STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Gas Service.	Case 06-G-1332

DIRECT TESTIMONY

OF

DOUGLAS W. ELFNER

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Albany, New York

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Q. Please state your name and title.

A. My name is Douglas W. Elfner. I am the Director of Utility Intervention for the New York State Consumer Protection Board ("CPB").

Q. Dr. Elfner, please summarize your education and employment experience.

A. I received a B.A. with honors and distinction in economics and mathematics from the University of Delaware in 1976, and a Ph.D. in Economics from the University of Michigan in 1982. From 1982 through 1984 I was an Assistant Professor of Economics at the University of Vermont, where I taught courses in econometrics and microeconomics. I was employed from December 1984 to January 1989 by AT&T in Bedminster, New Jersey, where I held positions of increasing responsibility as an Economist in the Market Analysis and Forecasting organization. My responsibilities included developing revenue and quantity forecasts for existing services; analyzing opportunities for new services and the effects of changing the price and rate structures of existing services; and producing forecasts and market analyses for regulatory purposes.

Since January 1989, I have been employed by the New York State Consumer Protection Board. As Director of Utility Intervention, I am responsible for all aspects of analysis, policy development, and advocacy on behalf of New Yorkers regarding the regulation of utilities.

I am a member of Phi Beta Kappa, the American Economic Association and the National Association of Business Economists. I have presented original papers at conferences sponsored by the American Economic Association and the Econometrics Society.

Q. Have you previously testified before the Commission?

A. Yes. I have testified in numerous cases before the New York State Public Service Commission.

Q. What is the purpose of your testimony?

A. I address several public policy proposals made in, and omitted from, the testimony of Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company"); in particular, a gas efficiency program, revenue decoupling and certain programs regarding retail competition.

<u>Gas Efficiency Program</u>

Q. Please summarize the gas efficiency program established in Con Edison's last gas rate case.

A. The Commission approved a comprehensive joint proposal that included $5.2 million over three years to fund and study gas efficiency programs.

(Case 03-G-1671, Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Gas Service, Order Adopting the Terms of a Joint Proposal, September 27, 2004) Specific initiatives and funding allocations were subsequently developed by an advisory group and approved by the PSC. A total of $4.0 million was made available for gas efficiency, allocated 50% for low-income, 25% for non-low-income residential and 25% for commercial programs. The remaining $1.2 million was designated for a gas efficiency study, program evaluation, administrative fees and to compensate Con Edison for lost revenue. The program is intended to provide the benefits of gas efficiency in residential and commercial markets, demonstrate potential gas and cost savings and improve energy efficiency and access to energy options for low-income customers. It is estimated to provide total annual gas program savings of $1.2 million and a total of $17.3 million in benefits over the lifetime of the installed program measures. The New York State Energy Research and Development Authority ("NYSERDA") is the administrator of that program.

Q. What is the status of that program?

A. The quarterly report for the period ending December 27, 2006, the most recent available, indicates that $909,859 (23%) of the $4.0 million available for gas efficiency programs has been spent, and $2.125 million (53%) of total program costs have been spent or committed. With nine months remaining in the program, 65%, 52% and 31% of funds for the low-income, non-low-income residential and commercial programs, respectively, have been committed.

Q. What is Con Edison's recommendation regarding this gas efficiency program?

A. Company witness Mr. Louis A. Cedrone recommends that the program continue to operate as planned for the duration of the current rate plan, and that any unused funds after September 30, 2007 be transferred to NYSERDA to fund energy efficiency programs. Mr. Cedrone also recommends that ratepayers provide no additional funding for gas efficiency programs after September 30, 2007, since "the level of program activity is not adequate" to determine if these programs should be continued and/or expanded. (Testimony of Mr. Cedrone, p. 11)

Q. What is the CPB's position on this matter?

A. The CPB recommends that a gas efficiency program for Con Edison's customers continue without interruption, with a significantly higher level of funding than the current program. Although thorough evaluation of the program in the Company's current rate plan is necessary to help ensure that funds for gas efficiency programs are used effectively and to identify necessary changes, it would not be in the public interest to have the current program expire without a replacement. Cost effective gas efficiency projects benefit consumers, particularly projects that incorporate the established programs, procedures and implementation contractors that NYSERDA has used, and evaluated, in the past.

Based on information presented in Case 03-G-1671 during 2006, the PSC may take action in that proceeding to ensure that an appropriately-sized, cost effective gas efficiency program continues to be available to Con Edison's customers after October 1, 2007. In any event, a collaborative proceeding should be initiated in this proceeding to evaluate the current gas efficiency program based on available data. That effort should also determine the funding and specific parameters for a new long-term program, with careful consideration given to the role of NYSERDA, the relationship of the proposed program for natural gas with existing programs for electric service for what may be the same customers, and appropriate safeguards to help ensure that scarce ratepayer funds are used in an efficient and cost-effective manner.

Revenue Decoupling

Q. Please summarize the CPB's proposals regarding existing disincentives for utilities to encourage conservation.

A. The Commission has recognized that utilities have an economic disincentive to implement energy efficiency programs, such as the gas efficiency program discussed above, and it is currently considering measures to address this issue in Cases 03-E-0640 and 06-G-0746. The CPB recommends that a revenue decoupling mechanism that addresses our concerns, be developed for Con Edison. Con Edison's testimony is silent on this issue.

Q. Please elaborate on the CPB's position regarding revenue decoupling.

A. The CPB continues to recommend that the Commission approve an appropriate revenue decoupling mechanism for energy utilities, designed to serve the best interests of consumers. That measure, however, should not place undue reliance on shifting recovery of utility delivery revenue from volumetric to fixed charges, since that would have the undesired effect of diminishing consumers' incentive to adopt energy efficiency measures and may have substantial negative customer bill impacts. Similarly, an overly-broad decoupling mechanism that shifts from utilities to consumers, the risk of profit losses from factors such as general economic downturns and/or a decline in the number of customers, would not be in consumers' interest. The CPB's detailed recommendations on this issue are contained in our August 28, 2006 Initial Comments in Cases 03-E-0640 and O6-G-0746.

The CPB recommends that an appropriate revenue decoupling mechanism be developed for Con Edison's gas operations, and that specific parameters of that mechanism be developed in a collaborative phase of this proceeding as soon as is practical.

Retail Competition

Q. Please summarize the Company's proposals regarding promotion of retail energy competition.

A. Con Edison proposes to continue and/or enhance several programs intended to promote retail energy competition. For example, it proposes to increase spending on outreach and education regarding retail competition, continue its Market Match program, modify its Market Expo program, and extend existing incentive mechanisms for the migration and retention of retail access customers.

Q. Do you have any general comments on these proposals?

A. Yes. In large part, these are requests for ratepayers to continue to subsidize the operation of competitive ESCOs, without the support of any study or analysis demonstrating that such ratepayer subsidies are necessary, appropriate and cost effective. The CPB has supported these types of programs in the past in certain circumstances and with appropriate limitations, as transitional measures aimed at eliminating barriers to competitive retail marketing activities in service territories where ESCOs were absent or inactive. That is clearly not the situation in the service territories where Con Edison gas operates. According to the Commission's website, as of March 9, 2007, there were 17 ESCOs actively selling natural gas service to residential customers in Con Edison's territory and many of these companies were offering multiple products.

The role of the Commission in fostering competitive retail energy markets should be restricted to eliminating impediments inherent in, or resulting from, the historic system of monopoly franchises and regulation. It is not the job of regulators to develop - and ratepayers should not be required to pay for – long-term programs aimed at reducing costs or risks to businesses that would be present in any competitive environment, whether regulation ever existed or not.

Moreover, subsidy programs can be harmful to individual ESCOs who choose to take risks, pay their stand-alone costs and develop innovative approaches to meet customer needs. These programs create an "unlevel playing field" that disadvantages ESCOs that conduct, and fund, their own advertising, marketing and customer acquisition activities. They impede competition and innovation, to the detriment of consumers.

The CPB has no objection to Con Edison's proposal to continue the purchase of receivables program and ESCO referral program, as long as the Company recovers all incremental costs from ESCOs, without subsidization or guarantee of recovery by ratepayers.

Q. Please summarize the Company's proposal regarding outreach and education on retail energy competition, as well as its proposals regarding Market Match and Market Expos.

A. The Company proposes to spend $3.37 million in the rate year on education and outreach for energy choice. This includes contracts with professional marketing firms as well as advertising and direct mailing. (Testimony of Witness Toni Tesu, pp. 4 – 6) Con Edison's current rates include $2.26 million per year for energy choice outreach and education. (Response to Information Request NYC-71)

The Company also proposes to continue its Market Match program without modification and modify its Market Expo program to partner with local business organizations. (Testimony of Retail Access Panel, pp. 5-6) As described in Con Edison's current rate plan, those programs are apparently intended to provide opportunities for ESCOs and Con Edison's non-residential customers to exchange information. The Market Match program includes a tool on Con Edison's web site for customers interested in obtaining competitive price offers from ESCOs. Market Expos are events in which ESCOs, large non-residential customers and Con Edison join together to exchange information.

Q. What is the CPB's position on these proposals?

A. The CPB opposes ratepayer funding for these programs in these circumstances. The Company has not provided any study or analysis demonstrating that expenditures on these programs in the past were cost effective. Nor have they provided any studies or analyses showing that it is necessary or appropriate for ratepayers to fund these programs in the future. Because of the absence of justification for these programs and for the reasons identified above, ratepayers should not be required to fund these projects.

Q. Please summarize the Company's proposal regarding incentives for Con Edison to promote retail access.

A. Con Edison proposes to continue the migration incentives included in its current rate plan, under which it receives up to $50 for each migrating customer, as well as another incentive if customers continue to take service from an ESCO. The Company may receive up to $8.5 million over three years under this measure.

Q. Do you support that recommendation?

A. No. Con Edison has not adequately explained why this incentive is necessary or how it is consistent with just and reasonable rates for the Company's services. In fact, no migration incentive of any type is required for Con Edison to provide safe and reliable service. Moreover, as a general matter, incentives should align utility interests with those of customers who fund those incentives, whereas a customer migration incentive does not necessarily achieve that objective. Indeed, rewarding the Company based on the number of customers that obtain commodity service from an ESCO, provides Con Edison a powerful incentive to make its commodity service less palatable to consumers than commodity service from unregulated providers, including its affiliate. The CPB opposes requiring ratepayers to fund any migration incentive in this instance.

Q. Does this conclude your testimony?

A. Yes.