

**Testimony of Mayer Sasson
Consolidated Edison Company of New York
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Introduction

Good morning, my name is Mayer Sasson, and I am here today on behalf of Con Edison. Thank you for the opportunity to participate in today's conference.

The Commission convened this conference to explore two questions:

First, is there a category of reliability projects where the DFAX Analysis does not work? Our answer is "yes." The DFAX Analysis is the wrong cost allocation method for transmission projects that are intended to resolve non-flow-based violations and provide non-flow based benefits. I will refer to such projects as "non-overload projects."

The DFAX Analysis relies on energy flows. But for non-overload projects, such as the Bergen-Linden Corridor ("BLC"), Sewaren, and Artificial Island Projects, there is no rational relationship between flows and intended beneficiaries, as I will explain. Any flow-based benefits that may result from these and other future non-overload projects are incidental to their intended benefits and their stated purpose.

Some parties have argued that it is difficult for PJM to identify which category a project belongs in. That is incorrect. PJM already makes such distinctions today. For example, when PJM filed the cost allocation for the BLC Project with the Commission, it identified the reliability problem as "overduty breakers" and the failed criteria as "short circuit." And, when it filed the cost allocation for the Sewaren Project, it identified the reliability problem as "Sewaren damage due to Sandy" and the failed criteria as "PSEG criteria." PJM has also provided a matrix in advance of this technical conference that divides projects according to their purpose. Clearly, this is something PJM can do.

Second, is there a just and reasonable *ex-ante* cost allocation method for non-overload projects?

Again our answer is “yes.” The Federal Power Act requires cost allocations to be just and reasonable. Among other things, this requires the Commission to make an affirmative finding that costs are “at least roughly commensurate” with benefits. For non-overload projects, this means adopting a cost allocation method that first and foremost identifies which transmission zones are the projects’ intended beneficiaries. Since intended beneficiaries cannot be identified by flows, they must be identified by reference to the intended purpose of the project. As a practical matter, this means allocating the costs of non-overload projects to the transmission zone or zones that benefit by receiving relief from the non-overload issue.

Some parties have claimed that this would be a violations-based approach. But that characterization is incorrect and serves only to obscure matters by harkening back to past disputes. Let me be clear. Con Edison is not advocating for violations-based DFAX Analysis. Our position is that, for non-overload projects, *no* DFAX Analysis can apply because there is no rational or technical relationship between flows and intended beneficiaries. The only justifiable way to identify prospective beneficiaries for non-overload projects is to identify who is intended to benefit, given the project’s purpose.

I will now discuss both questions a little more in depth. I note that Con Edison’s proposal is summarized in the attached slides.

Question 1

With respect to the first question, DFAX Analysis is the wrong cost allocation method for non-overload projects because it relies on distribution factors, which lead to flow-based measurements. Distribution factors are the basis to quantify the amount of flow that each individual load contributes to the total flow over a specific line. Distribution factors are multiplied by load to get flow and then used for cost allocation. For example, if a load has a distribution factor of 2% relative to a given transmission line, it means that 2% of that load flows through the line.

But for non-overload projects, there is no rational relationship between flows and intended

benefits. This makes the use of distribution factors as part of the DFAX Analysis a “poison pill.” For example, the purpose of the BLC Project is to address short circuit violations. Short-circuits have nothing to do with energy flows. Energy flows are the result of customer demand. Short circuits are power system disturbances that result from generator currents that overwhelm circuit breakers. Because short-circuits have nothing to do with energy flows, the intended benefits of fixing a short circuit cannot be measured by flows. The same is true for the Sewaren Project. The Sewaren Project is intended to rebuild PSE&G’s system from Superstorm Sandy. It is obvious that storm recovery is not a benefit that can be measured by flows. Finally, the Artificial Island Project is intended to enhance stability, not enhance flows. For these and future non-overload projects, the DFAX Analysis is the wrong tool to use and using it will result in cost allocations that are unjust, unreasonable, unduly discriminatory, and not roughly commensurate with benefits.

Question 2

With respect to the second question, it is important to make one threshold point. Some parties in this proceeding have argued that Con Edison and others have no right to challenge their cost allocations for any individual project so long as the DFAX Analysis works for most projects. We categorically reject that position. The Federal Power Act gives each utility the right to a just and reasonable cost allocation for each and every project, as well as the unqualified right to challenge any cost allocation that it believes fails this test.

To ensure that costs are just and reasonable and “at least roughly commensurate” with benefits, the cost allocation method for non-overload projects must identify intended beneficiaries. Since intended beneficiaries cannot be identified by flows, they must be identified by reference to the intended purpose of the project.

For short circuit projects, like the BLC Project, the intended beneficiary is the transmission zone where the short circuit exists. This is because excessive currents, if not removed, will result in the physical damage and the physical failure of equipment in that transmission zone. This conclusion is supported by two additional points. First, short circuits are usually resolved through the interconnection process and paid for by the interconnecting party. Second, as PJM has stated, the typical solution for a short circuit problem is to repair or upgrade the breaker, not build a transmission line. This underscores why it is irrational to measure benefits by flows for short-circuit projects. The BLC Project is necessary in this case only because higher capability breakers are unavailable. But make no mistake about it—the BLC Project is intended to fix short circuits in PSE&G’s service territory. And as PJM recently informed its stakeholders, it remains necessary with or without the flow from Con Edison’s transmission contracts. Clearly, PSE&G is its intended beneficiary.

Similarly, storm recovery and other infrastructure projects, such as the Sewaren Project, should be allocated to the transmission zone where the infrastructure exists because that is where the intended beneficiaries are. Indeed, before its state regulator, PSE&G ranked the Sewaren project as its number one priority for post-Sandy substation repairs.

Finally, because the system is interconnected across transmission zone boundaries, a disturbance that creates a stability issue can affect generators in different transmission zones. Consequently, the costs of stability projects, such as the Artificial Island Project, should be allocated on a load-ratio share basis to the transmission zones where the stability issues are observed.

I note that Con Edison’s proposal is *ex ante*, allocates costs to intended beneficiaries, and is easy for PJM to implement.

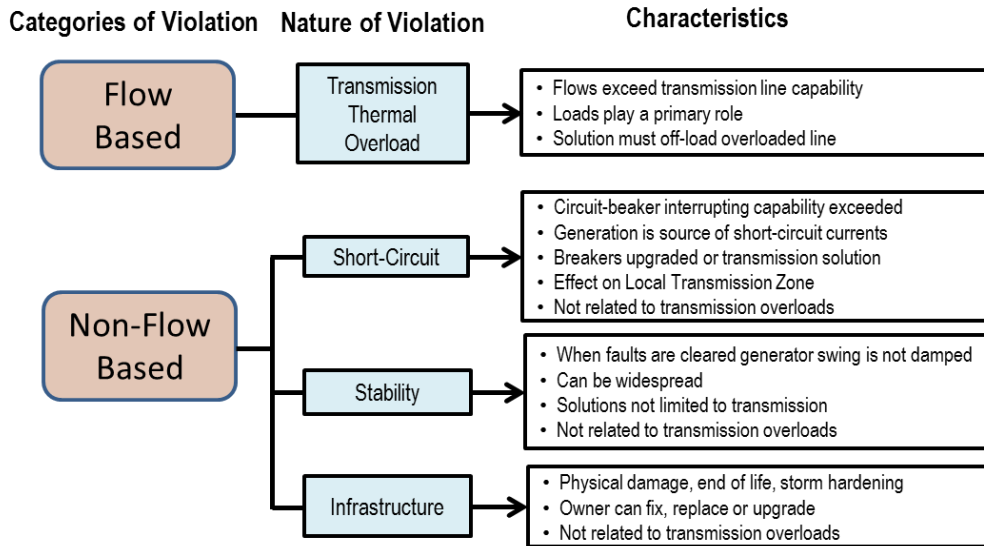
Conclusion

In conclusion, the DFAX Analysis is the wrong cost allocation method for non-overload projects because there is no rational relationship between flows and intended beneficiaries. Since intended

beneficiaries cannot be identified by flows, they must be identified by reference to the intended purpose of the project.

Again, thank you for inviting me to speak. I look forward to your questions.

FERC Question 1: Category of Projects



FERC Question 2: *Ex Ante* Cost Allocation

