

**MOTION OF MULTIPLE INTERVENORS IN RESPONSE TO  
VOLTAGE SUPPORT SERVICE APPEALS**

**PRELIMINARY STATEMENT**

Multiple Intervenors, an unincorporated association of approximately 55 large industrial, commercial and institutional energy consumers with manufacturing and other facilities located throughout New York State, hereby submits its Motion in Response to the appeals submitted previously to the New York Independent System Operator, Inc. (“NYISO”) Board of Directors (“Board”) on voltage support service (“VSS”) issues.

On October 25, 2005, the following parties appealed various decisions of the Management Committee (“MC”), which, at its October 11, 2005 meeting, rejected three separate motions pertaining to VSS issues: (i) the Independent Power Producers of New York, Inc. (“IPPNY”); (ii) Long Island Lighting Company d/b/a LIPA (“LIPA”); and (iii) Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., New York State Electric & Gas Corporation, National Grid, the New York Power Authority, Orange and Rockland Utilities, Inc., and Rochester Gas and Electric Corporation (collectively, “Transmission Owners”). Notwithstanding the MC’s inability to approve a motion related to VSS, Board action of some kind is warranted because the existing VSS rate is scheduled to expire on December 31, 2005.

For the reasons set forth herein, Multiple Intervenors strongly opposes the proposed automatic application of an inflationary adjustment to the existing VSS rate and, therefore, opposes IPPNY’s appeal seeking such an adjustment effective January 1, 2006. Multiple Intervenors advocates no position on LIPA’s appeal, but agrees generally with

LIPA that non-generator suppliers of VSS should be eligible to receive compensation for providing VSS on a level playing field with generators. Finally, Multiple Intervenors supports the appeal of the Transmission Owners, and recommends that the Board extend the existing VSS rate for six months to allow for additional evaluation of, and negotiations on, a longer-term, comprehensive solution to multiple VSS-related issues.<sup>1</sup>

For many (but not all) parties, the primary issue on appeal is whether the existing VSS rate of \$3,919 per MVAR should be subject to annual, automatic increases to account for historic and future inflation. However, there also are a number of other, critically-important issues pertaining to VSS requiring resolution, including, but not limited to: (i) whether the existing VSS rate is just and reasonable (prior to the possible application of any adjustment factor); (ii) whether loads should be required to compensate all providers of VSS (as currently is the practice), or should compensation be limited to the providers of such VSS that truly is needed to maintain reliability; and (iii) the appropriate methodology for allocating VSS-related costs to loads (such costs currently are socialized across the State). Motion 6c, supported by the Transmission Owners on appeal subject to proposed modifications, would provide the NYISO, and stakeholders, with additional, necessary time to address these issues. (See Motion 6c at ¶ 6.) However, if, arguendo, the Board declines to adopt some form of Motion 6c on appeal, Multiple Intervenors urges it also to refrain from adopting an automatic, inflationary-type adjustment to the existing VSS rate.

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<sup>1</sup> The Transmission Owners advocate for the Board's adoption of Motion 6c, presented by the NYISO at the October 11<sup>th</sup> MC meeting, subject to certain modifications. (Transmission Owners at 4-5.) Multiple Intervenors has no objections to the Transmission Owners' proposed modifications of Motion 6c.

## ARGUMENT

### **THE BOARD SHOULD REFRAIN FROM ADOPTING AN AUTOMATIC, INFLATIONARY-TYPE ADJUSTMENT TO THE EXISTING VSS RATE**

By its appeal, IPPNY seeks adoption by the Board of an automatic, inflationary-type adjustment to the existing VSS rate. (IPPNY at 1.) For numerous reasons, IPPNY's appeal should be denied.

An automatic, inflationary-type adjustment to the existing VSS rate is not justifiable. Initially, there has been no showing that the existing VSS rate is deficient.<sup>2</sup> As was discussed during the stakeholder process, the NYISO's current VSS rate already is more than triple the comparable VSS rate in the ISO-New England, LLC ("ISO-NE") control area. It is Multiple Intervenors' understanding that ISO-NE's VSS rate currently is under review, and may be increased. However, at a time when statewide energy prices are averaging over \$120 per MWh (as was the case in September 2005), absent compelling evidence to the contrary that is not present here, the Board should not approve an inflationary-type increase to a rate that already is more than three times the comparable rate for a neighboring control area. At a minimum, such a rate discrepancy highlights the need to examine the existing VSS rate before rushing to adjust it.

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<sup>2</sup> IPPNY's appeal essentially argues that the existing VSS rate is not just and reasonable without adjusting it upwards for inflation since 2004, but that with such an adjustment, the rate would become just and reasonable.

As the Board is well aware, there currently is no competitive market for VSS. Consequently, the rate for VSS is intended to be cost-based.<sup>3</sup> However, there is no evidence that the VSS rate currently is – or ever was – cost-based. The rate originally was derived from FERC Form 1 data supplied by the State’s integrated electric utilities in 1997, which data Multiple Intervenors understands was maintained for purposes other than establishing a cost-based VSS rate. The NYISO adopted, with stakeholder support, a modification to the rate in 2002 based on the generation base existing at that time. Significantly, the new rate – which remains in effect today – only was adopted for a single year. Since that time, there have been annual extensions of the VSS rate, but no comprehensive examination or evaluation as to whether the rate actually is cost-based.

As the Transmission Owners state in their appeal:

In 2001 the NYISO’s committee and working group structure undertook an effort to modify the VSS rate recognizing the competitive and independent generation sector that exists within the NYISO markets. The result of this effort was a decision to maintain a cost based compensation methodology. As a starting point, the transmission owners’ OATT rates in place just prior to the start of the NYISO were utilized. It was recognized when this rate was developed that it was an imperfect solution and it was agreed the rate would be put in place for one year, and that in the intervening year a modified rate methodology would be developed. Unfortunately, other market issues have taken precedence in the intervening years and the imperfect rate methodology has simply been extended from year to year.

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<sup>3</sup> See IPPNY at 2 (describing the primary dispute on appeal as the adequacy of “the single, cost-based rate of \$3919/MVAr per year”); see also NYISO Document entitled, “2005 NYISO Voltage Support Service Rates” (referring to the \$3,919/MVAr rate as the “single cost-based MVAr rate”) (this document can be located at: [http://www.nyiso.com/public/webdocs/market\\_data/pricing\\_data/rate\\_schedule2/2005/2005\\_oatt\\_mst\\_sched2\\_vss\\_rates.pdf](http://www.nyiso.com/public/webdocs/market_data/pricing_data/rate_schedule2/2005/2005_oatt_mst_sched2_vss_rates.pdf)).

(Transmission Owners at 3.) The Board should refrain from applying an inflationary (or any other type of) adder to the existing VSS rate before that rate has been reviewed for reasonableness.

In its appeal, IPPNY acknowledges that there previously were “limited resources to address voltage issues” (IPPNY at 3), thereby contributing to the MC’s decision to maintain the existing, imperfect VSS rate for several years longer than intended initially. However, the lack of resources devoted to VSS issues was not the fault of any particular sector of the marketplace, nor has it been shown to advantage or disadvantage any sector. IPPNY assumes – without support – that the existing VSS rate should be higher, and, therefore, it also assumes that any delay to adjusting to that rate prejudices generators. (IPPNY at 2.) IPPNY’s assumptions, however, are not necessarily true. To the extent the existing VSS rate is over-stated and/or applied to more providers of VSS than what is needed to maintain reliability, it is consumers that ultimately are prejudiced (and whom would be prejudiced further by an increase to the VSS rate without any justification of the underlying rate).

Moreover, even if, arguendo, the existing VSS rate somehow is adjudged to be reasonable, there is little or no justification for implementing annual, inflationary-type increases to what is supposed to be a cost-based rate. Contrary to IPPNY’s assertions, an analysis of utility FERC Form 1 filings from 1990 through 1994 (see IPPNY at Younger Affidavit, p. 2) – which filings Multiple Intervenors understands were prepared for purposes other than establishing cost-based VSS rates – does not provide adequate support for increasing the rate for VSS in 2006 and beyond. No evidence has been presented, for example, that the cost to generators of providing VSS is increasing consistent with inflation

every year. In response, generators claim that they are not subject to cost-based regulation and, therefore, do not maintain FERC Form 1 or comparable cost information. However, generators should not be entitled to cost-based compensation for certain non-competitive services without having to make any showing as to their costs for providing such services.

In its appeal, IPPNY argues that additional examination of, and negotiations on, VSS-related issues would not be productive because “loads may take the approach that they will not agree to any change that will cost dollars knowing that, at worst, a delay financially works in their favor and against the needs of suppliers.” (IPPNY at 7, n.9.) Such arguments are without merit. Loads have demonstrated, in response to numerous motions, that they are willing to support proposals that could or would increase payments to generators, or forgive penalties imposed on generators, where such proposals have been justified properly. For instance, even on the VSS motions on appeal, loads have expressed support for proposals to increase the total VSS revenue requirement to reflect generator additions and retirements. Such proposals would increase annual VSS-related costs to loads by approximately \$7 million, which is comparable to the estimated impact of the proposed automatic inflation adjustment. The proposal to update the VSS revenue requirement to account for generator additions and retirements was justified in the stakeholder process; the proposed inflation adjustment was not. Thus, IPPNY’s allegation of unreasonable load positions is not sustainable.

Next, IPPNY attempts to link the immediate approval of an inflationary-type adjustment to the existing VSS rate to the continued reliability of New York’s bulk power system. (IPPNY at 6.) Such linkage is without merit. Regardless of the outcome of the pending appeals, the NYISO is obligated to – and will – maintain the reliability of the

system. IPPNY's position – as Multiple Intervenors understands it – is that the status quo should not be extended, even on a temporary basis, to allow for additional examination and negotiation of VSS-related issues while, at the same time, asserting that reliability may suffer if action is not taken now to implement an automatic, inflationary-type adjustment to the VSS rate. (See IPPNY at 6.) There simply is no basis for this linking of the continued reliability of the system to the adoption of IPPNY's position that generators "need" an estimated increase of \$7 million per year of VSS revenues. IPPNY's attempt to link the adoption of its position on appeal to the future reliability of the bulk power system should be rejected summarily.

IPPNY's reliability-related arguments also highlight the other VSS-related issues requiring resolution by the Board. For instance, IPPNY points to the reported future reliability needs in Southeast New York ("SENY") and argues that the market "should be signaling the increasing value of VSS." (IPPNY at 6.) However, IPPNY does not mention other regions of the State, where loads pay for all VSS supplied, regardless of whether it is needed to maintain reliability. Moreover, although the need for increased VSS may be limited to the SENY region, VSS-related costs still are socialized throughout the State, which could result in upstate loads paying for increased VSS in the SENY region. Among the VSS issues requiring further examination are: (i) whether loads should be required to pay for all VSS provided, or just the VSS that truly is needed to maintain reliability; and (ii) the appropriate methodology for allocating VSS-related costs to loads. The Transmission Owners' appeal would permit a reasoned, timely consideration of all VSS-related issues. The IPPNY appeal does not, and should be rejected on those grounds as well.

## CONCLUSION

For the foregoing reasons, Multiple Intervenors supports the appeal of the Transmission Owners and opposes the appeal of IPPNY. In particular, IPPNY's request for an automatic, inflationary-type adjustment to the existing VSS rate should be rejected. There is considerable uncertainty regarding the reasonableness of the existing VSS rate of \$3,919 per MVA<sub>r</sub>, which is supposed to be a cost-based rate. That rate should not be modified until if, and when, it is evaluated and found to be reasonable. Moreover, there are several other, important VSS-related issues requiring resolution that should be examined comprehensively, in accordance with the same basic schedule. IPPNY has not justified why its proposal for an automatic, inflationary-type adjustment to the existing VSS rate must take precedence over the other VSS-related issues, including a much-needed examination of the underlying VSS rate. The approach advanced by the Transmission Owners on appeal provides for a more comprehensive, fairer consideration of the issues and should be adopted.

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Respectfully submitted,

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