

October 25, 2005

Via Email and Hand-Delivery

Hon. John W. Boston
Chairman of the NYISO Board
c/o Mr. Mark S. Lynch,
President & CEO
New York Independent System Operator, Inc.
3890 Carman Road
Schenectady, NY 12303

**Re: LIPA Appeal of the Management Committee Decision to Reject
Compensation to Non-Generator VAR Sources**

Dear Chairman Boston:

Pursuant to the Procedural Rules of Appeals to the NYISO Board, the Long Island Lighting Company d/b/a LIPA (LIPA) hereby submits three copies of its notice of appeal of actions taken during the October 11, 2005 NYISO Management Committee meeting. LIPA appeals the NYISO Management Committee's rejection of Motions #6a and #6b and, thus, failure to approve an extension of voltage support service rates in a manner that will ensure comparable compensation for non-generator dynamic VAR sources.

LIPA requests the opportunity to present oral argument to the NYISO Board related to this appeal.

Sincerely,
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**Notice of Appeal of the Management Committee Decision to Reject
Compensation to Non-Generator VAR Sources**

Summary

Decision Being Appealed: The New York Independent System Operator, Inc. (NYISO) Management Committee rejection of Motions #6a and #6b which would have ensured that non-generator dynamic VAR sources which are interconnected to the New York State bulk transmission system would have been accorded comparable treatment through inclusion in Rate Schedule 2.

Meeting Date: October 11, 2005

Appellant: Long Island Lighting Company d/b/a LIPA (LIPA)

Grounds for Appeal: LIPA requests that the NYISO Board overturn the October 11, 2005 decision by the NYISO Management Committee rejecting those portions of Motions #6a and #6b which provided for comparable treatment of non-generator dynamic VAR sources that are interconnected to the New York State bulk transmission system. Section 5(a) through (c) of each respective motion proposed the addition of a new provision to Rate Schedule 2 that would create comparable payment terms for non-generator dynamic VAR sources. Each respective motion further required the Market Structures Working Group to review and report on the appropriateness of paying non-generator dynamic VAR sources for the costs of energy consumed and any startup costs.

The Cross-Sound Cable, through its HVDC-Lite technology, presently provides voltage support to the New York State bulk transmission system. The provision of this voltage support, however, remains uncompensated due to the fact that Rate Schedule 2 solely provides for voltage support payments to generators and synchronous condensers.

LIPA requests that the NYISO Board take all actions necessary to extend the effectiveness of Rate Schedule 2 with modifications to such rate schedule to compensate non-generator dynamic VAR sources so that all voltage support suppliers interconnected with, and providing voltage support services to, the New York State bulk transmission system are comparably treated.

APPEAL

I. Background

On October 11, 2005, the NYISO Management Committee rejected Motions #6a and #6b which included modifications to Rate Schedule 2 of the NYISO Market Administration and Control Area Services Tariff (“Services Tariff”) to ensure comparable treatment of non-generator dynamic VAR sources. Sections 5(a) through (c) of the respective motions provided for revisions to the voltage support services (“VSS”) program and a recommendation that the NYISO Board support a tariff filing that included:

- “5. Add[ing] a new provision to Rate Schedule 2 that creates comparable payment terms for merchant non-generator dynamic VAR sources that are interconnected to the transmission system. These provisions would include:
 - a. Prorated VSS payment for energized hours for VAR capability measured at full real power flow.
 - b. No lost opportunity cost payments and no requirement that the source change real power schedules; except that nothing in this motion shall be construed to change existing protocols¹ between the New England ISO and the New York ISO.
 - c. Interim testing procedures that allow facilities to test out of period.”

In addition, each respective motion required the Market Structures Working Group to review and report to the Business Issues Committee and Management Committee, within

¹ It is LIPA’s understanding that the reference to “existing protocols” in this provision relates to the requirement that system reliability must be maintained between the New England ISO and the NYISO. This reliability language was inadvertently omitted from Motions #6a and #6b. As part of the request for relief for this instant appeal, LIPA is asking that this clarification be added to properly reflect the original intent of the NYISO.

six months, on “the appropriateness of payment for the costs of energy consumed and any startup costs for non-generator VAR sources.”

During consideration of both motions, no party opposed the principle of providing comparable treatment to non-generator dynamic VAR sources or raised any objections to the specific provisions of Sections 5(a) through (c) or the requirement for the Market Structures Working Group report.

II. The Cross-Sound Cable Provides Dynamic Voltage Support to the New York Control Area.

The Cross-Sound Cable uses advanced Insulated Gate Bipolar Transistor (IGBT) technology which allows the facility to provide voltage support to the New York Control Area. In fact, the Cross-Sound Cable has been providing reactive power support to the New York bulk transmission system, without compensation, since completion of construction and initial operational testing in August 2002.² For example, during an approximately 21-month period from January 2004 through October 17th, 2005, the Cross-Sound Cable has adjusted reactive power production or consumption to hold preset voltage settings by more than 10 MVAR in over 6000 hours.

The VAR capability of the Cross-Sound Cable terminal ranges from +-72MVAR at full flow to +-150MVAR when energized at zero flow. The advanced IGBT technology has the capability to generate an AC waveform by switching DC current and voltage up to 4000 times per second and provides dynamic VAR capability by independently adjusting active and reactive power output. Using this technology, the Cross-Sound Cable has the ability to respond to transient changes in VAR needs just as

² The Cross-Sound Cable’s construction and initial operational testing was completed in August 2002. Due to regulatory disputes, “commercial operation” was not initiated until July 2004. However, even prior to commercial operation, the Cross-Sound Cable terminal equipments were activated, and provided, dynamic voltage support to the New York Control Area.

quickly as a standard generator voltage regulator.³ The IGBT technology and the Cross-Sound Cable's reactive power capabilities meet the New York State Reliability Council's planning standard stability criteria. In addition, the Cross-Sound Cable stays connected to the transmission system and provides continuous VAR service during faults outside of its zone of protection, responds to transient voltage dips, and has the ability to remain connected for all frequency excursions (as generators are required to do).

III. The Management Committee's Rejection of Motions #6a and #6b Leaves in Place a VSS Program That Fails to Compensate Non-Generator VAR Sources and Therefore is Discriminatory.

At the inception of NYISO Services Tariff, Rate Schedule 2, the Cross-Sound Cable had not been proposed, much less constructed or energized. Therefore, as a matter of course, Rate Schedule 2 solely provided for compensation to generators and synchronous condensers. Motions #6a and #6b recognized the changed conditions that have occurred since initiation of NYISO operations—namely the construction and energization of the Cross-Sound Cable with IGBT technology and its provision of voltage support to the New York Control Area.

As proposed under Motions #6a and #6b, non-generator dynamic VAR sources that are merchant facilities (i.e., not included in a transmission owner's regulated rate base) would become eligible for a pro-rated capacity payment for hours that the facilities are energized.⁴ In order to minimize the need for software modification, the proposal ruled out the payment of lost opportunity costs (in conjunction with a limitation that the

³ For example, it will adjust VAR output within its capability range as needed within 6 cycles, the response time performance requirement for a 'standard' generator voltage regulator as shown in "Performance Standards for Voltage Regulators Used on Electric Generators – EGSA 100R, 1992a", p. 5.

NYISO could not request changes in real power schedules—which otherwise could trigger lost opportunity costs). Under this proposal, the VAR capability would be measured at full flow assuring that the capability for which payment was received would be available during energized hours.⁵ Non-Generator dynamic VAR sources would be subject to the comparable interim testing procedures that allow newly qualifying facilities to test out of period. Finally, the question of potential payments for the costs of energy consumed and/or any startup costs for non-generator dynamic VAR sources would be the subject of further review by the Market Structures Working Group.

In February 2005, the Federal Energy Regulatory Commission issued a Staff White Paper outlining potential approaches to improving reactive power support. The NYISO joined the ISO/RTO Council in submitting comments on the Staff White Paper which included the following statement:

The IRC also agrees with another key recommendation contained in the Staff Report -- that suppliers of reactive power services must be compensated on a non-discriminatory basis.[citation omitted] This very important principle underlies Commission policy in many different areas, and it is appropriate in this context as well. No matter what entity provides reactive power services, all should be paid using a comparable compensation methodology for the same type of reactive resources.⁶

⁴ NYISO Services Tariff, Rate Schedule 2, Section 2.0; The energized hours can be distinguished unambiguously through existing revenue quality metering from hours where much smaller incidental power draws occur.

⁵ As noted previously, the Cross-Sound Cable actually has a higher VAR capability at zero flow (approximately +- 150 MVAR) than at full real power flows (approximately +- 72 MVAR). The effect of making payments at the real power flow VAR capability is that the Cross-Sound Cable will actually only be compensated for essentially **half** of its actual capability.

⁶ ISO/RTO Council Comments at 10 (February 4, 2005). The ISO/RTO Council comments further note that transmission devices are already treated on a comparable basis since transmission devices which provide reactive power are recovered on the same basis as any other transmission reinforcement/expansion asset. As a matter of clarification, merchant transmission facilities, such as the Cross-Sound Cable do not presently have that comparable treatment since their cost recovery is based on a negotiated rate between the facility owner and transmission customers for rights to use of their facility. Compensation for the provision of reactive power to an interconnected transmission system is not an element of such rate development. Further, merchant transmission facility owners are not guaranteed recovery of their merchant transmission facility costs.

Motions #6a and #6b provided for a reasonable integration of non-generator dynamic reactive power sources into Rate Schedule 2 and established comparable treatment for these resources. LIPA respectfully urges the NYISO Board to act consistent with the policies endorsed by the ISO/RTO Council (and the NYISO) and ensure comparable compensation for non-generator dynamic VAR sources under NYISO Services Tariff, Rate Schedule 2.

IV. Recommendation

For the reasons stated above, LIPA respectfully requests that the NYISO Board overrule the Management Committee's October 11, 2005 rejection of those portions of Motions #6a and #6b which provided for comparable treatment of non-generator dynamic VAR sources and:

- (1) take all actions necessary to extend the VSS payments under Services Tariff, Rate Schedule 2 in a manner that includes comparable compensation for non-generator dynamic VAR sources;
- (2) propose to the Commission modifications to Rate Schedule 2 that provide for:
 - a. A prorated VSS payment to non-generator dynamic VAR sources for energized hours of the source's VAR capability measured at full real power flow;
 - b. Clarification that such non-generator dynamic VAR sources will not be eligible for lost opportunity cost payments and that the NYISO may not require such sources to change real power schedules for purposes of VAR support—absent the provision of lost opportunity cost payments;

- c. Clarification that the compensation of non-generator dynamic VAR sources under a modified Rate Schedule 2 shall not be construed to change existing protocols between the New England ISO and the New York ISO with regard to maintaining the reliability of the system; and
- d. Establishment of interim testing procedures that allow non-generator dynamic VAR facilities to test out of period.

(3) Require that the Market Structures Working Group review and report to the Business Issues Committee and Management Committee, within six months, on recommendations regarding the potential compensation of non-generator dynamic VAR sources for the cost of energy consumed and start up costs.

Dated: October 25, 2005

Respectfully Submitted,

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