

**NYISO BOARD OF DIRECTORS' DECISION ON  
APPEALS AND MOTIONS IN OPPOSITION  
PERTAINING TO VOLTAGE SUPPORT SERVICE**

Three appellants seek to overturn various October 11, 2005 decisions of the Management Committee (“MC”) not to approve amendments to, or an extension of, Rate Schedule 2 of the NYISO’s Market Administration and Control Area Services Tariff (“Services Tariff”). Rate Schedule 2 establishes the compensation that generators and other suppliers receive for Voltage Support Service (“VSS”) and the VSS rate contained therein expires by its own terms on December 31, 2005.

Appellant Independent Power Producers of New York (“IPPNY”) appeals from the decisions of the MC not to approve a 6.1% increase in VSS compensation for 2006 and an annual inflation-related increase in the VSS rate for future years. IPPNY requests that the Board direct the NYISO Staff to make a rate filing at the Federal Energy Regulatory Commission (“FERC”) increasing and extending the VSS rate. The New York Transmission Owners, except for LIPA<sup>1</sup> (“NYTOs”), Multiple Intervenors (“MI”), LIPA and the New York Association of Public Power (“NYAPP”)(representing primarily municipal electric utilities) filed Motions in Opposition to IPPNY’s appeal.

Appellant Long Island Power Authority (“LIPA”) appeals from the decision of the MC not to extend VSS compensation to non-generator suppliers of voltage support, such as the Cross Sound Cable. LIPA asks the Board to direct NYISO Staff to make a rate filing at FERC extending VSS compensation to non-generator sources of VSS. NYAPP filed a motion in opposition to LIPA’s proposal to make the Cross Sound Cable eligible to receive VSS payments.

The NYTOs appeal the decision of the MC not to extend the current VSS rate through March 31, 2006. The NYTOs request that the Board direct the NYISO Staff to file a tariff amendment to: (i) extend the current VSS rate for six months; (ii) increase the rate base used to calculate the VSS rate to reflect net generator additions and retirements since the VSS rate was first adopted in 2002; and (iii) authorize VSS compensation for non-generator sources of VSS, specifically the Cross-Sound Cable. The NYTOs also ask the Board to invite the FERC Dispute Resolution Service to work with the NYISO Staff and the MPs on a global settlement of all remaining VSS issues for the period April 1, 2006 going forward.

The Board’s Governance and Market Structures Committees heard oral arguments on all of the appeals on November 14, 2005.

---

<sup>1</sup> Central Hudson Gas & Electric Corp., Consolidated Edison of New York, Inc., New York State Electric & Gas Corp., National Grid, the New York Power Authority, Orange and Rockland Utilities, Inc., and Rochester Gas and Electric Corp.

As a threshold matter, the Board will not allow compensation for generators that provide voltage support to lapse on December 31, 2005. VSS is an ancillary service that is required by FERC and necessary to maintain the reliable operation of the bulk transmission system in New York State. The Board has determined that exigent circumstances exist given the crucial nature of this service and the inability, through normal governance processes, to establish a revised VSS rate notwithstanding its imminent expiration. Accordingly, we direct the NYISO Staff to make an exigent circumstances filing at FERC pursuant to Section 205 of the Federal Power Act and Article 19 of the ISO Agreement to extend the current VSS rate for 120 days from filing, so as to avoid a gap in the filed rate commencing January 1, 2006.

The Board has considered the parties' written and oral arguments pertaining to these appeals and we find that final decision of these appeals should be deferred. The Board believes that further negotiations can and should lead to agreement on a revised VSS rate. We acknowledge that the parties have raised legitimate and substantive disagreements in their papers, and that all MPs have agreed that the current rate was, originally, an interim one-year rate. We note the parties' positions that further negotiations among themselves may be unproductive. Nevertheless, it appears to us that the parties' positions may not be as entrenched as they may appear. The MPs worked productively with each other throughout 2005 to reach informal agreement on a number of issues. Differences on the remaining issues were also narrowed through the efforts of the NYISO Staff and the MPs in the working groups and committees.<sup>2</sup> We believe this matter is best disposed of through a settlement among the affected parties.

Accordingly, the Board requests that the parties resume their negotiations to reach an agreement on a revised VSS rate and to resolve the related open issues. The Board believes that key assistance may be lent by the FERC's Dispute Resolution Service. Thus, the Board directs the NYISO Staff to continue to collaborate with MPs and to consider inviting the FERC Dispute Resolution Service to meet with it and the stakeholders to determine whether and in what manner the FERC team can facilitate resolution of the VSS issues. The Board requests that the NYISO Staff make a progress report on the negotiations at its January 2006 meeting.

If, after every reasonable effort is made to resolve the VSS rate and related issues, no resolution is achieved, we direct the NYISO Staff to report to us no later than our February 2006 meeting on the specific reason or reasons why agreement was not reached and the respective positions of each involved party. The Board is concerned that, in the absence of an agreement, the Market Participants are requesting that the Board determine a cost-of-service rate which, by its nature, regulatory agencies are best equipped and are

---

<sup>2</sup> The Board acknowledges that progress has been made toward agreement on a number of issues, including: (i) compensating VSS suppliers based on their net output rather than gross production, (ii) reflecting generator retirements and additions in the VSS capacity eligible for compensation, and (iii) VSS eligibility and testing requirements. We further acknowledge the significant concerns that have been raised on other issues, including compensation for non-generator suppliers of VSS and the allocation of VSS payments throughout New York State, and we desire that these issues be addressed and resolved in further negotiations.

arguably obligated to set. Therefore, should no settlement among the MPs emerge by our February 2006 meeting, the Board will take appropriate steps to see that the VSS rate is revised and that the VSS rate not elapse when the exigent circumstances filing directed above expires. The Board will consider, among other things, requesting FERC to commence a formal evidentiary proceeding to determine the appropriate VSS rate and to resolve related issues.

The appeals are deferred.

NYISO Board of Directors

Issued: the 5th day of December 2005