

May 2, 2005

BY HAND

Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: *New York Independent System Operator, Inc.*
Docket No. ER05-119-001
Report on Status of Voltage Support Service Enhancements

Dear Ms. Salas:

In its December 28, 2004 order in this docket,¹ the Commission directed the New York Independent System Operator, Inc. ("NYISO") to file a report on its continuing efforts to implement enhancements to its Voltage Support Service ("VSS"). The NYISO submits this report in response to the Commission's order. Unless otherwise defined herein, capitalized terms have the meanings set forth in Article 2 of the NYISO Services Tariff.

Since January 2005, the NYISO has met several times with its stakeholders to discuss proposals for modifying the VSS program. These proposals have focused on (1) revising the basis for VSS compensation to measure and compensate suppliers for their net reactive capability, (2) modifying the NYISO's testing and data reporting requirements to ensure correct tracking and payment for reactive power capacity available to the system, in accordance with the compensation basis, and (3) adjusting the fixed compensation rate listed in Rate Schedule 2 of the NYISO's Services Tariff, which has been in place since 2002.

To date, the stakeholder discussions have made progress on some issues. Suppliers and transmission entities appear to have reached consensus on the NYISO's proposal to change the compensation basis from "gross-lagging MVar capability" to "net-lagging MVar capability." In addition, the NYISO's proposals for clarifying the testing and reporting requirements have not been controversial. Therefore, the NYISO is preparing revisions to its Ancillary Services Manual to effectuate the proposed changes in the compensation basis and testing requirements. The NYISO plans to submit the revisions for Market Participants' review and final approval in the near future. With these enhancements, VSS payments for 2006 will more accurately reflect suppliers' actual reactive contributions to the system.

Stakeholder deliberations have not reached consensus on an approach to updating or modifying the rate paid for voltage support. All parties agree that the current rate of \$3919/MVar is based on cost information that is out of date. However, Market Participants do

¹ *New York Independent System Operator, Inc.*, 109 FERC ¶ 61,367 (2004).

NYISO-Main Facility
3890 Carman Road
Schenectady, NY 12303

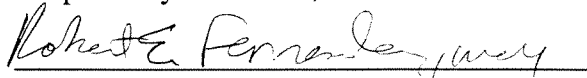
NYISO-Wolf Road
187 Wolf Road
Albany, NY 12203

NYISO-Annex
5172 Western Turnpike
Altamont, NY 12009

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not agree on a methodology for establishing a different rate. The NYISO has proposed as a near term resolution updating the existing method to compensate for net lagging capability and to reflect system changes that have occurred since 2002. Alternative approaches to determining a fair rate are under active consideration in the stakeholder working group. The NYISO and Market Participants intend to continue discussions on the rate during the second quarter of 2005.

Respectfully submitted,



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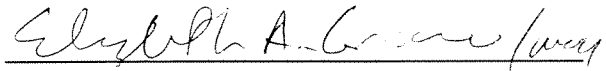
May 2, 2005

cc: Daniel L. Larcamp
Anna Cochrane
Connie N. Caldwell
Michael A. Bardee

Certificate of Service

I hereby certify that I have this day served the foregoing document upon all parties designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §385.2010 (2004).

Dated at Albany, New York this 2nd day of May, 2005.



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