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November 1, 2005

VIA FEDERAL EXPRESS

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

Re: IPPNY Appeal of Management Committee Decision to Reject a Motion to Increase the Voltage Support Service Rate

Dear Chairman Boston:

Pursuant to the "Procedural Rules for Appeals to the ISO Board," Central Hudson Gas & Electric Company, Consolidated Edison Company of New York, Inc., New York State Electric and Gas Corporation, Niagara Mohawk Power Corporation d/b/a National Grid, the New York Power Authority, Orange and Rockland Utilities, Inc., and Rochester Gas and Electric Corporation (collectively, "Responding Parties") hereby file this motion in opposition to the October 25, 2005 Appeal (the "Appeal") filed by the Independent Power Producers of New York, Inc. ("IPPNY"). IPPNY's Appeal relates to the Management Committee's decision to not approve a motion that would have increased rates for voltage support service in 2006 and imposed an annual inflation component to the NYISO's voltage support service rate.

The Responding Parties request the NYISO to post this document on its website and serve a copy via e-mail to all members of the Management Committee. Thank you.

Sincerely,

Paul L. Gioia, Esq.
Responding Parties

MOTION IN OPPOSITION TO AN APPEAL

Pursuant to the “Procedural Rules for Appeals to the ISO Board,” Central Hudson Gas & Electric Company, Consolidated Edison Company of New York, Inc., New York State Electric and Gas Corporation, Niagara Mohawk Power Corporation d/b/a National Grid, the New York Power Authority, Orange and Rockland Utilities, Inc., and Rochester Gas and Electric Corporation (collectively, “Responding Parties”) hereby file this motion in opposition to the October 25, 2005 Appeal (the “Appeal”) filed by the Independent Power Producers of New York, Inc. (“IPPNY”). In its Appeal, IPPNY seeks to overturn the decision of the Management Committee on October 11, 2005 not to approve a motion that would have increased rates for voltage support service in 2006 and imposed an annual inflation component to the NYISO’s voltage support service rate.¹

The IPPNY appeal should be denied on the grounds that the Management Committee acted reasonably in not approving the motion appealed from, and the costs that the motion sought to impose on New York consumers have not been adequately justified.

I. The Motion Appealed from is Unreasonable and Was Properly Rejected by the Management Committee

The motion appealed from, among other things, would have increased the rates for voltage support service in 2006 by the adoption of a 3% inflation component for the years 2004 and 2005, and mandated additional increases to the voltage service rate on an annual basis by the use of an inflation index methodology to be determined. The motion was correctly rejected by the Management Committee for the following reasons.

¹ Management Committee Motion #6a, October 11, 2005.

A. The Current Base Cost For Voltage Support Service Payments Has Not Been Justified

The NYISO has determined that the rates paid to generators for voltage support service must be established on a cost of service basis. The cost basis for the current voltage support service charge, however, has never been adequately documented. The current charge is based on data filed by vertically integrated utilities before the commencement of the NYISO. Furthermore, the generators have not provided the data necessary to support a cost of service rate.

When the current rate was established, it was generally acknowledged that it was not based on appropriate cost of service data for the current generator owners, and would be a proxy rate implemented on a temporary basis (*i.e.*, for one year, until a more appropriate compensation methodology could be developed). The utility data used to justify the current rates were developed under a much different regulatory regime that was designed to ensure that overall compensation met cost of service principles. Costs recovered in one area, (*e.g.* ancillary service costs for providing transmission service) would not be recovered again in other components of cost of service rates. Today we don't have those assurances. Competitive generators receive revenues from a variety of sources that are intended to provide a total competitive compensation methodology. These sources of revenue include revenues from the energy, ancillary services and installed capacity markets. Clearly there is a valid concern that the current base costs defined in the NYISO tariff may provide for a double recovery of voltage support service costs.

It should be noted that the only incremental equipment needed to provide voltage support is an automatic voltage regulator (“AVR”). The AVR is primarily a control system that controls the field excitation of the generator. The other components of a generator are generally required for the generation of electric power, the costs of which should be recovered through the energy and capacity markets. Those costs should not be recovered again in the voltage support service payment.

B. Adding an Inflation Adjustment to a Base Rate for Voltage Support Service that has Not Been Adequately Justified Would Be Unreasonable

Given that the base rate for voltage support service has not been adequately justified, it would be unreasonable to increase that rate by any amount. First, the actual costs incurred by the current generator owners to provide voltage support must be established. Second, once those costs are established, it must be determined which components of those costs, if any, are subject to inflationary increases. Without such information, mandating annual inflation increases to the cost of voltage support service is clearly unreasonable.

The affidavit submitted by Mark D. Younger in support of the Appeal does not provide adequate justification for an increase in the voltage support service rate. Paragraph 9 of the affidavit states that the average turbo generator account cost increased by 3.13% per year. This fact alone, however, does not demonstrate that there have been cost increases for providing voltage support. The majority of generator equipment costs are invested in the power generation and emission systems. In general, the electronics and control system costs of new units have remained flat or actually declined with the reduction in the cost of electronics. The average cost of turbo generators, therefore, may not be relevant in determining the cost of providing voltage support service.

Similarly, paragraphs 10 and 12 of the affidavit state that average labor costs have risen by 3.88% per year over the past 6 years. Control systems require testing and periodic tuning. However, the costs involved with testing AVRs remain small and would be larger for older units than newer units with modern electronics, contrary to the statement in paragraph 12 of the affidavit.

Paragraph 14 of the affidavit states that an annual increase in the voltage support service rate upwards of 1% is justified to represent the higher costs of new units replacing older units. However, there is insufficient information to confirm or deny this estimate. There has not been an adequate study to determine the voltage support costs of new units and there is no information which identifies the voltage support costs of the retiring units. This is the kind of basic information needed to determine the impact of replacement units on voltage support service costs.

C. Before Increasing the Voltage Support Service Rate the NYISO Should Resolve Related Issues

In addition to a determination of the appropriate base costs for voltage support service, and the components of those costs, if any, that should be subject to inflation adjustments, there are a number of related issues that should be resolved before any increase in voltage support service payments to generators is granted. Those issues include the following:

- a determination of the voltage support service needs of the New York bulk power system, including any locational requirements;
- the appropriate allocation of voltage support service costs; and

- the relationship between voltage support payments and the ICAP demand curves, and whether expected net revenues associated with voltage support service should be included in the ancillary service revenues considered in setting the demand curves. Indeed, the demand curves are intended to provide generators with revenues from the energy, ancillary services and installed capacity markets which, together, reach equilibrium around the cost of new entry. Yet, the most recent demand curve development did not include any offset for voltage support service revenues.

II. The NYISO Should Extend the Current Voltage Support Service Rate for Six Months and Develop the Information Needed for the Establishment of an Appropriate Cost of Service Rate

Given that: the current voltage support service rate has not been justified on a cost of service basis; any increase in an unjustified base rate is clearly unreasonable; and, important issues related to the voltage support service rate remain to be resolved, the only reasonable course for the NYISO Board is to submit a filing at FERC to extend the current rate for a period of six months and to direct NYISO staff to conduct the studies necessary to establish the appropriate cost of service basis for voltage support service, and to resolve the related issues described above.

III. Conclusion

For the reasons stated above, the NYISO Board of Directors should reject the IPPNY Appeal, submit a filing at FERC to extend the voltage support service rate for six months, and direct NYISO staff to conduct the studies necessary to determine: (1) the appropriate basis for a cost of service rate for voltage support service; (2) the voltage support service needs of the New

York bulk power system, including any locational requirements; (3) the appropriate allocation of voltage support costs; and (4) the relationship between voltage support payments to generators and the calculation of the ICAP demand curves.

Dated: November 1, 2005

Respectfully submitted,

Paul L. Gioia, Esq.
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