Before the
New York State Public Service Commission

In the Matter of

Consolidated Edison Company of New York, Inc.

Case 25-E-0072
Case 25-G-0073

June 2025

Prepared Rebuttal Testimony of:

New York City Financial Panel

Lia Cairone
Max Vilgalys

On Behalf of:

The City of New York

1   **<u>INTRODUCTION</u>**

2   **Q.   PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**

3   **ADDRESS.**

4   A.   Ms. Cairone – My name is Lia Cairone. I am the Director of Sustainability

5   and Resiliency for the New York City Office of Management and Budget,

6   or OMB. My business address is 255 Greenwich Street, New York, NY

7   10007.

8   Mr. Vilgalys – My name is Max Vilgalys. I am a Supervising Analyst for

9   OMB. My business address is 255 Greenwich Street, New York, NY

10   10007.

11   **Q.   ON   WHOSE   BEHALF   ARE   YOU   SUBMITTING   THIS**

12   **TESTIMONY?**

13   A.   The City of New York, or City.

14   **Q.   PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

15   A.   Ms. Cairone – I graduated from the Leonard N. Stern School of Business at

16   New York University in 2009 with a Bachelor's of Science degree and from

17   Columbia University's School of International and Public Affairs in 2016

18   with a Master's of International Affairs degree.

19   Mr. Vilgalys – I graduated from Stanford University in 2017 with a

20   Bachelor's of Science degree in electrical engineering and from the

21   Massachusetts Institute of Technology in 2022 with a Doctorate of

1   Philosophy in Social and Engineering Systems.

2   **Q.   PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

3   A.   Ms. Cairone – I have served as the Director of Sustainability and Resiliency

4   at OMB since 2021. Prior to working in this role, I served as Assistant

5   Deputy Director of Policy at the New York City Mayor's Office of

6   Sustainability where I conducted and oversaw financial, technical, and

7   policy analyses, and as the Deputy Director for North America at the C40

8   Cities Climate Leadership Group. While at Columbia University, I was on

9   the teaching team that taught graduate students macroeconomics. I have

10   also worked as an advocate for sustainable development, and in the private

11   sector in technology and media.

12   Mr. Vilgalys – I have been in my current position since 2023. Prior to

13   working for OMB, I worked as an economist for Eastern Research Group,

14   a private consulting company. As an economist, I conducted financial and

15   statistical analyses, processed datasets, and wrote reports for clients

16   including the U.S. Environmental Protection Agency, the California Air

17   Resources Board, and the Massachusetts Emergency Management Agency.

18   Prior to that position, I completed doctoral research on the topic of

19   developing statistical methodologies to use machine learning methods to

20   measure economic damages from climate change. While in that program, I

21   taught students statistical methodologies including analysis of stock price

1   datasets. I have also taught a course on city governance at New York

2   University.

3 **Q.**   **PLEASE   DESCRIBE   YOUR   OFFICIAL   DUTIES   AND**

4   **RESPONSIBILITIES.**

5 A.   Ms. Cairone – I built and am responsible for overseeing OMB's

6   Environmental Sustainability & Resiliency Task Force. The Task Force

7   supports the formulation, management, tracking, and evaluation of

8   sustainability and resiliency policies and investments across New York City

9   and works to ensure that budgetary decision-making integrates and

10   prioritizes climate considerations and impact.

11   Mr. Vilgalys – I am responsible for conducting research and analysis to

12   support OMB's evaluation of sustainability policies. I prepare analyses and

13   reports to inform OMB on the costs and benefits of climate-related

14   investments and policies in New York City. I use economics and data

15   science to investigate research questions such as the impact of building

16   emissions policies or tax subsidies.

17 **Q.**   **HAVE YOU EVER TESTIFIED BEFORE ANY AGENCY OR**

18   **COURT OR IN ANY OTHER VENUE ON THE TOPICS YOU**

19   **ADDRESS IN THIS TESTIMONY?**

20 A.   Ms. Cairone – No.

21   Mr. Vilgalys – No.

1   **PURPOSE OF TESTIMONY**

2   **Q.   WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

3   A.   The purpose of our testimony is to discuss concerns we have with the

4   Department of Public Service Staff Finance Panel Testimony. We believe

5   that the Staff Finance Panel has used some unreasonable assumptions.

6   Adjusting its analysis to include more reasonable assumptions results in a

7   lower return on equity, or ROE, for Consolidated Edison Company of New

8   York, Inc.'s, or Con Edison's, electric and gas businesses.

9   **Q.   ARE YOU SPONSORING ANY EXHIBITS WITH YOUR**

10   **TESTIMONY?**

11   A.   Yes. We are sponsoring three exhibits which contain the data and

12   calculations which support our testimony and our conclusions. Exhibit

13   __(NYCFP-1) shows our calculation of the ROEs for the Staff Finance

14   Panel's proxy group via the discounted cash flow, or DCF, methodology.

15   Exhibit __(NYCFP-2) shows our calculation of the overall ROE using a

16   combination of our DCF methodology result and Staff's Capital Asset

17   Pricing Model, or CAPM, methodology result. Exhibit __(NYCFP-3)

18   contains a compilation of long-term U.S. equity forecasts.

19   **Q.   IS THE PANEL FAMILIAR WITH THE APPROACH USED BY**

20   **THE   STAFF   FINANCE   PANEL   TO   DETERMINE   THE**

21   **APPROPRIATE ROE FOR CON EDISON'S ELECTRIC AND GAS**

1   **BUSINESSES?**

2   A.   Yes. We have reviewed the Recommended Decision in Case 91-M-0509,

3   Public Service Commission, or Commission, Orders setting rates for Con

4   Edison in litigated proceedings, and the underlying Recommended

5   Decisions in those proceedings. The Orders and Recommended Decisions

6   contained substantive discussions of the methodology used to determine the

7   ROEs in those proceedings.

8   **Q.   IN ANALYZING THE STAFF FINANCE PANEL'S DIRECT**

9   **TESTIMONY AND ROE RECOMMENDATION, DID YOU APPLY**

10   **THE SAME METHODOLOGY?**

11   A.   Yes. We will explain the details of our analysis.

12   **Q.   PLEASE SUMMARIZE YOUR FINDINGS.**

13   A.   We disagree with one prominent assumption in Staff's analysis. After

14   modifying this assumption, we recalculated the ROE using a combination

15   of the discounted cash flow, or DCF, methodology and the Capital Asset

16   Pricing Model, or CAPM, methodology. We calculated the ROE using the

17   DCF methodology at 7.78%, and used Staff's ROE calculation using CAPM

18   methodology at 10.38%. To reach our conclusion as to the appropriate

19   ROE, we weighted the results in the same manner as the Staff Finance Panel

20   and as the Commission has done in the Orders we reviewed – two-thirds for

21   the DCF result and one-third for the CAPM result. Our recommended ROE

1   is 8.64%. Our calculations of our recommended ROE are shown in Exhibit

2   __(NYCFP-1) and Exhibit __(NYCFP-2).

3 **Q.   WHAT IS THE SIGNIFICANCE OF THE DIFFERENCE IN ROE**

4   **CALCULATIONS?**

5 A.   Based on the revenue requirements requested by Con Edison, as updated,

6   the reduction in the ROE from Staff's proposed ROE of 9.30% to our 8.64%

7   translates to a reduction in the electric revenue requirement of about $149.2

8   million and a reduction in the gas revenue requirement of about $52.2

9   million.

10 **Q.   HOW DID YOU CALCULATE THE REVENUE REQUIREMENT**

11   **IMPACT OF YOUR ROE RECOMMENDATION?**

12 A.   We used the information provided on page 7 of the Staff Finance Panel's

13   Pre-Filed Direct Testimony. Specifically, Staff stated that a ten basis point

14   change in ROE equates to approximately $21.32 million for the electric

15   business and $7.46 million for the gas business.

16 **Q.   BASED ON YOUR REVIEW OF THE GENERIC FINANCE**

17   **PROCEEDING RECOMMENDED DECISION AND THE RATE**

18   **CASE   RECOMMENDED   DECISIONS   AND   COMMISSION**

19   **ORDERS   YOU   REFERENCED,   WHAT   IS   YOUR**

20   **UNDERSTANDING OF HOW ROE SHOULD BE CALCULATED IN**

21   **A NEW YORK UTILITY RATE CASE?**

1   A.   The goal of the ROE calculation is to determine the return on investment

2   that Con Edison requires to raise capital from equity investors. At a high

3   level, to determine the appropriate ROE, the Commission looks to returns

4   required by similar utility companies and assumes that Con Edison's

5   investors would require a commensurate return.

6   To estimate the ROE, the first step is to identify a proxy group of

7   similar utility companies. The second step is to determine the ROE for each

8   member of the proxy group using the DCF and CAPM methodologies. The

9   third step is to calculate a weighted average of these results, with the DCF

10   result given a 2/3 weighting and the CAPM result given a 1/3 rating. In

11   these proceedings, the Staff Finance Panel identified a proxy group of 28

12   utility holding companies with similar financial performance.

13 Q.   **DO YOU HAVE ANY OBJECTION TO THE PROXY GROUP**

14   **IDENTIFIED BY THE STAFF FINANCE PANEL?**

15 A.   No.

16 Q.   **IN YOUR ANALYSIS, DID YOU USE THE SAME PROXY GROUP?**

17 A.   Yes.

18 Q.   **DO YOU HAVE ANY OBJECTION TO THE STAFF FINANCE**

19   **PANEL'S USE OF THE DCF OR CAPM METHODOLOGIES?**

20 A.   No.

1 **Q.** **DO YOU HAVE ANY OBJECTION TO THE TWO-THIRDS / ONE-**

2   **THIRD WEIGHTING OF THE TWO METHODOLOGIES?**

3 A.   No.

4 **Q.** **WHAT OBJECTIONS DO YOU HAVE REGARDING THE STAFF**

5   **FINANCE PANEL'S CALCULATIONS?**

6 A.   We object to assumptions made by the Staff Finance Panel within the DCF

7   methodology. Staff's DCF methodology uses an inappropriate assumption

8   for the long-term growth rate.

9 **Q.** **PLEASE EXPLAIN YOUR OBJECTION TO THE STAFF FINANCE**

10   **PANEL'S LONG-TERM GROWTH RATE.**

11 **A.** The long-term growth rate represents the expected rate of annual growth of

12   a firm far into the future; it is a key component of the DCF methodology.

13   In this application, the long-term growth rate is applied between five and

14   200 years in the future. A widely used source for this growth rate is the

15   long-term forecasted growth rate of the U.S. economy, preferably using

16   multiple independent estimates produced by federal or international

17   economic research agencies.

18   We identified the following values for long-term real growth rate of

19   U.S. gross domestic product, or GDP: 1.8% from the U.S. Federal Reserve,

20   1.8% from the U.S. Energy Information Administration, and 1.6% from the

21   U.S. Congressional Budget Office. Using the Staff Finance Panel's

1   projected long-term inflation rate of 2.2%, the long-term real growth rates

2   translate to nominal GDP growth rates of 4.0%, 4.0%, 3.6%, and 3.8%,

3   respectively.

4   The Staff Finance Panel developed company-level sustainable

5   growth rate forecasts for each firm in the proxy group, with an average

6   nominal growth rate of 4.9% and individual growth rates as high as 7.4%.

7   We believe a more appropriate approach to calculating the ROE via the

8   DCF methodology is to use an average of DCF calculations using each of

9   the long-term growth rates we identified.

10 Q. **WHAT ARE THE SOURCES OF THE GROWTH RATES YOU**

11   **JUST PROVIDED?**

12 A. For the Federal Reserve growth rate, we used median longer-run projections

13   for change in real GDP for 2025, which we obtained from the U.S. Federal

14   Reserve in its publication, "Summary of Economic Projections" at

15   https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl202503

16   19.pdf.

17   For the U.S. Energy Information Administration growth rate, we used

18   average annual economic growth in GDP from 2024-2050, which we

19   obtained from the U.S. Energy Information Administration in its

20   publication, "Assumptions to the Annual Energy Outlook 2025:

21   Macroeconomic   Activity   Module"   at

1   https://www.eia.gov/outlooks/aeo/assumptions/pdf/MAM_Assumptions.p

2   df.

3   For the U.S. Congressional Budget Office growth rate, we used the

4   geometric mean of annual percentage growth of real GDP from 2025-2055,

5   which we obtained from the U.S. Congressional Budget Office in its

6   publication, "Long-Term Economic Projections" at

7   https://www.cbo.gov/system/files/2025-03/57054-2025-03-LTBO-

8   econ.xlsx.

9 **Q.**   **WHY DO YOU BELIEVE THESE LONG-TERM GROWTH RATES**

10   **ARE MORE REASONABLE THAN THE GROWTH RATES USED**

11   **BY THE STAFF FINANCE PANEL?**

12 A.   While it is impossible to forecast economic indicators centuries into the

13   future, it is unreasonable to assume that utility companies will grow at a rate

14   significantly higher than the overall economy for the next 200 years. The

15   Staff Finance Panel's long-term growth rates result in such unreasonable

16   conclusions. Under the Panel's average nominal growth rate of 4.9% and

17   the higher-end nominal GDP forecast rate of 4.0% over the next 200 years,

18   the State Finance Panel is projecting that utilities would grow over 5.5 times

19   faster than the total economy. Using the Panel's assumptions, the utility

20   with the highest individual growth rate would grow over 600 times more

1   than the total economy over the same period.   We believe that such

2   projections are excessive and defy credulity.

3   **Q.   ARE THESE ASSUMPTIONS CONSISTENT WITH THE STAFF**

4   **FINANCE PANEL'S OWN STATEMENTS?**

5   A.   No.   The Staff Finance Panel states at page 77 of its Pre-Filed Direct

6   Testimony that "one could reasonably expect a mature industry, such as the

7   utility sector, will grow at a slower rate than the overall economy." It may

8   be optimistic to assume that utilities will grow at an equal rate to the overall

9   economy, but such an assumption is more reasonable than assuming that

10   utility growth will outpace the overall economy.

11   **Q.   DOES THE STAFF FINANCE PANEL RATIONALIZE OR**

12   **EXPLAIN THE INCONSISTENCY BETWEEN ITS ASSUMPTIONS**

13   **AND ITS STATEMENTS?**

14   A.   No, and we do not think there is any way to rationalize the inconsistency.

15   **Q.   DO YOU HAVE ANY ADDITIONAL JUSTIFICATION FOR THE**

16   **GROWTH RATES YOU USED IN YOUR CALCULATIONS?**

17   A.   Yes. Selecting a range of forecasts from widely used economic research

18   agencies better represents the expected long-term growth than historic

19   growth rates. According to information from the Federal Reserve Bank of

20   St.   Louis   on   real   GDP,   which   can   be   found   at

21   https://fred.stlouisfed.org/series/A191RL1Q225SBEA, U.S. GDP growth

1   rates have on average declined over the past century.   Further, some

2   economic research, such as a paper by Theodore Modis entitled "Long-term

3   GDP forecasts and the prospects for growth" and available at

4   https://www.sciencedirect.com/science/article/pii/S004016251300036X#b

5   b0010, indicates that long-term economic growth of developed countries

6   tends to decline or saturate.

7   Using a historical range results in significantly higher real GDP

8   growth rates than the average in recent years or than analysts expect for

9   future years.   As noted by the Congressional Budget Office at

10   https://www.cbo.gov/system/files/2025-03/61187-Long-Term-Outlook-

11   2025.pdf, and by the U.S. Energy Information Administration at

12   https://www.eia.gov/outlooks/aeo/nems/documentation/

13   macroeconomic/pdf/MAM_2022.pdf, GDP forecasts from economic

14   research agencies are forward-looking assessments based on rigorous

15   methodologies, accounting for anticipated drivers of long-term GDP growth

16   such as population and productivity.   These methodologies attempt to

17   forecast GDP growth for the purposes of setting policy, and as such are

18   designed to provide a reasonable basis for estimating the long-term growth

19   of the U.S. economy.

20   **Q.**   **HOW DID YOU APPLY THE DCF METHODOLOGY USING THE**

21   **AVERAGE OF THESE GROWTH RATES**?

1   A.   We applied the two-stage DCF methodology with each reference growth

2   rate of 1.6% and 1.8% for each company in the Staff Finance Panel's proxy

3   group. Doing so produced an average ROE of 7.78% and a median ROE of

4   7.56%. We did not make any other changes to the data sources or the

5   application of the DCF methodology as we understand it was used by the

6   Staff Finance Panel. Our calculations can be found in Exhibit __(NYCFP-

7   2).

8   Q.   **WHY DO YOU BELIEVE YOUR RECOMMENDED RETURN ON**

9   **EQUITY   IS   MORE   REASONABLE   THAN   THAT**

10   **RECOMMENDED BY THE STAFF FINANCE PANEL?**

11   A.   Our recommended ROE is more reasonable for two reasons. First, our

12   methodology corrects a significant component of the Staff Finance Panel's

13   methodology. By doing so, we believe we are recommending an ROE that

14   is more reasonable and better balances customer and shareholder interests.

15   That is, it provides a return that is consistent with investor requirements

16   based on market information while moderating the upward impact on

17   customers' electric bills. As discussed by the City's Policy Panel and

18   recognized by Governor Hochul, we have an affordability crisis in New

19   York. The Commission should take all reasonable actions to minimize

20   increases to customers' utility bills, and the approach we recommend helps

21   to do so while providing a fair return to shareholders.

1   Second, our proposed ROE of 8.64% more appropriately reflects the

2   risk profile of utility investments relative to broader market returns.

3   Utilities operate as legal monopolies that provide essential service and have

4   a high likelihood of cost recovery, making them inherently lower-risk

5   investments than general market equities. With our ROE, as compared to

6   the much higher ROEs proposed by Staff and Con Edison, equity

7   investments in Con Edison would remain competitive in that they would

8   provide an equivalent long-term return as the forecasted long-term average

9   return on equities. Our Exhibit __(NYCFP-3) demonstrates this point.

10   Q.   **WHAT DOES EXHIBIT __(NYCFP-3) SHOW?**

11   A.   We reviewed 12 long-term U.S. equity forecasts. The average return among

12   these forecasts is 5.56%, and the highest return is 7.0%. Our recommended

13   ROE of 8.64% surpasses the highest of these long-run estimates, suggesting

14   that Con Edison would continue to be an attractive investment.

15   Q.   **DOES THIS CONCLUDE YOUR TESTIMONY?**

16   A.   Yes.