

# Rate Setting in New York Case Study: Con Edison Electric Rate Proceeding

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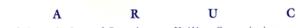
Overview

- Rate petition filed May 8, 2009
- Rate request covers the RY April 1, 2010 March 31, 2011; includes a proposal for a three-year rate plan
  - No material changes in presentation or portrayal from previous filing
  - No innovative ratemaking techniques or alternatives offered
  - Filing appears complete
- Austerity Plan to be submitted within 30 days of filing
  - \$30 million placeholder
- Items to be updated during case
  - 2005-2008 CapEx spending review
  - Mgt. Audit Construction Planning Process
  - Prudence proceeding employee misconduct





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National Association of Regulatory Utility Commissioners

## Rate Year One Cost Drivers

\$ millions

| Rate Base (primarily infrastructure investment)<br>Depreciation Expense<br>Carrying Cost of Infrastructure Investment | \$170<br><u>36</u><br>206 |
|-----------------------------------------------------------------------------------------------------------------------|---------------------------|
| O & M Expense                                                                                                         | 142                       |
| Return on Equity (10.9% vs. 10%)                                                                                      | 127                       |
| Property Taxes                                                                                                        | 127                       |
| Pension & OPEB Expense                                                                                                | 114                       |
| Amortization of Regulatory Deferrals (additional recoveries/ fewer refunds)                                           | 80                        |
| Federal Income Tax (change in flow-through tax deductions)                                                            | 21                        |
| Depreciation Rate Changes & Amortization Of Reserve Deficiency                                                        | 16                        |
| Other (Sales, Unbilled Revenue, & Other Taxes)                                                                        | <u>19</u>                 |
| Rate Increase Requested                                                                                               | <u>\$855</u>              |
| Average Increase in Total Bill                                                                                        | 7.4%                      |
| Average Increase in Delivery Charge                                                                                   | 19.5%                     |



#### O & M Expense Increase \$ millions

| Austerity Imputation         | \$31          |
|------------------------------|---------------|
| Interference                 | 24            |
| Labor                        | 22            |
| Informational Resources      | 12            |
| Informational Advertising    | 9             |
| Insurance                    | 7             |
| All other O & M              | <u>37</u>     |
| Total O & M Expense Increase | <u> \$142</u> |









### **Multi-Year Presentation**

- Revenue Requirements macro approach
  - Identifiable forecasts for Sales, Pension /OPEBs, Property Taxes, Site Investigation & Remediation, & Capital Expenditures
  - O & M Labor escalated @ 3.3%, Non-Labor
    O&M escalated @ 2.2%
  - ROE 11.6%; stay-out premium of 70 basis points









#### Three-Year Rate proposal \$ millions

| Base Rate Increase<br>Stay-out Premium (71 basis pts.; ROE 11.6%)                                                                                        | <u>RY1</u><br>\$855<br><u>90</u> | <u>RY2</u>                                          | <u>RY3</u>                                         | <u>Total</u>   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-----------------------------------------------------|----------------------------------------------------|----------------|
| Carrying Cost of New Infrastructure<br>Book Depreciation<br>Total Carrying Cost of New Infrastructure                                                    |                                  | \$162<br><u>47</u><br>209                           | \$137<br><u>46</u><br>183                          |                |
| Property and Other Taxes<br>O&M Labor and Other Escalations<br>Pension & OPEBs<br>Amortization of Regulatory Deferrals<br>Other<br>Annual Rate Increases | \$ <u>945</u>                    | 124<br>62<br>42<br>26<br><u>(1)</u><br><u>\$462</u> | 148<br>42<br>23<br>3<br><u>(8)</u><br><u>\$391</u> |                |
| Levelized Annual Rate Increases                                                                                                                          | <u>\$695</u>                     | <u>\$695</u>                                        | <u>\$695</u>                                       | <u>\$4,170</u> |
| Average Annual Increases in Total Bill                                                                                                                   |                                  |                                                     |                                                    | 5.6%           |
| Average Annual Increases in Delivery Charge                                                                                                              |                                  |                                                     |                                                    | 15.9%          |









### **Rate Plan Conditions / Proposals**

- Con Ed does not waive its rights to file for new rates, if it deems rates to be inadequate or the terms under a multi-year plan are unreasonable
- True-up's
  - RDM
  - Energy Efficiency Programs (DSM, RPS & SBC)
  - Property Taxes
  - Interest Rates
  - Pensions & OPEBs
  - SIR
  - Interference (deadband)
  - T & D expenditures (downward only; cumulative)
  - Inflation above 4%
- Update T & D expenditure forecast 60 days prior to RY2 & RY3









Infrastructure Capital Investment \$ millions

|                                   | 2009    | 2010    | 2011    | 2012    | 2013    |
|-----------------------------------|---------|---------|---------|---------|---------|
| Transmission & Switching Stations | 220     | 192     | 102     | 87      | 97      |
| Substations & Sub-Transmission    | 365     | 307     | 264     | 363     | 347     |
| Distribution                      | 969     | 894     | 882     | 899     | 890     |
| Total T&D (millions)              | \$1,553 | \$1,393 | \$1,247 | \$1,349 | \$1,334 |
| Production                        | \$40    | \$40    | \$36    | \$39    | \$38    |
| Common Plant                      | \$203   | \$221   | \$194   | \$171   | \$156   |



Issues brought back by Con Edison for reconsideration which are noncontroversial; immaterial from a monetary or policy perspective; or have been previously litigated.

- Variable pay (more customer result driven)
- Other Compensation (Equity Grants)
- Informational Advertising
- Director & Officer insurance
- Wage progressions
- Energy Efficiency Programs Costs









# Schedule

- Company Filing May 8, 2009
- Preliminary Update July 10 (formal)
- Parties Direct Testimony August 21
- Rebuttal/Update September 4
- Settlement Discussions September 7-30
- Hearings October 19 November 2
- Initial Brief November 23
- Reply Brief December 10
- Commission Order March 2010