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1 Q. Please state your name.

2 A. My name is Joseph A. Holtman.

3 Q. Have you previously submitted testimony in this proceeding?

4 A. Yes, I have.

5 Q. What is the purpose of your additional testimony?

6 A. The purpose of my testimony is to rebut portions of the  
7 direct testimony of Ms. Smith on behalf of the Retail  
8 Energy Supply Association and Direct Energy Services, LLC;  
9 to respond to a point raised by Mr. Bush on behalf of  
10 Astoria Generating Company, LP; to rebut a portion of the  
11 direct testimony of Mr. Liberty and Mr. Radigan on behalf  
12 of the County of Westchester; to rebut a portion of the  
13 direct testimony of Mr. Dowling on behalf of Consumer Power  
14 Advocates; and to rebut a portion of the direct testimony  
15 of Mr. Chernick on behalf of the City of New York.

16 REBUTTAL TO MS. SMITH

17 Q. Have you reviewed Ms. Smith's recommendations with respect  
18 to recovery through the MSC of costs related to the energy  
19 portion of the Entergy contract, and to TCCs acquired to  
20 hedge full-service supply costs?

21 A. Yes. Ms. Smith's opposition to the Company's proposal has  
22 two primary flaws. First, many of her remarks are based on  
23 a misunderstanding of the current agreement between the  
24 Company and Entergy and of the Company's use of TCCs as  
25 hedges. Second, her attempt to re-argue portions of the

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1 Commission's Order in Case No. 06-M-1017,<sup>1</sup> in which the  
2 Company was directed to include in the MSC those wholesale  
3 costs incurred solely on behalf of and for the benefit of  
4 Con Edison full-service customers.

5 Q. Please describe the reason that the Company proposes to  
6 continue recovery of the capacity charges of the Entergy  
7 contract in the MAC.

8 A. In 2001, when it sold Indian Point Unit 2 to Entergy, Con  
9 Edison and Entergy agreed to a power purchase agreement  
10 providing the Company with capacity and energy at fixed  
11 prices through December 31, 2004. Thereafter, the  
12 agreement provided for a "call option" under which the  
13 Company and Entergy could negotiate further capacity  
14 purchases through 2011. These capacity purchases were  
15 intended to mitigate the potential market power that  
16 Entergy would otherwise possess in New York State and were  
17 then and still are considered to further public policy  
18 objectives. The Company therefore proposes to continue  
19 recovery of these capacity costs through the MAC.

20 Q. Please describe the reasons that the Company proposes to  
21 shift recovery of the energy charges of the Entergy  
22 contract to the MSC.

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<sup>1</sup> Case 06-M-1017, *Order Requiring Development of Utility-Specific Guidelines for Electric Commodity Supply Portfolios and Instituting a Phase II to Address Longer-term Issues* (April 19, 2007) ("Hedging Order")

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1 A. First, the original power purchase agreement associated  
2 with divestiture of the plant did not contemplate energy  
3 purchases after December 31, 2004 and no continuing public  
4 policy objective with respect to energy purchases has been  
5 identified.

6 Second, the energy purchases that the Company has made  
7 from Entergy since January 1, 2005 have been made in a  
8 series of tranches, executed annually, for terms of three  
9 years. Such purchases were executed by the parties on  
10 April 22, 2004, December 6, 2004, November 17, 2005 and  
11 October 30, 2006.

12 Third, the Company determined that the Entergy fixed  
13 price energy would be an effective hedge of its wholesale  
14 energy costs, which are incurred on behalf of full-service  
15 customers.

16 Accordingly, the Company proposes to shift recovery of  
17 the energy charges of the Entergy contract to the MSC  
18 because the energy purchases are post-restructuring, short-  
19 term arrangements made to serve full-service customers.

20 Q. Which portions of Ms. Smith's testimony do these facts  
21 refute?

22 A. In particular, Ms Smith's testimony on page 7 incorrectly  
23 asserts that the energy purchases are from "an old nuclear

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1 generation contract that benefited all Con Edison  
2 customers." These energy purchases were clearly made well  
3 after divestiture, and with very different objectives in  
4 mind.

5 On page 8, Ms. Smith asserts that it is "highly  
6 unlikely that Con Edison signed additional long-term  
7 contracts after May 1, 2000 solely to benefit an ever-  
8 shrinking class of Con Edison full-service customers..." In  
9 fact, the energy purchases are not long-term, and were  
10 signed on behalf of full-service customers.

11 On page 9, Ms. Smith asserts that "If it were expected  
12 that the Con Edison full-service load would decrease over  
13 time, then it would not be appropriate for the Company to  
14 sign long-term contracts to exclusively benefit the Con  
15 Edison full-service customers to meet an unknown amount of  
16 load many years in the future." It is, however,  
17 appropriate to sign shorter-term contracts, such as the  
18 Company's energy purchases from Entergy, to benefit a  
19 reasonably assured portion of full-service customer  
20 requirements in the near term.

21 On pages 11 and 13, Ms. Smith incorrectly asserts, for  
22 the reasons stated above, that "costs associated with this  
23 contract should continue to be recovered in the MAC" and

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1 "Con Edison has adopted the correct approach with respect  
2 to the capacity portion of the Indian Point No. 2, but not  
3 with respect the energy portion of the contract." On page  
4 15 of her testimony, the statement that "the energy  
5 contract was not signed as a hedge for default services,  
6 but was rather related to the sale of the unit, the  
7 purchase of capacity, and the concern over market power" is  
8 similarly flawed.

9 Q. Do some portions of Ms. Smith's testimony contradict the  
10 Hedging Order?

11 A. Yes. In particular, the discussion on page 6 is an attempt  
12 to re-hear issues already addressed in that Order, as is  
13 the testimony on page 15 at 21 through page 16 at 3, and  
14 page 16 at 16-19. Basically, Ms. Smith argues that the MSC  
15 should be close to the market price. However, in its  
16 Order, the Commission dismissed this rationale. In  
17 particular, pages 10-11 of the Order stated that the  
18 opponents of utility hedging claim that:

19 utilities should cease hedging as soon as  
20 possible and should instead flow through spot  
21 market prices to their mass market supply  
22 customers. Taking that step, however, would  
23 expose mass market customers to greater price  
24 volatility. Under current utility commodity  
25 charge mechanisms, the commodity rates billed to  
26 mass market customers are monthly average prices.  
27 If the source of supply were unhedged market  
28 prices, these customers would face the excessive

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1 price volatility that they generally wish to  
2 avoid and would insure against, even though that  
3 volatility would be experienced on a monthly  
4 basis.

5 In summary, Ms. Smith's arguments are factually flawed and  
6 inconsistent with the Commission's policy. The Company's  
7 proposed treatment of energy charges in the Entergy  
8 contract should be adopted.

9 Q Do you agree with Ms. Smith's proposal with respect to  
10 recovery of TCC costs used for financial hedging?

11 A. No. In her testimony on page 18, she asserts that Con  
12 Edison has failed to affirmatively demonstrate that, going  
13 forward, the costs associated with financial instruments  
14 and TCCs will be incurred to exclusively benefit Con  
15 Edison's full-service customers. This is incorrect. In my  
16 initial testimony at page 11, I note that TCCs are  
17 financial hedges that protect against fluctuations in the  
18 transmission costs or rents realized when moving energy  
19 from its point of injection to its point of withdrawal.  
20 The Indeck, Selkirk and Entergy supplies noted on Exhibit  
21 \_\_\_\_ (JAH-2) all reside outside of Con Edison's service  
22 territory. For this reason, the Company participates in  
23 NYISO-sponsored auctions of TCCs, which are sold for 6-  
24 month or 1-year terms, in order to hedge the cost of  
25 delivering energy from those plants to its system. Such

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1 energy is used to serve full-service customers. These  
2 short-term hedges, indeed all financial hedges on energy  
3 used to supply full-service customers, are clearly  
4 appropriately recoverable in the MSC, in accordance with  
5 the Commission's guidance in the Hedging Order 06-M-1017.

6 RESPONSE TO MR. BUSH

7 Q. Have you reviewed Mr. Bush's testimony with respect to  
8 recovery of RGGI costs?

9 A. Yes. On page 11, Mr. Bush states correctly that "emissions  
10 allowances for certain new environmental programs,  
11 including any costs associated with the regional greenhouse  
12 gas initiative ... constitute a variable cost that a  
13 generating facility incurs to produce energy." On page 12,  
14 he recommends that "Con Edison should be permitted to  
15 include environmental costs, including RGGI and any other  
16 related costs, in its MSC to the extent that Con Edison  
17 demonstrates such costs could not otherwise have been  
18 recovered by the Company through the NYISO spot market  
19 clearing prices." I agree with his recommendation.

20 To the extent RGGI and other environmental compliance  
21 costs are part of the marginal production costs for steam  
22 units, they would be included in the offer price. All  
23 revenues received from NYISO for these sales, net of

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1 production costs, are flowed through to full-service  
2 customers to offset other wholesale energy costs.

3 REBUTTAL TO MR. LIBERTY AND MR. RADIGAN

4 Q. What do Mr. Liberty and Mr. Radigan say with respect to  
5 RGGI costs?

6 A. In their testimony at page 29, they state that "there is no  
7 indication of the types of costs that might be incurred, or  
8 whether these costs should best be recovered in the MSC,  
9 the MAC, or base rates." They therefore propose that that  
10 provision be removed from the proposed tariff until such  
11 costs are better defined. Such definition is not required  
12 anymore than it would be for fuel costs, another variable  
13 production cost. As stated in my direct testimony at page  
14 15 and in Mr. Bush's testimony, such costs are part of the  
15 variable cost of energy production. Since that energy is  
16 used to meet the demand of full-service customers, such  
17 costs are properly recovered as part of the MSC.

18 REBUTTAL OF MR. DOWLING

19 Q. Do you agree with Mr. Dowling's proposal for a "full  
20 accounting of stranded costs"?

21 A. No. In his testimony on page 5 at 20-27, Mr. Dowling  
22 states that "presumably, at the end of that [multi-year  
23 rate plan] period, any residual stranded costs would be



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1 small." This presumption is incorrect. As noted in  
2 Exhibit \_\_\_\_ (JAH-2) of my direct testimony, Con Edison's  
3 legacy contracts have terms extending to 2014, 2015, 2016,  
4 2017 and 2036. The remaining stranded costs resulting from  
5 these agreements have been the primary driver of MAC costs.  
6 The above market NUG capacity and retained generation  
7 assets recovered through the MAC have ranged from \$255.4  
8 million in 2003 to \$456.4 million in 2006, and could exceed  
9 \$2 billion before the contracts expire. Accordingly, given  
10 the magnitude, volatility, and longevity of these legacy  
11 contract costs, the current mechanism remains the most  
12 appropriate method of cost recovery.

13 I would also note a minor correction to his direct  
14 testimony on page 5 at lines 11-14, where he refers to the  
15 "SCS purchase of Indian Point 2." Con Edison sold Indian  
16 Point Unit 2 to the Entergy Corporation, who continues to  
17 own and operate the unit at this time.

18 REBUTTAL OF MR. CHERNICK

19 Q. Are there any statements in Mr. Chernick's testimony with  
20 which you disagree?

21 A. Yes. From pages 50 to 54, he levels a number of criticisms  
22 at the Company related to energy supply sources, such as  
23 central generation, transmission, DSM and distributed

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1 generation. While he notes that NYISO considers  
2 reliability issues at the transmission level, he  
3 incorrectly asserts that NYISO has no mechanism for  
4 implementing non-transmission solutions for emerging  
5 problems. He further laments that NYISO has no program for  
6 adding resources to reduce market prices.

7 The NYISO has implemented a Comprehensive Reliability  
8 Planning Process ("CRPP") that identifies potential  
9 reliability deficiencies over a forward-looking 10-year  
10 horizon, considers merchant projects that could address  
11 those deficiencies, and identifies where transmission  
12 owners' "backstop" solutions may be required to ensure  
13 reliability. All of the solutions discussed by Mr.  
14 Chernick, including repowering of the Hudson Avenue  
15 generating station, transmission upgrades to Staten Island  
16 and upstate New York, and large scale load relief are more  
17 properly considered in the NYISO's CRPP than in the more  
18 limited process he proposes. He recognized this in  
19 response to an information request by the Company (Con  
20 Edison Set No. 2, question 20). When asked to describe all  
21 of the City's efforts to raise the issue of 1750 MW of  
22 "useful" relief in Zone J, the response was:

23 The City objects to this interrogatory  
24 as it does not relate to the subject

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1 matter of this proceeding. This is a  
2 proceeding to determine the rates,  
3 charges, rules and regulations of Con  
4 Edison's electric operations. Inasmuch  
5 as this interrogatory does not seek  
6 information from the City on its  
7 positions related to Con Edison's  
8 electric operations or is otherwise  
9 relevant to this proceeding, the City  
10 objects.

11 I concur. All of the issues raised by Mr. Chernick in this  
12 portion of his testimony are outside the scope of this  
13 proceeding and are more properly considered in the NYISO's  
14 CRPP.

15 Moreover, for the same reasons, the Commission should  
16 reject Mr. Chernick's request (p. 54) to update the Con  
17 Edison 2005 System Reliability Study, which was conducted  
18 on a one-time basis in case the NYISO CRPP could not be  
19 completed in a suitable time frame.

20 Q. Mr. Chernick also requests that the Commission require Con  
21 Edison to expand the scope of the investment grade study  
22 for Hudson Avenue. Do you agree?

23 A. No. Mr. Chernick simply ignores that the study was  
24 completed as part of the last steam rate plan, where this  
25 issue should have been raised. In addition, I was informed  
26 by the Company's Steam Resource Planning group that at a  
27 meeting required by that Rate Plan on November 6, 2006, Con  
28 Edison informed the Steam Task Force, which is chaired by

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1 the City and who called the meeting, that Con Edison would  
2 be studying boilers and the refurbishment of the existing  
3 65-MW cogenerating unit at Hudson Avenue. The Steam  
4 Resource Planning Group further informed me that the City  
5 raised no objection at that time to the scope of the study.  
6 Accordingly, even if it were relevant to this case, the  
7 City already had its opportunity to request an expansion of  
8 the scope and failed to do so.

9 Similarly, the Commission should not consider Mr.  
10 Chernick's request to have Con Edison negotiate with  
11 National Grid to purchase steam from the Ravenswood Plant.  
12 This issue is also more properly raised in the steam case.

13 Q. Does this conclude your rebuttal testimony?

14 A. Yes, it does.