

SUPPLEMENTAL TESTIMONY
ELECTRIC RATE PANEL

ALLOCATION OF PJM OATT SERVICE COSTS

1
2 Q. Please provide an update regarding the allocation of
3 the cost of the 1,000 MW transmission service that PJM
4 renders for the Company pursuant to PJM's OATT tariff.
5 A. In a July 9, 2012 letter in Case 09-E-0428, Con Edison
6 explained why it was recovering FERC-approved charges
7 for PJM OATT service through the MAC. The letter
8 noted Staff's advice that interested parties should
9 have the opportunity to comment on the allocation of
10 PJM OATT charges, since charges recoverable through
11 the MAC are allocable only to Con Edison full service
12 and retail access customers. The New York Power
13 Authority ("NYPA") and the City of New York ("City")
14 filed comments in that case opposing the allocation of
15 the PJM costs to NYPA, based on a claim that NYPA
16 funds facilities and resources that provide offsetting
17 benefits to Con Edison's customers. On February 14,
18 2013, the Commission issued an order in Case 09-E-0428
19 rejecting the Company's cost recovery position and
20 cost allocation proposal ("February 14 Order"). The
21 February 14 Order rejected the City's and NYPA's cost

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1 allocation argument on the ground that it had not been
2 substantiated: "While the City claims that the
3 reliability benefits of the PJM OATT service are
4 likely more than offset by the reliability benefits
5 provided by NYPA transmission contracts and NYPA in-
6 City generation sources, it provides no data or
7 analysis that supports such a claim."

8 Q. Is Con Edison modifying its cost-recovery proposal in
9 response to the Commission's February 14 Order?

10 A. Con Edison continues to believe that the PJM OATT
11 service costs are, and should be, recoverable through
12 the MAC. Explained later in this testimony, if the
13 Commission determines that some portion of PJM OATT
14 charges should be allocated to NYPA, then the
15 Commission should approve a MAC-like surcharge to
16 recover NYPA's share of these costs.

17 Q. Why does the Company continue to believe that recovery
18 through the MAC is appropriate?

19 A. As explained in the July 9, 2012 letter and the
20 Company's March 18, 2013 Petition for Rehearing, the
21 MAC section of the Tariff lists 36 separate cost

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1 components. Some of the components address specific,
2 currently identifiable costs; other components
3 generally describe categories of costs. For purposes
4 of recovering PJM's charges for its OATT transmission
5 service, the Company relies on one of the components
6 that describes a category of costs, MAC component
7 (14), which permits recovery of "certain other
8 transmission-related charges and credits." MAC
9 component (14) contains no language that makes
10 recovery of transmission-related charges or refund of
11 transmission-related credits subject to prior
12 Commission review, and no such requirement should be
13 inferred. That is the case because, where prior
14 Commission approval of cost recovery or refund through
15 the MAC is contemplated for other MAC components, the
16 MAC tariff so states. For example, the last component
17 of the MAC (component (36)), provides for recovery
18 through the MAC of "other appropriate costs *as may be*
19 *approved by the Public Service Commission.*" (Emphasis
20 added). The inclusion of that approval requirement in
21 MAC component (36), which does not address any

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1 specific category of costs, contrasts with the
2 omission of any such limitation or condition in MAC
3 component (14), which specifically addresses
4 transmission related costs. Accordingly, MAC
5 component (14) must be read to authorize the Company
6 to commence recovery of transmission-related costs
7 recoverable through the MAC on the same basis and to
8 the same extent as other costs that are recoverable or
9 credits that are refundable under the other MAC
10 components that do not expressly specify the prior-
11 approval requirement.

12 In addition, as explained in the Rate Panel's initial
13 testimony (pp. 80-91), if the MAC is not interpreted
14 as providing a vehicle for recovery of PJM OATT and
15 other transmission-related costs without prior
16 Commission approval, the tariff should be amended so
17 it is clear that the Company is permitted to recover
18 such costs without prior Commission approval.

19 Q. Is the Company's exposure to transmission-related
20 costs increasing?

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1 A. Yes. As explained in the Electric Rate Panel's
2 initial testimony (pp. 87-90), the residual clauses of
3 the MAC (including MAC provision (14)) should be read
4 broadly because new categories of costs arise
5 unpredictably as NYISO programs (and programs of other
6 RTOs) evolve. For example, the NYISO's expanding
7 regional planning process now includes projects
8 undertaken by third parties for system reliability and
9 economic purposes and shortly will include public
10 policy projects within New York and inter-regional
11 projects located in PJM and New England. The NYISO
12 tariff prescribes a cost allocation that subjects Con
13 Edison to potential responsibility for the cost of
14 those projects. It is likely that developers of
15 projects undertaken as part of the New York State
16 Energy Highway program and the Indian Point
17 contingency program will also seek to recover their
18 project costs through the NYISO tariff.

19 Q. Are cost volatility and unpredictability a concern?

20 A. Yes. MAC treatment of the PJM OATT costs and of other
21 PJM and NYISO program costs is further warranted by

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1 the fact that such costs tend to be volatile and their
2 timing unpredictable. The PJM OATT costs include (1)
3 a Transmission Enhancement Charge, which PJM re-
4 determines several times each year to reflect system
5 enhancement projects throughout the PJM region; and
6 (2) three market based charges (for congestion,
7 losses, and ancillary services) that vary hourly with
8 load levels and the availability of generation. Con
9 Edison has yet to incur NYISO and PJM regional
10 planning costs, but it is likely that those costs will
11 also be variable and unpredictable because they depend
12 on estimates of third party developers and the timing
13 of their projects. Therefore, the PJM OATT costs and
14 the costs of the NYISO and PJM programs cannot be
15 reasonably estimated.

16 Q. How might a prior approval requirement affect the
17 conduct of the Company's rate cases?

18 A. The Company's ability to reasonably consider multi-
19 year rate plans depends on the Company's ability to
20 reasonably rely on adjustment mechanisms like the MAC
21 for recovery of volatile and/or unpredictable

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1 transmission-related costs that may arise during the
2 term of the rate plan. Given the magnitude and
3 uncertainty of such costs, the inability to recover
4 them through the MAC without the Commission's prior
5 consent may, for example, require the Company to
6 reserve its rights to file for new rates prior to the
7 end of the term of the plan, rather than risk
8 absorbing these costs until base rates are reset. The
9 costs recovered through the MAC would be subject to
10 Commission review to determine that the Company took
11 reasonable care incurring these charges, as provided
12 in PSL sec. 66(12)(k).

13 Q. Is Con Edison modifying its cost-allocation proposal
14 in response to the Commission's February 14 Order?

15 A. Con Edison is not modifying its cost-allocation
16 proposal at this time, but reserves the right to do so
17 in its rebuttal testimony after considering the
18 testimony of other parties.

19 Q Why?

20 A. Con Edison is not positioned to substantiate the
21 City's and NYPA's offsetting-benefits argument.

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1 Consistent with the findings of the February 14 Order,
2 the Company lacks comprehensive detailed data
3 regarding costs and benefits associated with NYPA's
4 transmission facilities, transmission contracts, and
5 generation resources. The February 14 Order reflects
6 the Commission's expectation that the parties to this
7 case will provide a record upon which to make a
8 determination regarding the propriety of the Company
9 recovering PJM OATT charges and the allocation of the
10 charges among customers. The Company's Electric
11 Infrastructure and Operations Panel is supplementing
12 its testimony with additional information to establish
13 the propriety of recovering these charges.
14 As to the allocation, Con Edison must look, in the
15 first instance, to NYPA and the City for an analysis
16 of the resources that are funded by NYPA and its
17 customers. Consequently, the Company has no further
18 factual support to offer with respect to the cost
19 allocation question at this time. The Company will
20 respond in its rebuttal testimony to any analysis that
21 NYPA and/or the City provide.

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1 Q. Is there anything in particular that should be
2 considered in that analysis?

3 A. Yes. Con Edison initially stated that PJM OATT costs
4 should not be allocated to NYPA absent consideration
5 of all of NYPA's transmission-related costs and
6 services to the Company's service territory. (See
7 Exhibit ____ (ERP-4) - Response DPS-2(12), dated August
8 24, 2012, submitted in Case 09-E-0428). The analysis
9 should distinguish between NYPA's resources and
10 projects whose costs are borne by Con Edison's
11 customers from those whose costs are not. Con Edison
12 notes that NYPA recently increased its recovery of
13 costs from Con Edison's customers and indicated that
14 further increases are likely. NYPA increased by 10%
15 the NTAC charge (under the NYISO tariff), by which
16 ratepayers reimburse NYPA for its annual revenue
17 requirement. In addition, NYPA recently adopted a
18 \$720 million life extension program for its existing
19 facilities, and the New York State Energy Highway
20 Blueprint indicated that NYPA should invest \$300
21 million in electric infrastructure, in addition to

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1 other budgeted amounts. Cost allocation of Con Edison
2 transmission costs to NYPA should consider any
3 projects for which NYPA is or will be reimbursed by
4 Con Edison's customers.

5 Q. What does the Company propose if the PJM OATT service
6 costs and other NYISO and PJM program costs are
7 ultimately allocated to NYPA?

8 A. If the Commission determines that such costs should be
9 allocated to NYPA, the Company proposes to make
10 appropriate tariff revisions to effectuate the
11 allocation, as follows. The Company would allocate
12 the designated amount to NYPA and recover that amount
13 through a separate MAC-like surcharge applicable to
14 NYPA. Establishing a separate surcharge to recover a
15 portion of such costs from NYPA customers would be
16 comparable to the action taken by the Commission in
17 Case 09-E-0115, *Proceeding on Motion of the Commission*
18 *to Consider Demand Response Initiatives*, Order issued
19 June 1, 2011, pp. 14-15. The Company would recover the
20 amount allocable to Con Edison customers through MAC
21 provision (14).

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1 Q. What is the Company's position if the Commission
2 determines that the PJM OATT charges should be rolled
3 into base rates when rates are reset in this
4 proceeding?

5 A. If the Commission determines that PJM OATT charges
6 should be recovered through base rates, the rate plan
7 should also provide for the amount of PJM OATT charges
8 in base rates to be reconciled with actual PJM OATT
9 charges incurred by the Company. This treatment would
10 be comparable to the current rate treatment accorded
11 Transmission Congestion Contract revenues,
12 Transmission Service Charge revenues, and revenues
13 from grandfathered transmission wheeling contracts.

14 Q. How do you propose that the reconciliation be
15 effectuated?

16 A. If the Commission determines that 100 percent of the
17 PJM OATT charges should be borne by Con Edison
18 customers, the charges should be reconciled through
19 the MAC. If the Commission determines that NYPA bear
20 some portion of these costs, then the amount allocated
21 to Con Edison customers should be reconciled through

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1 the MAC and the amount allocated to NYPA should be
2 reconciled through the separate MAC-like surcharge
3 proposed by the Company.

4 Q. Does that complete your supplemental testimony?

5 A. Yes.

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