

November 1, 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: Reply to Appeals of the Management Committee's Decision Not to  
Approve a Motion to Extend the Voltage Support Service Program**

Dear Chairman Boston:

This letter is in reply to the notice of the New York Independent System Operator, Inc. ("NYISO") regarding appeals of October 11<sup>th</sup> decisions of the NYISO Management Committee not to approve a motion to extend the voltage support program. At this time, the Board has before it three appeals on this matter:

- An appeal by LIPA of the Management Committee's rejection of Motions #6a and #6b, which provided for an extension of Voltage Support Services ("VSS") rates to ensure comparable treatment of non-generator dynamic VAR sources, such as the Cross-Sound Cable, that are interconnected to the New York State bulk transmission system;
- An appeal of the Central Hudson Gas & Electric Company, Consolidated Edison Company of New York, Inc., New York State Electric and Gas Corporation, National Grid, the New York Power Authority, Orange and Rockland Utilities, Inc., and Rochester Gas and Electric Corporation (collectively, "New York Transmission Owners") relating to the Management Committee's failure to pass Motion #6c, which provided for a limited extension of current VSS rates so that a defined rate would be in place for the start of 2006 and market participants could be afforded additional time to reach a consensus on difficult VSS issues; and

- An appeal of the Independent Power Producers of New York (“IPPNY”) relating to the Management Committee’s rejection of Motion #6a, which recommended that the NYISO Board support a tariff filing that would apply a 3% annual inflation component to reflect inflation costs in 2004 and 2005 in calculating the VSS rate for implementation in 2006.

LIPA agrees with the general propositions articulated by both IPPNY and the New York Transmission Owners in that it is important to have in place a VSS program that fairly compensates VSS suppliers for the valuable service that they provide to the New York Control Area. IPPNY’s concern--that the current VSS rate structure does not adequately provide for a mechanism to annually adjust the VSS rate--is valid and should be addressed within a reasonable timeframe in 2006. However, LIPA also agrees with the New York Transmission Owners that applying multiple years inflation on what was intended to be an interim rate structure is not appropriate without a study of the base cost structure. In this regard, what may appear to be a reasonable annual inflationary adjustment when applied to an interim rate structure (created from the integration of previous transmission owner OATT cost information that in some instances was developed from substantially different methodologies) is likely to result in an outcome that under our current market design is not just and reasonable.

The base cost of the VSS payment structure must be adequately justified and fairly compensate VSS suppliers. LIPA urges the NYISO Board to approve the appeal submitted by the New York Transmission Owners as a preferred approach to moving forward on this matter. As explained in the LIPA Appeal and supported by the Appeal of the New York Transmission Owners, LIPA further urges the NYISO Board to approve the extension of the VSS program to include non-generator VAR sources. Since its placement into operational service, the Cross-Sound Cable has provided voltage support to the New York bulk transmission system. Consistent with the principle of comparable treatment of sources, LIPA urges the NYISO Board to take those actions necessary to ensure that any extension of the VSS program include a provision that recognizes and compensates the Cross-Sound Cable for the reactive power support it now provides.

LIPA believes that, with a thorough review and discussion of these matters, the stakeholder process will be able to achieve a consensus on any necessary changes to the VSS compensation mechanism. What is necessary at this time is (1) an extension of the VSS program to ensure continuity of the program (with comparable sources like the Cross-Sound Cable being recognized) and (2) the continuation of stakeholder discussions on the outstanding questions. The approach proposed by the New York Transmission Owners provides a rational and justified approach to resolving questions relating to any changes in the basic VSS rate. Accordingly, LIPA urges the NYISO Board to: approve an extension of the VSS program with modification to include comparable treatment

of the Cross-Sound Cable as set forth in the LIPA Appeal, and direct the NYISO to work with stakeholders to facilitate assessment and deliberations on potential changes to the VSS rate as laid out in the Appeal of the New York Transmission Owners.

Dated: November 1, 2005

Respectfully Submitted,

/s/ Joseph B. Nelson

Joseph B. Nelson, Esq.

Van Ness Feldman

1050 Thomas Jefferson Street, N.W.

Washington, D.C. 20007

(202) 298-1800

[jbn@vnf.com](mailto:jbn@vnf.com)

Counsel to the Long Island Power Authority  
And LIPA