

2004 NYISO VOLTAGE SUPPORT SERVICE RATES

Payments to Suppliers: Market Administration & Control Area Service Tariff Schedule 2

All providers of 2004 Voltage Support Service will be compensated at the rate of \$3,919 per MVAR per year.

The NYISO and Market Participants derived the proposed rate of \$3,919 per MVAR per year from the latest available Commission-approved customer rates for Voltage Support Service for vertically integrated generation owners in New York State. The \$3,919 rate was derived by applying the following logic:

In 1997, just prior to significant power industry restructuring and generation divestment, New York State generation owners had filed customer rates for Voltage Support Service under their Open Access Transmission Tariffs. These customer rates resulted in an annual total cost for Voltage Support Service of approximately \$60 million. The level of Voltage Support Service was associated with 35,938 MW of generating capacity.

At the beginning of 2002, 36,558 MW of generating capacity will be on line in New York State and potentially able to participate in the NYISO Voltage Support Service program. The 2002 generation capacity can be expected to provide 15,570 MVARs of reactive power, based on the system average power factor of current Supplier participants in the NYISO program, and on the accepted formulaic relationship between real and reactive power.

The total 15,570 MVARs expected for 2002 must be divided into a total cost figure for 2002 to produce a single cost-based MVAR rate. The NYISO and Market Participants want the cost of the Voltage Support Service program in 2002 to be reasonable, and in line with what total program cost has been in the past. Applying 1997 costs to the 2002 generation base produces an adjusted total cost for Voltage Support Service in 2002 of approximately \$61 million. As also shown in Exhibit Four, that total program cost for 2002 is very much in line with what total program cost has been in the past.

Finally, dividing the annual 2002 program cost of \$61 million by 15,570 MVARs produces a rate of \$3,919 per MVAR per year. The NYISO and Market Participants believe that this proposed rate, derived in the manner described, will also bring forth the Voltage Support Service needed during 2004 for the reliable operation of the transmission system, at a total program cost consistent with past experience, and will do so in a way that eliminates the dysfunctional complexities of the current methodologies.

Charges to Customers: Open Access Transmission Service Tariff Schedule 2

The 2004 cost of Voltage Support Service assessed to NYISO energy withdrawals is \$0.36 per megawatthour.

The cost of providing Voltage Support Service is recovered from all Customers withdrawing energy from the NYISO managed power grid under the provisions of Rate Schedule 2 of the NYISO Open Access Transmission Tariff. The rate is set annually and is assessed on Customer megawatthour withdrawals.

The rate is computed by dividing the anticipated annual cost of providing Voltage Support Service, plus-or-minus any under-/over-collections from the previous year, by the annual estimated NYISO energy withdrawal.

The estimated cost of providing Voltage Support Service in 2004 is \$59M. There was an over-collection in 2003 Voltage Support Service of \$1M. The over-collection was driven by an under forecast of energy withdrawals. The NYISO estimates 2004 energy withdrawals to be approximately 161,000,000 MWh. The rate charged to energy withdrawals is computed by dividing the anticipated annual cost of providing Voltage Support Service, plus-or-minus any under-/over-collections from the previous year, by the annual estimated NYISO energy withdrawal. Applying this formula results in the \$0.36 per MWh rate.