

EXHIBIT ____ (IIP-18)

**CASE 09-E-0428 – PJM OATT PETITION
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.**

**RESPONSE TO
STAFF OF THE DEPARTMENT OF PUBLIC SERVICE
INTERROGATORY / DOCUMENT REQUEST**

Request No.: DPS-1
Requested By: Kevin Higgins
Date of Request: August 2, 2012
Reply Date: August 28, 2012
Subject: PJM OATT

2. *Before Con Edison entered into the two replacement transmission agreements explain what alternatives, if any, did Con Edison explore as potential options to the then existing transmission service agreements. Provide all cost benefits analysis supporting the alternatives considered, but not selected. If no alternatives were explored explain why not.*

RESPONSE

The Company discussed alternatives (see response to DPS-2(5)) and concluded, as did the Commission, that replacement of the imports would most likely require the construction of new transmission and/or generation resources, which would clearly be far more costly, require long lead times, and not have the flexibility offered by the PJM OATT service (see Response to DPS-1(3)). As noted by the Commission in its supporting comments to FERC, “the “replacement of imports lost would be difficult, and would likely require construction of new resources.” FERC Docket Nos. ER08-858-000, *et al.*, Reply Brief, May 11, 2010, pp. 3-4.

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Date of Request: August 2, 2012
Reply Date: August 24, 2012
Subject: PJM OATT

3. *The replacement agreements provide for service between PJM and Con Edison through April 30, 2017; given the April 2017 expiration date explain Con Edison's future plans with respect to these contracts.*

RESPONSE

The PJM OATT wheel service agreements are effective for the five-year period from May 2012 to April 2017. However, this service has essentially no sunset date because the service can be extended indefinitely at the Company's option for additional five-year terms, subject to *pro forma* filings with FERC. The availability of the transmission service for subsequent five-year periods provides planning flexibility and allows Con Edison to consider alternative arrangements, should they arise in the future, with the certainty that the PJM OATT service may be extended if it continues to be the most beneficial arrangement. Accordingly, Con Edison has not adopted any plan regarding the PJM OATT service beyond April 2017, and need not do so at this time.

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Request No.: DPS-2
Requested By: Marco Padula and Johanna Miller
Date of Request: August 2, 2012
Reply Date: August 24, 2012
Subject: PJM OATT

- 1. Explain how the PJM OATT transmission service provides reliable service and benefits to the entire Con Edison transmission and distribution system.*

RESPONSE

The Company has not asserted, nor has it studied, whether and how the PJM OATT service provides benefits to its distribution system. With respect to Con Edison's transmission system, having an additional transmission corridor for the Company to use as an alternative to its overhead facilities between Pleasant Valley and Dunwoodie/Sprain Brook, clearly increases the reliability of the transmission system by reducing the potential impact of an outage of the overhead facilities, in addition to providing consumers with reduced energy prices (see response to DPS-2(12) below). Moreover, as discussed in response to DPS-2(16) below, the PJM OATT transmission service increases electric system reliability in several respects beyond the reliability benefits that were previously provided by the 1975 and 1978 TSA agreements (see response to DPS-2(2) below).

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2. *Explain how the 1975 and 1978 TSA agreements provided reliable service and benefits to the entire Con Edison transmission distribution system.*

RESPONSE

The 1975 and 1978 agreements with PSE&G increased Con Edison's capability to import electricity into New York City by 1,000 MW. The transmission service under the agreements provided access to diverse generation resources. The agreements created a new transmission corridor for the Company to use as an alternative to its overhead facilities between Pleasant Valley and Dunwoodie/Sprain Brook, thereby reducing the potential impact of an outage of the overhead facilities. The agreements established rigorous design and operating criteria, mandating that PSE&G's transmission service be as reliable as a direct current transmission line (that Con Edison was considering between the points of receipt and redelivery under the agreement).

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12. The Company states on page 9 of its filing that the PJM OATT service is providing significant economic benefit to Con Edison customers. Provide all analysis and supporting work papers that demonstrate and quantify the significant economic benefit and the specific beneficiaries of those benefits. If those beneficiaries include customers taking service under the company's PASNY delivery rates, explain how recovery of the PJM OATT costs through the MAC provides a fair and reasonable cost allocation.

RESPONSE

As noted in the Company's filing (p. 5), the PJM OATT service provides 1000 MW of transmission capacity at all times for importing energy into Con Edison's service area and is used by the NYISO to schedule energy deliveries to customers in the Con Edison service area. Thus, the availability of the 1000 MW transmission service not only increases reliability, but will, during many hours, reduce energy prices, thereby further benefitting consumers. In fact, in approving the new OATT service, FERC found that the service would result "in substantially lower prices to customers in New York in 88 percent of the hours" and that price differentials during the remaining hours are less significant and are offset by competitive considerations. *PJM Interconnection, L.L.C.*, 135 FERC ¶61,018, P 35 (2011); 132 FERC ¶ 61,221, P 71 (2010). While quantification of the extent to which market prices are lower is difficult, if at all possible with a degree of certainty, because it would require an analysis of what market prices and dispatch would have been absent the 1000 MW wheel, market prices are clearly lower with the availability of the 1000 MW wheel because of the additional energy supplies made available in the downstate area and the economic principle of supply and demand.

However, the fact that customers taking service under the Company's NYPA delivery rates might benefit from the reduced market prices does not compel an allocation of some portion of the PJM OATT charges to NYPA. As explained in the Company's filing (p. 7), the Company's current rate structure does not employ a generally-applicable allocation methodology for transmission-related charges and credits. In fact, the Company's filing notes several examples where the MAC is currently used as the vehicle to reconcile variations between actual and estimated revenues even though the NYPA delivery rates established by the 2010 Electric Rate Order reflect an allocation of a portion of these revenues. Nor does the allocation of the PSE&G wheeling costs between Con Edison and NYPA customers in developing base delivery rates compel a similar allocation of the PJM OATT charges. The determination to allocate to NYPA a portion of the PSE&G costs was made prior to the inception of the NYISO, under facts and circumstances materially different than those that exist in today's open access, market-oriented industry structure. Accordingly, cost recovery through MAC item (14) fairly and reasonably spreads these costs among all Con Edison full service and retail access customers.

The Company acknowledges that an argument could be reasonably made that some portion of these costs should be recoverable from NYPA because NYPA customers benefit from this service. However, the Company does not believe that such a result is currently required in light of the disparate allocations of other similar costs and absent a consideration of these costs in the context of all similar transmission-related costs and services, including NYPA transmission-related costs and services to the Company's service territory. Moreover, should the Commission determine that some allocation of these costs to NYPA is appropriate, recovery of the portion of costs allocable to the Company's customers through the MAC remains both appropriate and consistent with the current tariff. As the Commission has concluded in proceedings like the Company's demand response case the appropriate result of such a determination would be the implementation of a prospective surcharge to NYPA with a commensurate reduction of the amount recoverable from Con Edison customers through the MAC. See Case 09-E-0115 – *Proceeding on Motion of the Commission to Consider Demand Response Initiatives*, January 20, 2011, p.18.

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16. Does the Company concur that the service it received under the original TSA agreements was simply rolled over to PJM OATT service as allowed under the Section 2.2 of the PJM Tariff? If not, explain the Company's rationale.

RESPONSE

The Company acknowledges that the terms “extension” and “roll-over” have been used to describe the new PJM OATT service. However, the Company rejects the notion that the PSE&G wheel was “simply rolled over” in the context of Section 2.2 of the PJM Tariff. There is nothing “simple” about the extensive efforts exerted by the Company during the multi-year, highly contested process before the FERC that produced the PJM OATT service currently available to the Company. Moreover, the new service differs from the expired service in the following and other significant respects.

First, unlike the PSE&G wheel, which was a contractual service based on negotiated terms and conditions that applied uniquely to Con Edison and PSE&G, the PJM transmission service is rendered pursuant to PJM’s OATT with terms and conditions applicable to all PJM transmission customers.

Second, unlike the PSE&G wheel, which PSE&G effectuated employing its own generators subject to contractual out-of-merit limitations, PJM implements the new transmission service in accordance with its LMP dispatch procedure, which effectuates deliveries by dispatching generation in PJM for all transactions on a least-cost basis.

Third, the PJM OATT service is far more reliable than the prior contractual PSE&G wheeling service because it is less curtailable than the prior service was. For example, the prior

service could be and was curtailed in the event of facility outages, and 400 MW of it was subordinate to firm OATT service. In comparison, the PJM OATT service to Con Edison is equal to PJM's service to all other OATT customers and to native load (except during system emergency conditions). In addition, the redirection provision that existed under the prior service does not apply to PJM's OATT service. The redirection provision reduced the transmission service entitlement from 1000 MW to 700 MW whenever congestion existed in PJM but not in New York. Finally, the 13% adjustment for third-party transmission flows that applied to the prior service does not apply to PJM's OATT service. That adjustment decreased the transmission service entitlement under the PSE&G contracts by 13% of the third-party transactions that were scheduled from New York to PJM. Thus, the deliveries under the PJM OATT service are more predictable, and therefore, more reliable than they were under the prior contractual PSE&G wheeling service.