that an RDM scheme be implemented for steam sales?

A. No. The Commission opinion ordering the implementation of RDM did not mention its application to the steam system. RDM is designed to eliminate the utility's incentive to increase sales, in order to allow it to pursue energy efficiency goals. This is only a reasonable strategy if one believes that there are negative externalities related to increased sales that are greater than the revenue benefit of those sales. In the case of the steam system, the externalities of increased sales are overwhelmingly positive. The current situation of the steam system is that sales are declining. In particular, summer sales are declining because steam rates are not competitive with electric rates for air conditioning use. If steam revenues continue to decline, implementation of SRAM will only serve to drive steam rates up as revenue losses are collected in subsequent periods. Driving rates up in this way can only serve to make steam a less competitive energy source, hastening the sales decline. Such a sales decline will either result in greater electric demand and the need for more electric facilities, or greater use of on site boilers in the steam service area, or some combination of the two. Neither of those alternatives are preferable to a financially sound steam system, nor are those alternatives without costs, either in the form of increased need for electric generation capacity and T&D facilities, or in the form of environmental costs large numbers of customer operated boilers in the steam service area.

Q. In your opinion, why were RDM programs abandoned in the past?

A. My observation is that large deferred revenue balances caused unacceptable rate volatility and unacceptably large “regulatory assets” on the balance sheets of some utilities.

Q. What does that imply for the SRAM?

A. If the current sales decline continues, inevitably customers will be asked to make up sales shortfalls in subsequent periods. This is offensive to customers, particularly to those who do not have the opportunity to recover past losses from future transactions.

Steam Distribution Losses

Q. What is Company’s proposal for the recovery of the cost of steam lost in the distribution system?

A. The Company proposes to continue the automatic recovery of the cost of these losses in rates.

Q. What do you propose?

A. The Company should be allowed to recover only the three year average volume of losses, priced at current monthly fuel costs. This provides a fair opportunity to recover all the cost of losses, while providing a strong incentive to control those losses. This is consistent with the approach agreed upon in the most recent gas rate Joint Proposal.

Energy Efficiency Incentives

Q. Have you reviewed the Company's proposal increase its incentive to develop energy efficiency programs for its steam system?

A. Yes. Company Witness Wheeler proposes to collect an incentive payment of 20% to 30% of the net resource savings through the steam fuel adjustment clause (FAC). The total cost of these programs, including incentives, incentives would be up to $13.5 million.

Q. Are these incentives necessary?

A. No, these incentives are excessive. The savings related to this incentive are the marginal capacity cost savings. These are savings that accrue to the Company. No further incentive should be necessary. While it is true that the Company would otherwise receive recovery of its capacity costs in rates, regardless of its failure to implement programs to avoid the need for new capacity, that alone does not remove its incentive, or its obligation, to manage the steam business in a way that minimizes costs. In its current circumstances, the steam business is suffering the loss of sales in at least some of its markets due to its inability to match the price of alternatives.

In that case, prudent management requires a strategy of minimizing costs. The Company's incentive proposal is counterproductive in that it would increase the cost of following that strategy by 20% or 30% or more.

Performance Metrics for Steam Business Development Activities

Q. Have you reviewed the Company Witness Wheeler's proposal to eliminate the performance metrics for Steam Business Development activities?

A. Yes. These were developed as part of the last steam rate plan, and apply to Customer Service activities to improve and maintain communication between the Company and its steam customers. While they were part of the last rate plan, they will not expire with that plan; nor will the need for the Company to maintain those relationships diminish in order for the steam business to grow.

Q. Do the SBD measures described by Witness Wheeler obviate the need for continued customer communication?

A. No. While the SBD measures are important and worthwhile in themselves, they do not replace good customer relationships as an important component of managing the steam business. In fact, the development of new programs demands greater awareness of customers' needs, not less.

The use of metrics to focus management attention on these relationships continues to be important.

Q. Does this complete your pre-filed testimony?

A. Yes, it does.

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