

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

- Case 02-E-0781** - Consolidated Edison Company of New York, Inc. – Proceeding on Motion of the Commission as to an Electric Tariff Filing to Establish a New Standby Service in Accordance With Commission Order.
- Case 02-E-0780** - Orange & Rockland Utilities, Inc. – Proceeding on Motion of the Commission as to an Electric Tariff Filing to Establish Standby Service in Accordance With Commission Order.

PREFILED DIRECT TESTIMONY OF
ARTHUR W. PEARSON, CEM OF INVENSYS

MARCH 20, 2003

DIRECT TESTIMONY OF PEARSON

1 Q. Please state your name, occupation and business address.

2 A. My name is Arthur W. Pearson, CEM. I am Account Executive for Invensys.

3 My business address is 49-01 39th Avenue, Sunnyside, NY 11104.

4 Q. Please describe your qualifications.

5 A. As Account Executive, I am responsible for the development of OSG
6 opportunities for Invensys throughout the Northeast. I am also responsible for
7 conducting the initial feasibility analysis reviews for such projects before the
8 projects are passed on to engineering for their actual design and development.

9
10 Prior to joining Invensys, I held a similar position with KeySpan Business
11 Solutions and prior to that I was the Project Manager for Energy Management
12 for the Corporate Property Management group at MetLife. In that position I
13 was responsible for overseeing the development and implementation of all
14 major energy projects at MetLife's investment properties all across the
15 country.

16
17 Prior to joining MetLife, I was a utility rate analyst over ten years, first for
18 National Utility Service, Inc. and then for Information Control Corp (ICC).
19 While at ICC I developed the energy analysis side of the business for the firm
20 which previously was only involved with telecommunication analysis.

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1 I have a BBA in Marketing Management from the Bernard M. Baruch College
2 of the City University of New York. In 1995 I joined the Association of
3 Energy Engineers and received from them the Certified Energy Manager
4 certification later that same year. I was also certified by AEE as a Certified
5 Energy Procurement Professional in 1998. A copy of my CV is provided as
6 Exhibit ____ (AWP-1).

7 Q. Please describe the nature of Invensys' business.

8 A. Invensys is the American arm of Invensys PLC, a \$7 billion energy services
9 firm based in England. With over 50,000 employees in 80 countries Invensys
10 is one of the largest energy service firms in the world.

11
12 Invensys' offerings include metering systems, energy management systems,
13 building systems, HVAC and engineering services and, DG/OSG
14 development. With respect to DG/OSG, Invensys has identified the service
15 territory of Con Edison as having one of the most favorable economic
16 climates in the country for such systems and, as a result, has launched a major
17 program for the development of such systems in this area.

18 Q. Please describe the current status of the Invensys DG/OSG development
19 program in Con Edison's service territory.

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1 A. In the year that the program has been in effect, Invensys has identified
2 numerous commercial, industrial and healthcare facilities that are suitable for
3 DG/OSG projects. We are currently in the initial development stages for four
4 such projects ranging in size from 1 megawatt to 2.4 megawatts in New York
5 City. Furthermore, one of the projects has been extensively reviewed with
6 NYSERDA staff, and they have expressed great interest in it as it represents
7 the introduction of the DG/OSG technology to a market segment not
8 previously exposed to DG/OSG. Unfortunately, all these projects are on hold
9 as a result of this proposed rate proceeding.

10 Q. What has been the impact of the proposed standby rate on these projects?

11 A. As stated above, as a result of Con Edison's proposed standby rate, all of the
12 projects we have been developing have been put on hold. This is due to the
13 simple fact we can no longer determine the economic benefits that would have
14 otherwise accrued from the installation of DG/OSG at these properties. The
15 proposal has also put in jeopardy the NYSERDA funding for the above
16 referenced project, as we are not yet able to provide the economic estimates
17 required by NYSERDA, (given that the application deadline is April 16). This
18 is due to both the uncertainty of the actual charges under the proposed rate and
19 the complicated nature of the rate.

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1 Q. What is your position regarding the standby rate as outlined in the Joint
2 Settlement Proposal of March 11, 2003?

3 A. Invensys hereby opposes the Joint Proposal filed on March 11, 2003 in the
4 above-referenced proceedings, both with respect to its overall structure and to
5 certain specific details. Furthermore, and in addition to our own specific
6 comments outlined below, we wish to state our support for the “Joint
7 Supporters Initial Comments and Proposal in Opposition to Joint Proposal
8 Filed on March 11, 2003” which the Joint Supporters has filed on this date.

9
10 As previously stated, Invensys is presently developing four OSG projects in
11 Con Edison’s service territory. These projects would provide significant
12 economic benefits to the property owners involved, thereby assisting in the
13 retention of jobs in the city. Furthermore, the projects would also greatly assist
14 in relieving pressure on Con Edison’s distribution networks in the
15 neighborhoods involved. Both of these benefits would likely be lost, however,
16 if the Joint Proposal is accepted as filed.

17 Q. What are your specific objections to the proposed settlement?

18 A. The primary flaws that Invensys seeks to address involve revenue neutrality
19 and the effect upon OSG’s ability to fairly compete in the energy marketplace.

20 Our objections are as follows:

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1

2 The settlement fails to conform to one of the guiding principals stated in Case
3 No. 99-E-1470, which states, on page 11:

4

5 Cost-based standby delivery rates should provide neither a barrier nor an
6 unwarranted incentive to customers contemplating the installation of DG or
7 OSG.

8

9 The settlement as proposed creates a significant barrier to those who would
10 contemplate OSG. Furthermore, the proposal does not produce a revenue
11 neutral result, as called for throughout 99-E-1470 and specifically in
12 Appendix A – Guidelines for the Design of Standby Service Rates, page 2,
13 Item II A:

14

15 ... standby rates for each service classification should produce the same
16 revenues as the standard rates, using the class billing determinants.

17

18 The proof of both of the above statements is in the fact that OSG projects
19 which we are presently developing and are economically viable under the

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1 terms of the tariffs currently in effect, are no longer economically viable under
2 the proposed settlement.

3
4 The proposal creates a new and unfamiliar rate structure for customers who
5 wish to utilize OSG while those who do not choose to develop OSG remain on
6 their familiar and well established rates. Specifically, OSG customers would
7 be faced with calculating the risks presented by the proposals' Contract
8 Demand and "As used" Demand charges which have no counterpart in the
9 utility's other tariffs. The establishment of two totally different structures
10 results in an intrinsically anticompetitive environment in which OSG would
11 be forced to compete.

12
13 The definition of "existing" OSG projects should not be as proposed in the
14 Joint Proposal but instead, should be modified to include any projects
15 approved for NYSERDA funding as of the effective date of the tariff. Given
16 the lead time involved in developing such projects and the expense involved,
17 it is only proper that projects in which the parties involved have made firm
18 commitments and have expended considerable sums of money should not be
19 penalized.

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1 Q. With respect to the points outlined above, how would you propose to correct
2 these flaws?

3 A. With respect as to how issues outlined above should specifically be addressed
4 we propose a number of alternatives. They are as follows:

5

6 Split Rates – Only that portion of an account’s load that can be satisfied via
7 OSG should be subject to a standby tariff.

8 Dynamic Rates – The Joint Proposal calls for a fixed rate tariff for the use of
9 Con Edison’s distribution system, yet such rates do not accurately reflect the
10 actual costs involved. In reality, the costs of using the distribution grid vary
11 throughout the day, as has been acknowledged by both Con Edison and the
12 Staff. Therefore, a dynamic pricing regime should be implemented, based on
13 the estimated marginal line losses between the customer and the location
14 associated with the NYISO price.

15 The penalty clauses of the Joint Proposal should be removed as they are
16 neither supported nor called for in Opinion 01-4.

17 Combined Heat & Power (CHP) systems that are highly efficient, as defined
18 by NYSERDA, should receive the same rate deferral treatment as offered to
19 other environmentally beneficial technologies.

20

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1 For further details regarding these items we refer you to the proposal
2 presented by the Joint Supporters on this date.

3 Q. What are your main conclusions and recommendations regarding the proposed
4 standby rate?

5 A. In conclusion, Invensys believes that based on the fact the Joint Proposal
6 dated March 11 does not meet the primary guidelines issued in Opinion 01-4
7 it must be rejected. The Commission must instead adopt the revisions
8 referenced above and in the Joint Supporters filing of this date in order to
9 ensure the OSG market in Con Edison's service territory remains a viable and
10 vibrant one.

11 Q. Does this conclude your testimony?

12 A. Yes.