Voltage Support Services Proposal
NYSEG and RG&E

At the start of the NYISO in November of 1999, the original tariff provided for cost based compensation for Voltage Support Services (VSS). To receive compensation each generation owner was to furnish its cost data using FERC From 1, or an equivalent methodology. Unfortunately this concept was developed prior to generation divestiture. With divestiture, non-utility generation owners don't file a FERC Form 1, nor do they account for their costs in an equivalent or comparable manner. To address this problem the NYISO committee structure developed a negotiated solution to allow for continued VSS compensation to generation owners.

The NYISO's current VSS rates were developed using the cost based charges found in the individual utility Open Access Transmission Tariffs (OATTs) that were in effect just prior to the start-up of the NYISO. The OATT rates were turned in to an annual revenue requirement using each utility's annual billing units, with this revenue requirement apportioned to loads on a load ratio share basis. This effectively socialized the costs across the entire control area, with each utility's load picking up a pro rata share of the statewide costs. Obviously this resulted in some level of cost shifting when compared to the payments made under each utility's OATT. On generation side, the revenues were distributed using a $/MVAR rate that was calculated using the revenue requirement and the control area's calculated reactive power supply. Actual compensation was also tied to annual reactive power capability testing.

The current rate methodology is also subject to annual committee review and a subsequent FERC filing. It is this last requirement that has led Market Participants to investigate modification to the VSS rate, with a focus on developing a rate that will not require annual Market Participant discussion.

In this regard NYSEG and RG&E offer the following proposal for on ongoing VSS compensation and cost allocation methodology:

- Compensation would continue on a cost basis using the Transmission Owners' OATT data as the initial starting point.
- 2002 data would serve as the basis for developing future years compensation.
- The revenue requirement in each transmission district would be adjusted to reflect capacity retirements and additions within the transmission district. For additions to be considered, subject generation must have VAR capability.
- The NYISO market participants could adjust the revenue requirement yearly to include an inflation component assuming such an adjustment is supported by a 58% affirmative vote. Calculations with and without a 3% inflation factor are included on an attached spreadsheet.
- Loads in each transmission district would be assigned a load ratio share of the transmission district's revenue requirement where their load is

located, i.e. costs would no longer be socialized to loads across the entire NYCA. Each transmission district's VSS cost would be tied to the physical assets located within the transmission district. As VAR support is fairly localized to the facilities that provide the service, this would better align the payments/costs to those receiving the associated services.

- The total annual revenue requirement divided by the NYCA net lagging MVAR capability would be used to calculate the generator compensation rate.
- Future Demand Curve update processes will consider VSS payments as a revenue offset.
- NYISO will develop a methodology to determine VSS needs and establish an appropriate upper bound on needed and compensable VSS capability if appropriate.