

2005 NYISO VOLTAGE SUPPORT SERVICE RATES

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

All providers of 2005 Voltage Support Service will be compensated at the rate of \$3,919 per MVar per year, which has been unchanged since 2002.

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 MVAr 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 MVAr 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 MVAr 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, brought forth the Voltage Support Service needed during 2003 - 2004 for the reliable operation of the transmission system, at a total program cost consistent with past experience.

Charges to Customers: Open Access Transmission Service Tariff Schedule 2

The 2005 cost of Voltage Support Service assessed to NYISO energy withdrawals is \$0.39 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 \$63.3M. There was an under-collection in 2005 Voltage Support Service of \$700K. The under-collection was driven by updated VAR capabilities and additional providers entering the Market. The NYISO estimates 2005 energy withdrawals to be approximately 163,700,000 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 \$0.39 per MWh rate.