Inflationary Pressures Faced By Suppliers To Provide Voltage Support Service

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Background

- Original ISO Tariff Provided for Payment of Voltage Support Service Based Upon Accounting Data Of The Cost Of Providing The Service.
- Service Providers Could
  - Provide FERC Form 1 Data Or Equivalent
  - Opt to Take Payment At Rate Calculated From Those That Provided Accounting Data
- Historical Rates
  - 2000 - $3,875.99 per MVAR
  - 2001 - $4,852.97 per MVAR
  - 2002 - $3,919.27 per MVAR (after revising payment to fixed rate)

Accounting Basis For Rate

- Annual Fixed Charge Rate
- Current Capital Investment Of the Resource Allocated For Supplying Voltage Support Service
- Operating and Maintenance (O&M) Costs for Supervision and Engineering Allocated For Supplying Voltage Support Service

Capital Related VSS Costs

- Payment Based Upon:
  - 1) FERC Accounts 314, 323, 333, and
  - 2) Fixed Charge Rate
  - 3) Power Factor
  - 4) 30% Allocation Factor

Capital Related VSS Costs (cont'd)

- The Four FERC Accounts Are Gross Investment Accounts
- Depreciation Is Incorporated Through Annualizing The Investment Cost Using The Fixed Charge Rate
- If There Is No Additional Investment The Annual Capital Charge For Equipment Will Remain Flat, Not Decline As Some Have Assumed

Capital Portion Of Payment Increases Over Time

- Units Have a 5 – 7 Year Reconditioning Cycle
- Reconditioning the Unit Requires Additional Capital Investment
- This Increases The Current Capital Investment of Existing Units. This Increase Must Be Incorporated In The Annual Charge For VSS Service

O&M Costs Increase Over Time

- The Accounting Determination of VSS Costs Includes O&M Costs For Supervision and Engineering
- These Costs Are Subject To Inflation
- The Compensation Inflation Rate For Private Industry for the Past 6 Years Has Averaged 3.88%/year

Inflation Impact On Blended VSS Rate

- Our Current Rate Is An Average Of The Costs For Older Generating Units And Newer Generating Units
- The Older Generating Units Have Lower Capital Investment Charges
- As New Units Are Added And Old Units Are Retired, The Average Must Increase

Impact of Generation Addition And Retirement on VSS Rate

	Approximate MVar of Generation in Service	VSS Revenue Requirement	Rate	Percent Increase In Rate
2002 Rate Calculation	15,575	$61,036,604	$3,919	
Lose Oldest 1000 MVar at Assumed Accounting Cost of $500/MVar				
Generator Contribution	1,000	$500,000	$500	
Average w/o Old Generation	14,575	$60,536,604	$4,154	6.0%
Add new Generation With Current Day Costs of $8000/MVar [1]				
Generator Contribution	1000	$8,000,000	$8,000	
Average w/ New Generation	16,575	$69,036,604	$4,165	6.3%
Impact of New Generation Replacing Old Generation				
Average After Change	15,575	$68,536,604	$4,401	12.3%

[1] Voltage Support Service Cost Based Upon PJM Compliance Filing to ER05-567 and ER05-623