

Comments on VSS Payment proposals from Doreen Saia for Mirant:

As promised, this e-mail sets forth support for the need to include an inflationary factor as an adjustment to the voltage support payments that are made to generators in the NYCA. Consistent with the level used in the capacity markets, we believe that a 3% level is sufficient for this inflationary factor to meet the adjustments in costs faced by generators that provide this service.

The ongoing costs faced by generators generally fall into the following two categories: (i) maintenance costs; and (ii) reinvestment costs. With respect to the first category, maintenance on this equipment either is performed by internal employees or the work is contracted out to a third party. In either event, the costs incurred for labor, materials and supplies year to year all include an inflationary component. In addition, a small fuel cost and added station service costs are incurred to provide additional generator field amps. With respect to the second category, a significant component of re-investment is a five to seven year reconditioning cycle, which includes reconditioning the exciter, pulling end-bells, pulling and testing rotors, testing stators, checking loose windings, checking wedges, reassembling equipment, performing switchgear work and maintaining hydrogen cooling systems. While not incurred every year, this work involves a significant investment (order of magnitude \$1 million) in the years that it is necessary. In addition to this work, additional capital is required intermittently to fix or replace voltage regulators.

During the MSWG meetings, some parties have argued that the units are well depreciated and, if inflation is factored into the equation so, too, should depreciation. While that may be true of some older units, these units are dropping out and being replaced by newer units with new depreciation tables. In addition, to the extent that these units were divested, these units now have a new depreciation schedule associated with them that is in the beginning stages with long depreciation tables still remaining at this time.

I hope that this helps to further the discussion and close out this issue at next Monday's meeting. In the meantime, if you have any questions or need further clarification, please call or e-mail me. Doreen Saia

Doreen Unis Saia
Greenberg Traurig, LLP
54 State Street
Albany, New York 12207
p 518.689.1430
c 518.859.1812
f 518.689.1499