NYISO Proposal for Developing Black Start Payments for Current and Prior Services

Black Start Task Force

November 14, 2003

Black Start Service
Summary of Current Tariff Provisions

- ISO tariffs - Black Start facilities
  - ISO restores NYCA “backbone”; supplier payment collected from all New York Loads
  - Local restoration plans; any local supplier payments to be made are collected from specific TO Load zones
- Black Start-capable facilities must start-up and self-sustain continued operation without outside energy source
- Two cost components; (i) capital and fixed O&M for facilities “within generators that provide Black Start capability; and, (ii) annual restoration training costs for operators

Two Issues Need Immediate Resolution

- Develop costs for Black Start Providers indicated in TO local restoration plans for:
  - Payments for current service, and
  - Payments for prior services

Affected Transmission Owners

- Consolidated Edison
  - Two Market Participant Suppliers
    - One with one site
    - One with two sites
- Orange and Rockland Utilities
  - One Market Participant supplier with three sites
- Central Hudson
  - One Market Participant supplier with one site

Availability of Suppliers' "Equivalent Data" Costs

- Central Hudson – no costs yet submitted by supplier
- Consolidated Edison – ditto; however, Con Ed's historical book plant costs for Acct. 345, Accessory Electric Equipment,for some current provider units is available
- Orange and Rockland Utilities – provider has previously submitted costs, but no payments have been determined
- "Footnote" – ISO's provider has been submitting FERC Form 1 data; payments have been made, and collected from all NYCA Loads

ISO Proposal for Current Costs

- ISO will develop current- and back-payments to suppliers by developing "proxies" for costs in three areas:
  - Plant investment in Black Start facilities
  - An Annual Fixed Cost Recovery Charge (AFCR) to be applied to plant investment
  - Annual Training Cost Assumption

ISO Proposal

- Plant Investment Alternatives:
  - Use of supplier-submitted data, where available
  - Use of TO historical book plant costs for Acct. 345 as starting point for “proxy” amount
    - TO’s historical book cost, however, would be escalated for any multiple above TO book cost paid by supplier at divestiture, if documented by supplier
    - TO’s historical ratio of Acct. 345 to total units’ book value would be applied to supplier’s current book value; for, example, 9.5% of current total plant value would represent current Black Start investment

ISO Proposal (cont.)

- Develop annual AFCR
  - Framework would be based, generally, on the AFCR currently being submitted by ISO's supplier:
    - Cost of Capital – supplier's weighted (for debt/equity) average cost of capital
    - Annual Depreciation
    - Fixed O&M
    - An allocation of A&G O&M
    - An allocation of General Plant fixed charges
    - Working Capital
- Suppliers would submit their own factors, or ISO will develop assumed factors, will apply uniformly

ISO Proposal (cont.)

- Example of AFCR (for "order of magnitude")
  - Cost of Capital (placeholder value only) 12.5%
  - Depreciation (placeholder, 15 yr. Life) 6.7%
  - Fixed Production O&M Charge 1.5%
  - A&G O&M Charge 3.0%
  - General Plant Fixed Charge 1.0%
  - Working Capital .1%

  Total **24.8%**

ISO Proposal (cont.)

- Training Costs
  - Based on comparable historical data provided to ISO
  - Assumption:
    - $12,000 per year, per Black Start site

ISO Proposal (cont.)

- As “order of magnitude” examples, only,
- For Con Ed Load zone suppliers, based on book plant costs at ’97-’98, and AFCR then proposed to FERC, and $12k/yr./site for training:
  - Total Black Start annual payment for the two suppliers, with three sites, collectively, would be in range of approx. $250,000 annually
  - This amount would increase if a multiple above historical book value for plant cost is assumed

ISO Proposal (cont.)

- Orange and Rockland Utilities, example, only:
  - For the one supplier with three sites, applying Con Ed AFCR to supplier's submitted plant cost, and $12k training cost assumption
    - Total Black Start Annual Payment approximately $40,000 - $45,000

ISO Proposal (cont.)

- Timing and Payment Period Issues
  - ISO proposal would determine current monthly payments beginning with implementation and forward, until tariff changes, if any
    - Because Tariff provides for supplier cost updates by May 1st of each year, intent would be to begin to implement this “update” schedule for the May 1, ’04 deadline, initially

ISO Proposal (cont.)

- Timing and Payment Period Issues (cont.)
  - Back-payments:
    - Task Force has assumed payments to suppliers would be made back to ISO inception
    - A concern has been expressed to the ISO, however, that payments should be made back only to the Sept. ’02 letter notices from ISO to suppliers

ISO Proposal (cont.)

- Timing and Payment Period Issues (cont.)
  - Back-payments:
    - ISO believes payments back to inception should be considered, for the following equitable, and other, reasons:
      - Regardless of formal notice, suppliers' units were designated on TO restoration plans at Nov. '99 and,thus, were Black Start providers under ISO tariffs
      - Reasonable assumption is that, had an "Aug. 14 Event" occurred prior to Sept. '02, TO control rooms would have gone to their respective restoration plans and very likely would have called on these units for Black Start services, regardless of prior notice
      - Resolution of this issue within our own markets, in a way that is fair to suppliers and not unduly burdensome to Loads, would serve the best interests of our markets
      - Dollar amounts in question are not large

Black Start Testing

- Black Start testing/payment eligibility has been an issue before the Task Force
- Tariff – ISO “and TO, when applicable,” shall conduct testing
- Tariff - Failure of a test = forfeiture of payments back to last successful test; no future payments until successful test
- Con Ed suggests that (i) In-city providers successful response to a start-up request on Aug. 14 should be deemed a “successful test”, and, (ii) ISO personnel would review operator logs