

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 344 – Turbine Generator
- 2) FERC Accounts 315, 324, 334, and 345 – Accessory Electrical Equip
- 3) Fixed Charge Rate
- 4) Power Factor

Capital Related VSS Costs (cont'd)

- ❑ The 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

Historic Increases In FERC Capital Accounts

- ❑ To Estimate The Expected Inflation I Reviewed NYTO FERC Data for Steam Units for 1990 and 1994
- ❑ The Weighted Average Increase In the FERC Account 314 Was 3.13% per Year
- ❑ The Weighted Average Increase In the FERC Account 315 Was 1.18% per Year
- ❑ These Years Were Chosen Because There Were No Significant Utility Additions Or Retirements
- ❑ Inflation averaged 3.20% During This Time

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

Retirements and Additions

- ❑ Load Is Growing Approximately 1.4% per Year.
- ❑ Retirement Rate is Approximately 1% per Year.
- ❑ Generation Needs To Be Added At Approximately 2.4% Year To Cover Generation Additions Plus Load Growth

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	156	\$77,873	\$500	
Average w/o Old Generation	15,419	\$60,958,731	\$3,954	0.88%
Add new Generation With Current Day Costs of \$4300/MVar ¹				
Generator Contribution	373.788848	\$1,607,292	\$4,300	
Average w/ New Generation	15,948	\$62,643,896	\$3,928	0.23%
Impact of New Generation Replacing Old Generation & Meeting Load Growth				
Average After Change	15,793	\$62,566,023	\$3,962	1.09%
Load Growth	1.40%			

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

Net Inflationary Impact On VSS Service Cost

- Inflation On Existing Unit Costs, The Impact of New Generation Replacing Older Generation Plus Meeting Load Growth Is Additive
- The Combined Impact Justifies Including A 3% per Year Inflation Factor