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8/6/2004

Mr. John Charlton
New York State Independent System Operator, Inc.
3890 Carman Road
Schenectady, N.Y. 12303

Re: Response of Reliant Energy, Inc., to Draft Levitan & Associates ICAP Demand Curve Study

Dear Mr. Charlton:

I send this letter on behalf of Reliant Energy, Inc., to respond to the property tax assumptions used by Levitan & Associates (“Levitan”) in its draft study to establish ICAP demand curve parameters. I have represented Reliant and its predecessors for five years on property tax matters in New York City. In particular, at pages 9 - 10 of the body of the report, the Levitan study proposes a “first year effective tax rate” for New York City of 1.60% of Capital Cost. Based on Levitan’s estimate of capital costs for a new single cycle gas combustion unit in New York City, this would translate into a first year revenue requirement of \$19.59 (\$/kW-yr) for the hypothetical new unit.

These numbers, however, are very difficult to reconcile with the actual property tax rates in effect for New York City power plants, or the property taxes that Reliant Energy has in fact been paying on its two combustion gas turbine facilities in New York City, the Gowanus and Narrows barge mounted gas turbine facilities. These facilities went into service in 1971 and 1972 respectively, and are, of course, ancient as these types of facilities go.

Unlike the bulk of New York State, which assesses and taxes all real property at a uniform rate, New York City divides real property into four separate classes, including a separate class three for “utility real property,” and then assesses and taxes each class differently. The equipment at New York City power plants is presently taxed as class three utility real property, while the land and structures of the plants are taxed as class four commercial and industrial property. Generally, class three property is taxed at the highest effective tax rate of all property in New York City, and property in both class three and class four is taxed at significantly higher effective tax rates than residential property.

For 2003-04 and 2004-05 property taxes, the City assessed class three and class four property at a ratio 45% of market value, and then taxed this property at the following stated percentages of assessed value:²

¹New York State address: 179 East Little Neck Road North, P.O. Box 818, Babylon, N.Y. 11702

class three	12.418%
class four	11.431%

Recalculated based on market value, these numbers translate into *effective tax rates* (i.e. taxes/market value) of 5.59% for class three and 5.14% for class four. These effective tax rates are, of course, over three times the assumed rate of 1.60% of new capital costs used in the Levitan ICAP analysis.

Attachment A, which summarizes the 2003-04 and 2004-05 property tax statements for Reliant's Gowanus and Narrows plants, shows aggregate effective tax rates of 5.50% and 5.41% for the two years.³ Although these two plants are very old and worth only a small fraction per-kW of the proposed plants underlying Levitan's analysis, Reliant's property taxes on these plants on a \$/kW-year for 2003-04 and 2004-05 were \$12.95 and \$12.62, respectively. In other words, on a \$/kW-year basis, these ancient plants are being taxed at more than 60% of Levitan's proposed rate for the brand new facilities, even though the per-kW market values of the brand new facilities would be several time those of Gowanus or Narrows.

Based on the foregoing, we respectfully propose that the New York City demand curve be recalculated based on a First Year Effective Tax Rate of no less than 5.0% of Capital Cost.

Thank-you.

Very truly yours,

² As typically happens, New York City has been tardy in setting its 2004-05 property tax rate, and has tentatively billed these properties at the 2003-04 rates.

³ We have annexed copies of the relevant tax statements hereto at Attachment B.

PROPERTY TAXES: RELIANT ENERGY'S NYC GT UNITS (04-05)

UNIT	MW	MV	TAXES
GOWANUS	487	\$104,294,000	\$5,674,540
NARROWS	265	\$70,990,000	\$3,815,024
COMBINED	752	\$175,284,000	\$9,489,564
EFFECTIVE TAX RATE (TO MV):	5.41%		
TAX PER KW/YEAR	\$12.62		

PROPERTY TAXES: RELIANT ENERGY'S NYC GT UNITS (03-04)

UNIT	MW	MV	TAXES
GOWANUS	487	\$107,424,000	\$5,910,810
NARROWS	265	\$69,678,000	\$3,828,446
COMBINED	752	\$177,102,000	\$9,739,256
EFFECTIVE TAX RATE (TO MV):	5.50%		
TAX PER KW/YEAR	\$12.95		

NYCProperty	Statements List	Select a B-B-L	NYC.GOV Home	DEP Home	DOF Home	NYCProperty Home
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ANNUAL REAL ESTATE TAX STATEMENT | Tax Year 2003 - 2004

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Profile

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Owner: ORION POWERHOLDING CO **Property Address:** IDENT #: C132-85EP

Real Estate Billing Address:

ASTORIA GEN CO LP	Borough: BROOKLYN
C/O RELIANT ENERGY	Block: 70132
225 GREENFIELD PKWY	Lot: 1414
LIVERPOOL NY 13088-6656	Tax Class: 3

Property Type: UTILITY/TRAN_MISCELANEOUS

CALCULATION OF CHARGE ** MARKET VALUE ** 50,000,000

BILLABLE ASSESSED VALUE	22,500,000	
TAXABLE VALUE	22,500,000	
X 12.565% (TAX RATE)		<hr/>
REAL ESTATE GENERAL TAX		2,827,125.00
** TOTAL TAX DUE **		<hr/> 2,827,125.00

*** PAY ONLINE AT WWW.NYC.GOV/PROPERTYTAXES ***

THIS BILL IS BASED ON LAST YEAR'S RATES. ONE BASED ON NEW RATES WILL BE SENT IN THE FALL. GRACE PERIODS ARE 07/01/03, 01/02/04.

Property Tax Information

Description	Amount
1ST HALF 07/01/03 - 12/31/03	
TOTAL TAX	1,413,562.50
AMOUNT DUE 07/01/03	<hr/> 1,413,562.50
2ND HALF 01/01/04 - 06/30/04	
TOTAL TAX	1,413,562.50
AMOUNT DUE 01/01/04	<hr/> 1,413,562.50
DISCOUNT AVAILABLE IF PAID BY 07/01/03, PAY	1,399,452.95
FULL YR 07/01/03 - 06/30/04	
ANNUAL AMOUNT DUE	2,827,125.00
DISCOUNT AVAILABLE IF PAID BY 07/01/03, PAY	2,813,015.45

NYCProperty	Statements List	Select a B-B-L	NYC.GOV Home	DEP Home	DOF Home	NYCProperty Home
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Profile

Owner: ORION POWERHOLDING CO **Property Address:** IDENT #: C132-85P

Real Estate Billing Address:

ASTORIA GEN CO LP	Borough:	BROOKLYN
C/O RELIANT ENERGY	Block:	70132
225 GREENFIELD PKWY	Lot:	1413
LIVERPOOL NY 13088-6656	Tax Class:	4

Property Type: UTILITY/TRAN_UTIL LND/IMP

CALCULATION OF CHARGE ** MARKET VALUE ** 19,678,000

BILLABLE ASSESSED VALUE	8,692,617	
INDUST WASTE FACIL	-45,630	
	<hr/>	
TAXABLE VALUE	8,646,987	
X 11.580% (TAX RATE)	<hr/>	
REAL ESTATE GENERAL TAX		1,001,321.08
** TOTAL TAX DUE **		<hr/> 1,001,321.08

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Property Tax Information

Description	Amount
1ST HALF 07/01/03 - 12/31/03	
TOTAL TAX	500,660.54
AMOUNT DUE 07/01/03	<hr/> 500,660.54
2ND HALF 01/01/04 - 06/30/04	
TOTAL TAX	500,660.54
AMOUNT DUE 01/01/04	<hr/> 500,660.54
DISCOUNT AVAILABLE IF PAID BY 07/01/03, PAY	495,663.17
FULL YR 07/01/03 - 06/30/04	
ANNUAL AMOUNT DUE	1,001,321.08

NYCProperty	Statements List	Select a B-B-L	NYC.GOV Home	DEP Home	DOF Home	NYCProperty Home
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Owner: ORION POWERHOLDING C0 **Property Address:** IDENT #: C132-73EP

Real Estate Billing Address:
 ASTORIA GEN CO LP **Borough:** BROOKLYN
 C/O RELIANT ENERGY **Block:** 70132
 225 GREENFIELD PKWY **Lot:** 1294
 LIVERPOOL NY 13088-6656 **Tax Class:** 3

Property Type: UTILITY/TRAN_MISCELANEOUS

CALCULATION OF CHARGE ** MARKET VALUE ** 82,750,000

BILLABLE ASSESSED VALUE	37,237,500	
TAXABLE VALUE	37,004,490	
X 12.565% (TAX RATE)		
REAL ESTATE GENERAL TAX		4,649,614.16
** TOTAL TAX DUE **		4,649,614.16

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Property Tax Information

Description	Amount
1ST HALF 07/01/03 - 12/31/03	
TOTAL TAX	2,324,807.08
AMOUNT DUE 07/01/03	2,324,807.08
2ND HALF 01/01/04 - 06/30/04	
TOTAL TAX	2,324,807.08
AMOUNT DUE 01/01/04	2,324,807.08
DISCOUNT AVAILABLE IF PAID BY 07/01/03, PAY	2,301,601.89
FULL YR 07/01/03 - 06/30/04	
ANNUAL AMOUNT DUE	4,649,614.16
DISCOUNT AVAILABLE IF PAID BY 07/01/03, PAY	4,626,408.97

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Profile

Owner: ORION POWERHOLDING CO **Property Address:** IDENT #: C132-73P

Real Estate Billing Address:

ASTORIA GEN CO LP	Borough:	BROOKLYN
C/O RELIANT ENERGY	Block:	70132
225 GREENFIELD PKWY	Lot:	1293
LIVERPOOL NY 13088-6656	Tax Class:	4

Property Type: UTILITY/TRAN_UTIL LND/IMP

CALCULATION OF CHARGE ** MARKET VALUE ** 24,674,000

BILLABLE ASSESSED VALUE	10,994,980	
INDUST WASTE FACIL	-103,815	
	<hr/>	
TAXABLE VALUE	10,891,165	
X 11.580% (TAX RATE)	<hr/>	
REAL ESTATE GENERAL TAX		1,261,196.88
		<hr/>
** TOTAL TAX DUE **		1,261,196.88

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Property Tax Information

Description	Amount
1ST HALF 07/01/03 - 12/31/03	
TOTAL TAX	630,598.44
	<hr/>
AMOUNT DUE 07/01/03	630,598.44
2ND HALF 01/01/04 - 06/30/04	
TOTAL TAX	630,598.44
	<hr/>
AMOUNT DUE 01/01/04	630,598.44
DISCOUNT AVAILABLE IF PAID BY 07/01/03, PAY	624,304.09
FULL YR 07/01/03 - 06/30/04	
ANNUAL AMOUNT DUE	1,261,196.88

NYCProperty	Statements List	Select a B-B-L	NYC.GOV Home	DEP Home	DOF Home	NYCProperty Home
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Profile

Owner: ORION POWERHOLDING CO **Property Address:** IDENT #: C132-85EP

Real Estate Billing Address:
 ASTORIA GEN CO LP **Borough:** BROOKLYN
 C/O RELIANT ENERGY **Block:** 70132
 225 GREENFIELD PKWY **Lot:** 1414
 LIVERPOOL NY 13088-6656 **Tax Class:** 3

Property Type: UTILITY/TRAN_MISCELANEOUS

CALCULATION OF CHARGE ** MARKET VALUE ** 50,920,000

BILLABLE ASSESSED VALUE	22,914,000	
TAXABLE VALUE	22,914,000	
X 12.418% (FY 2004 TAX RATE)		
REAL ESTATE TAX DUE		2,845,460.52
** TOTAL TAX DUE **		2,845,460.52

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THIS BILL IS BASED ON LAST YEAR'S TAX RATES.

IF YOU ARE PAYING FOR THE FULL YEAR, PLEASE NOTE YOU WILL RECEIVE A NEW BILL IN THE FALL, WITH THE ADJUSTED AMOUNT DUE.

GRACE PERIODS ARE 07/01/04, 01/03/05.

Property Tax Information

Description	Amount
1ST HALF 07/01/04	
TOTAL TAX	1,422,730.26
AMOUNT DUE 07/01/04	1,422,730.26
2ND HALF 01/01/05	
TOTAL TAX	1,422,730.26
AMOUNT DUE 01/01/05	1,422,730.26
AMOUNT DUE IF PAID BY 07/01/04	1,408,529.20
FULL YEAR 07/01/04	
ANNUAL AMOUNT DUE	2,845,460.52

NYCProperty	Statements List	Select a B-B-L	NYC.GOV Home	DEP Home	DOF Home	NYCProperty Home
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Profile

Owner: ORION POWERHOLDING CO **Property Address:** IDENT #: C132-85P

Real Estate Billing Address:

ASTORIA GEN CO LP	Borough:	BROOKLYN
C/O RELIANT ENERGY	Block:	70132
225 GREENFIELD PKWY	Lot:	1413
LIVERPOOL NY 13088-6656	Tax Class:	4

Property Type: UTILITY/TRAN_UTIL LND/IMP

CALCULATION OF CHARGE ** MARKET VALUE ** 20,070,000

BILLABLE ASSESSED VALUE	8,666,878	
INDUST WASTE FACIL	-33,345	
		<hr/>
TAXABLE VALUE	8,633,533	
X 11.431% (FY 2004 TAX RATE)		
REAL ESTATE TAX DUE		986,899.16
		<hr/>
** TOTAL TAX DUE **		986,899.16

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GRACE PERIODS ARE 07/01/04, 01/03/05.

Property Tax Information

Description	Amount
1ST HALF 07/01/04	
TOTAL TAX	493,449.58
	<hr/>
AMOUNT DUE 07/01/04	493,449.58
2ND HALF 01/01/05	
TOTAL TAX	493,449.58
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AMOUNT DUE 01/01/05	493,449.58
AMOUNT DUE IF PAID BY 07/01/04	488,524.19

NYCProperty	Statements List	Select a B-B-L	NYC.GOV Home	DEP Home	DOF Home	NYCProperty Home
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Profile

Owner: ORION POWERHOLDING CO **Property Address:** IDENT #: C132-73EP

Real Estate Billing Address:

ASTORIA GEN CO LP	Borough: BROOKLYN
C/O RELIANT ENERGY	Block: 70132
225 GREENFIELD PKWY	Lot: 1294
LIVERPOOL NY 13088-6656	Tax Class: 3

Property Type: UTILITY/TRAN_MISCELANEOUS

CALCULATION OF CHARGE ** MARKET VALUE ** 80,120,000

BILLABLE ASSESSED VALUE	36,054,000	
TAXABLE VALUE	35,827,920	
X 12.418% (FY 2004 TAX RATE)		
REAL ESTATE TAX DUE		4,449,111.08
** TOTAL TAX DUE **		4,449,111.08

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IF YOU ARE PAYING FOR THE FULL YEAR, PLEASE NOTE YOU WILL RECEIVE A NEW BILL IN THE FALL, WITH THE ADJUSTED AMOUNT DUE. GRACE PERIODS ARE 07/01/04, 01/03/05.

Property Tax Information

Description	Amount
1ST HALF 07/01/04	
TOTAL TAX	2,224,555.54
AMOUNT DUE 07/01/04	2,224,555.54
2ND HALF 01/01/05	
TOTAL TAX	2,224,555.54
AMOUNT DUE 01/01/05	2,224,555.54
AMOUNT DUE IF PAID BY 07/01/04	2,202,351.01
FULL YEAR 07/01/04	

NYCProperty	Statements List	Select a B-B-L	NYC.GOV Home	DEP Home	DOF Home	NYCProperty Home
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ASTORIA GEN CO LP	Borough: BROOKLYN
C/O RELIANT ENERGY	Block: 70132
225 GREENFIELD PKWY	Lot: 1293
LIVERPOOL NY 13088-6656	Tax Class: 4

Property Type: UTILITY/TRAN_UTIL LND/IMP

CALCULATION OF CHARGE ** MARKET VALUE ** 24,174,000

BILLABLE ASSESSED VALUE	10,821,436	
INDUST WASTE FACIL	-101,205	
	<hr/>	
TAXABLE VALUE	10,720,231	
X 11.431% (FY 2004 TAX RATE)		
REAL ESTATE TAX DUE		1,225,429.60
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** TOTAL TAX DUE **		1,225,429.60

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THIS BILL IS BASED ON LAST YEAR'S TAX RATES.

IF YOU ARE PAYING FOR THE FULL YEAR, PLEASE NOTE YOU WILL RECEIVE A NEW BILL IN THE FALL, WITH THE ADJUSTED AMOUNT DUE.

GRACE PERIODS ARE 07/01/04, 01/03/05.

Property Tax Information

Description	Amount
1ST HALF 07/01/04	
TOTAL TAX	612,714.80
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AMOUNT DUE 07/01/04	612,714.80
2ND HALF 01/01/05	
TOTAL TAX	612,714.80
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AMOUNT DUE 01/01/05	612,714.80
AMOUNT DUE IF PAID BY 07/01/04	606,598.95