Privileged and Confidential
For Mediation/ADR Process Only

New York Independent System Operator, Inc. Docket No. ER09-291-000

Attachment A

The following list of interests, issues, and positions is not intended to be all inclusive. Additional changes can be made.

Interests

- VSS is an important ancillary service that is critical to reliability in New York State
- Adequate provision of reactive support for the transmission grid must be maintained
- VSS issues need to be resolved soon to avoid operational uncertainties and potentially serious reliability concerns
- Blackouts must be avoided
- Adequate VSS must be provided on the bulk system within acceptable voltage ranges under both normal and contingency conditions.
- Have in place a VSS program that fairly compensates all VSS suppliers for the valuable service that they provide to the New York Control Area
- Level of rates to industrial, commercial and institutional energy consumers be just and reasonable
- How VSS costs are calculated and maintained (inflationary factor)
- How VSS costs are allocated to consumers
- How VSS rates are collected from consumers
- A comprehensive examination of the existing VSS rate be undertaken
- Saving costs and human resource expenditures by avoiding evidentiary hearings

- Addressing why system voltage levels were lower in 1999, 2001, and 2002

- Continuing the existing base rate until a new rate methodology is developed and then retroactively adjust 2006 payments

- Determining level of need for reactive power and where

Issues

What is the best method for calculating VSS rates using actual generator costs rather than cost estimates?

Whether the existing VSS rate is cost-based and otherwise just and reasonable?

Should the VSS rate be adjusted annually to take into consideration inflation, upgrades, depreciation, and retirements?

How to determine the actual VSS needs of the New York State transmission system with greater certainty, including whether there should be any location-specific requirements?

How to determine whether VSS costs should be allocated to customers on a locational basis, or by some other measure, instead of being assessed uniformly to all customers in New York State?

Whether, and in what manner, should VSS compensation be adjusted to include a supplier's ability to produce both MVArs ("lagging" capability) and absorb them ("leading capability)?

Whether consumers should be required to compensate VSS providers for all VSS supplied, or only for the VSS necessary to maintain reliability?

What is the appropriate methodology for allocating VSS-related costs to consumers?

Whether the terms and conditions, if any, upon which non-generators may be eligible for compensation for providing VSS, such as the Cross Sound Cable?

Who should conduct studies, if required, and under what guidelines, including who should administer or oversee the study?

Whether the current Demand Curve did not subtract VSS revenues, and have generators been collecting the current cost based rate plus an additional contribution through the capacity market's Demand Curve price?

Positions

The existing VSS rate should not be modified unless and until a thorough examination of all pertinent VSS-related issues is concluded by the NYISO and stakeholders.

The FERC Form 1 data supplied by the State's then integrated electric utilities in 1997 that was used to derive the current VSS rate has never been shown to be cost-based.

Alternatively, the FERC Form 1 data supplied by the State's then integrated electric utilities in 1997 can be used to develop cost-based VSS rates.

Whether the existing VSS rate really is cost-based must be evaluated prior to any adjustment to that rate.

Once a cost-based rate VSS rate is determined, a process for modifying that rate periodically should be considered to take into account maintenance costs, reinvestment costs, depreciation, and retirements.

The VSS rate should not be adjusted automatically every year by the rate of inflation because a relationship between the cost to provide the VSS and inflation has not been demonstrated.

The current Demand Curve did not subtract VSS revenues, and as such generators are (and have been) collecting the current cost based rate plus an additional contribution through the capacity market's Demand Curve price. The Demand Curve adjustments for VSS should be made effective retroactively to May 1, 2005, when the current Demand Curve rate took effect, which resulted in the double payments by loads.

No determination of the number of VARS is needed and whether there is a locational nature to VARS is beyond the scope of this proceeding and should not be included as part of the consultant's work scope.

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. Failure to compensate non-generator dynamic VAR sources is discriminatory.

Non-Generator Dynamic VAR sources provide reactive support that is comparable (and in some cases technically superior) to generators. The CSC reactive power capability has been tested as a requirement of its interconnection agreement.

CSC is currently providing dynamic VSS without being paid. A generator could otherwise locate at the CSC terminal and could otherwise likely be able to receive a VSS payment from January 1, 2006.

Implementation of interim rate avoids any incentives for delay.

A new base rate and annual adjustment mechanism must be developed for 2007 and going forward. Development of a new base rate and cost adjustment mechanism will take longer than two months and will most successfully be resolved with the NYISO retaining an independent consultant to assist stakeholders in developing the rate and annual adjustment methodology.

The reactive requirements of most loads are best supplied locally at voltage levels lower than the bulk system; at present, some of the reactive requirements of loads are unfortunately provided from the bulk system itself. The reason that it is best to provide load VARs locally is that transporting VARs is highly inefficient, principally due to three reasons: 1. transmitting VARs causes large VAR (I squared X) losses; 2. the VARs transmitted use up necessary transmission capacity which otherwise could be utilized to accommodate transmitting higher levels of MW; the VAR flows in effect lower the voltages in the bulk system which limit the transfer capability of real MW; and 3.VAR flows due to loads also use up generator VAR capacities which are thus unavailable to maintain reliability under emergency conditions. If the VAR requirements of the system are high enough, it is sometimes necessary for the NYISO to request a generator(s) to lower its MW output in order for the generator(s) to produce additional VARs to maintain voltages in the bulk system within acceptable ranges and thus to maintain reliability.

Over the long term, it may be a desirable goal to have the load VARs principally provided for locally by all Transmission Owners, so that little if any VARs need to be transmitted over the bulk system. The latter can be accomplished by establishing acceptable Power Factor ranges which would have to be maintained in all zones of the NYCA. A more efficient use of the transmission system would result.

The is a need to consider on the NYISO system minimum Power Factor requirements for generators that are considering connecting to the NYISO. Even though it may well be that a reliability study has determined that no MVAR capability is required of a generator(s) for reliability purposes, a minimum MVAR capability, lagging and leading, might still be desirable. Note that a lagging VAR capability refers to VARs that are being generated; whereas leading VARs refer to a generator's ability to absorb VARs; this usually is required under low load conditions to avoid high voltage conditions. It would seem that leading and lagging capability should both be compensated, since both requirements are necessary to operate the NYCA, and that synchronous condensers should likewise be compensated. Both generators and synchronous condensers represent necessary dynamic VAR capability, which remains in effect despite lower bulk voltages, as compared to static VARs whose capability is lowered under reduced voltages (by the square of voltage). It is assumed that all generators and synchronous condensers are equipped with working Automatic Voltage Regulators (AVRs), whose function it is to automatically adjust the reactive output of a generator to result in the voltage magnitude desired.