ELECTRIC PRODUCTION PANEL – REBUTTAL
ELECTRIC

Q. Please state your names.

A. We are the Electric Production Panel - Edward C. Foppiano and Thomas E. Poirier.

Q. Have you previously submitted testimony in this proceeding?

A. Yes, we have.

Q. What is the purpose of your rebuttal testimony?

A. This rebuttal testimony responds to the direct testimony of the Staff Accounting Panel (“Accounting Panel”) regarding the Company’s need to retain the unexpended funds related to the East River Repowering (“ERRP”) Major Maintenance costs at the end of the current rate plan. Staff states that funds for ERRP Major Maintenance that have been already collected from customers that were not spent during the current rate plan, approximately $8.7 million, should be returned to customers instead of being held in a reserve or deferred for future expenditures.

This testimony also responds to the direct testimony of Helmuth W. Schultz and Donna M. DeRonne (“Schultz/DeRonne”) on behalf of the NYS Consumer Protection Board (“CPB”) relating to their proposed adjustments to Operating and Maintenance (“O&M”) expenditures for Electric Production. Schultz/DeRonne make three adjustments resulting in a reduction of $5.9 million to our proposed rate year spending. They remove the entire requested increase for Gas Turbine ("GT") Maintenance of $2.244 million on the grounds that the Company did not historically spend at this level, they decrease expenditures in the Facilities Maintenance category by $1.272 million on the grounds that this amount is excessive, and they combine two maintenance categories (Corrective and Preventive) and reduce the level of expenditures by $2.384 million on the grounds that the historic spending is not at that level.

We will explain why the Company's request to maintain the funding for ERRP Major Maintenance and the Company's request for Electric Production O&M expenses should be approved and why the Commission should reject the Accounting Panel and Schultz/DeRonne adjustments.

ERRP MAJOR MAINTENANCE

Q. Please address the costs related to the Major Maintenance costs of the new gas turbines at ERRP and the need to retain the unexpended funds at the end of the current rate plan.

A. East River Units 1 and 2 maintenance expenses vary significantly each year based on the required inspections in that year. Major maintenance on the gas turbines is based on specific operating intervals of 12,000 (combustion inspection), 24,000 (hot gas path inspection), and 48,000 (major inspection) factored fired hours, which occurs, on average, every 18, 36, and 72 months of operation, respectively. However, the actual timing of when these durations are achieved is variable. For example, they may be impacted by weather, unit trips and other unpredictable factors. When these intervals are reached, the machine is disassembled and the major gas turbine components are inspected and repaired and/or replaced. The expenses associated with each overhaul are significant and will vary greatly depending on which outage is being performed. Additionally, as each of the major parts reaches the end of its useful life, they will need to be replaced, at a significant cost. For example, a full set of combustion parts are approximately $8 million, whereas hot gas path parts are approximately $16 million.

Q. When do you project these costs will be incurred?

A. The Company will begin to incur these costs during the rate period, with higher costs estimated in the latter half of the 12-year maintenance cycle. We are approximately 30 months into this cycle since the units commenced operations in April 2005. The costs will increase progressively over time as the equipment becomes more expensive to repair and, ultimately, reach their replacement interval. The fact that these repair and/or replacement expenses are incurred in the same year as the major overhauls, which are scheduled to occur in the same quarter on both units, contributes further to the variation in the annual O&M expenses.

Q. What are the estimated costs for this Major Maintenance?

A. The costs vary between $7 million and $12 million each year of the proposed rate period.

Q. How much is the Company proposing to collect annually for these costs in rates?

A. As shown on Exhibit___(EPP-2), the Company proposes to continue to collect approximately $7.5 million annually.

Q. If the potential annual cost may be as high as $12 million, why did you request only $7.5 million annually?

A. As explained by the Accounting Panel, the Company projects it will have recovered $8.7 million more during the current rate plan than will be spent. For the reasons explained by the Company’s Accounting Panel starting on page 110 of their direct testimony, the Company has proposed to set aside these funds along with new amounts to be collected in order to fund a reserve that would be used solely for overhaul costs of the ERRP units. The establishment of a reserve will eliminate any intergeneration subsidies, levelize the annual cost and ensure that customers who receive the benefits from ERRP plant pay only the actual maintenance costs to be incurred over the life of the station. The combination of these unexpended funds and the $7.5 million collected annually should provide the Company with sufficient funds to meet the financial requirements in the years with higher levels of maintenance expenses.

Q. Did the current rate plan recognize this timing differential?

A. Yes. As the Company’s Accounting Panel testifies, there is specific language in the Joint Proposal that says the costs will be collected ratably despite the fact that the spending will not occur in that manner.

Q. What if the Staff proposal to reject the reserve is adopted?

A. The Company’s Accounting Panel addresses that issue in their rebuttal testimony.

GT MAINTENANCE

Q. Please address Schultz/DeRonne’s proposal to eliminate the Company’s program change related to GT Maintenance.

A. In their testimony, Schultz/DeRonne provide three theories for their $2.244 million adjustment to this program. First, they note that the Company does not identify any capital costs associated with this program. Next, they claim that recent spending in this category is lower than requested in this filing. Finally, they allege that the justification and description of the program change suggest that the costs are more capital in nature than expense and that if they are allowed at all, they should be capitalized.

Q. Please discuss the prior recent spending in this category.

A. While the average of the last three years of expenditures for GT Maintenance may be lower than the Company’s current request, as shown in its response to CPB 13, the expenditures of $726,000 in 2006 were double the amount of $312,000 spent in 2005, and the 2007 budget of $747,000 is even higher than the expenditures of $725,000 in the historic year. These

GTs are designated to support critical service during peak summer electric demand. In addition, the Company plans to use one GT at each station as part of its blackout restoration plan to provide black start service for accelerated restoration of the steam system. Therefore, we need to ensure the reliability of these units at all times. We proposed a three-year plan in order to address the maintenance for two units each year over these years. CPB’s adjustment will not allow the necessary maintenance to be performed on these units and may, therefore, affect their availability at a critical juncture.

Q. Please comment on their proposal to capitalize these costs.

A. These costs are for various activities, including the removal and replacement of GT engines, inspection and repair of free turbines and blades, inspection and repair of electric generator rotors and associated equipment, replacement of free turbine and gas generator lube oil coolers, replacement of torn and deteriorated asbestos, disassembly, cleaning and inspection of electric generator ventilation air ducts, inspection and repair of hot gas path and associated equipment, replacement of air-operated stop valves and oil temperature valves, replacement of compartment doors that have disintegrated from high temperatures, replacement of thermocouple extension wires, and inspection and repair or replacement of combustion liners and fuel nozzles. The characterization of these costs as O&M expenses is in accordance with the Company's definitive policy concerning the capitalization of projects. This policy is in compliance with the accounting instructions promulgated by the New York State Public Service Commission and the Federal Energy Regulatory Commission.

OTHER MAINTENANCE COSTS

Q. Please address the Schultz/DeRonne proposals to reduce the Company's O&M request related to Facilities Maintenance and the combined request for Preventive and Corrective Maintenance.

A. Schultz/DeRonne claim that the Company's request for these elements of expense should be decreased based on the lower level of historic spending for these elements of expense by the Company compared with its current rate request. For Facilities Maintenance, they also question the Company's ability to respond to the maintenance resulting from our facilities inspection program in the rate year.

Q. Do you agree with these adjustments?

A. No. Using historic spending levels to determine future spending requirements is not an accurate measure of these O&M requirements. In fact, for Corrective Maintenance O&M, the expenditures have been increasing over time.

Q. Please explain.

A. The proposed Facilities Maintenance O&M expenses are comprised of Stack Painting and the Structures Improvement Program, which includes the replacement and improvement of structural deficiencies identified at the Company's East River and Gas Turbines facilities during inspections of steel and concrete, bridges, tunnels and stacks. The integrity and reliability of station operating equipment and the safety of employees and the public are compromised by the deterioration of steel, concrete and other building structures components. A significant portion of such repairs at East River was postponed until the completion of the commissioning of East River Units 1 and 2 so as not to impede the start-up and initial operation of the units. This appears to be the basis of their suggestion that the Company does not respond to the maintenance resulting from its facilities inspections in a reasonable amount of time. However, since the commencement of operations of East River Units 1 and 2 in April 2005, the Company began the significant capital projects related to this structural work, which is most critical in addressing safety concerns, and will continue with its structural maintenance efforts during the rate year.

Q. Why do you disagree with their combined adjustment for Preventive and Corrective Maintenance?

A. With respect to the Company's request for O&M expenses for Corrective Maintenance, Schultz/DeRonne state that the historic spending levels are lower than the Company's request in its filing. In its response to CPB 13, the Company detailed that the O&M expenses for Corrective Maintenance have, in fact, increased each of the last three years, from $1.2 million in 2004 to $2.4 million and $4.0 million in 2005 and 2006, respectively. Furthermore, the response also indicated that the 2007 budget of $700,000 for Corrective Maintenance was understated as the O&M expenses for the six months ended June 2007, amounting to $1.7 million, were more than double the annual budget. Additionally, the exhibit filed with the Panel's initial testimony (Exhibit___(EPP-2)) shows that the Company's rate year request for Corrective Maintenance O&M is basically flat at $4 million, equal to the Company’s 2006 expenditures.

For Preventive Maintenance, while the average of the three-year historic spending may be slightly lower than the Company’s request in its initial testimony, we disagree with this adjustment based on the fact that the Company’s response to CPB 13 illustrates an estimated 2007 spending level higher than the average of the three previous years. Our preventive maintenance program, through the use of available technology to more accurately identify, predict and plan required maintenance, has been optimized to better respond to maintenance issues to support the reliability of station equipment. This program provides for inspections and life assessments for high energy piping, boilers, feedwater heater eddy current and hot reheat piping at East River. These inspections and assessments are critical to determine the condition of the boilers, piping systems and feedwater heaters so that component upgrades and replacement can be predicted and included in planned maintenance.

Q. Does this complete the Panel’s rebuttal testimony?

A. Yes, it does.