

FEDERAL ENERGY REGULATORY COMMISSION  
Washington, D.C. 20426

October 31, 2006

In Reply Refer To:  
New York Independent System  
Operator, Inc.  
Docket No. ER06-1466-000

Carl F. Patka, Esq.  
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Dear Mr. Patka:

1. On September 1, 2006, the New York Independent System Operator, Inc. (NYISO) filed revised tariff sheets, listed in Appendix A, to its Open Access Transmission Tariff (OATT)<sup>1</sup> and its Market Administration and Control Area Services Tariff (Services Tariff)<sup>2</sup> to provide compensation to Qualified Non-Generator Voltage Support Resources (New Voltage Resources) that supply Voltage Support Service (VSS), including the Cross Sound Cable (CSC). For the reasons discussed below, the Commission will accept the proposed revisions for filing to be effective October 31, 2006, as requested.
2. NYISO provides compensation for VSS under Schedule 2 of its Services Tariff and under Schedule 2 of its OATT.<sup>3</sup> Schedule 2 of the Services Tariff provides for annual payments of \$3,919 per MVAR of reactive power capability to generators and synchronous condensers that verify their capability (by testing the equipment they use) to

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<sup>1</sup> New York Independent System Operator, Inc. FERC Electric Tariff, Original Volume No. 1.

<sup>2</sup> New York Independent System Operator, Inc. FERC Electric Tariff, Original Volume No. 2.

<sup>3</sup> The history of VSS under the NYISO tariffs was provided in an order issued on April 3, 2006 in Docket Nos. EL06-57-000 and ER06-291-001. *See N.Y. Indep. Sys. Operator Inc.*, 115 FERC ¶ 61,005 (2006). (April 2006 order).

supply MVAr and that otherwise qualify to receive compensation under the Services Tariff. Schedule 2 of the Services Tariff also provides for lost opportunity costs incurred when these suppliers reduce their real power output in order to provide VSS upon request by NYISO. Compensation for VSS is currently limited to suppliers that have generation facilities or synchronous condensers.

3. NYISO proposes to modify its tariffs to allow for compensation to qualified non-generator suppliers of VSS, including the CSC. NYISO states that the proposed amendments are based on a February 2005 Commission staff report<sup>4</sup> calling for voltage support compensation for all types of equipment capable of providing reactive power to bulk power systems, including static VAr compensators and transmission cables. NYISO states that the proposed tariff amendments are intended to ensure that generator and non-generator equipment that supply reactive power to the bulk power system are treated comparably under the NYISO OATT and Services Tariff. In addition, the proposed tariff revisions require New Voltage Resources, similar to generators and synchronous condensers, to test their reactive power capability and to operate their equipment within their capability limits, including producing or absorbing reactive power.

4. Regarding compensation, NYISO proposes that, in the same manner as payments are made to generators that are not installed capacity suppliers, the annual payment to a New Voltage Resource will be determined by its tested MVAr capability (the number of tested MVAr) multiplied by the monthly equivalent of the annual \$3,919/MVAr rate, prorated by the New Voltage Resource's hours of operation each month. NYISO states that the tariff changes ensure that equipment that is already considered in the calculation of a rate under other tariff provisions will not be compensated under these new provisions.

5. To ensure comparable treatment between New Voltage Resources and generators supplying reactive power, NYISO also proposes to compensate New Voltage Resources for the cost of energy needed to energize reactive power resources when those resources are energized in response to a NYISO request.<sup>5</sup> In addition, like generators and synchronous condensers, New Voltage Resources will be subject to penalties if they fail to perform in response to requests for reactive power.

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<sup>4</sup> *Principles for Efficient and Reliable Reactive Power Supply and Consumption*, Docket No. AD05-1-000 (February 4, 2005).

<sup>5</sup> Generators are currently compensated for such cost of energy via Start-up and Minimum Generation cost payments and/or through Bid Production Cost Guarantee payments under sections 4.17, 4.2.2 and 4.10 of the Services Tariff.

6. Notice of NYISO's filings was published in the *Federal Register*, 71 Fed. Reg. 54,642 (2006), with interventions and protests due on or before September 22, 2006. The New York Transmission Owners<sup>6</sup> filed a timely motion to intervene. New York State Electric and Gas Corporation (NYSEG), Rochester Gas and Electric Corporation (RGE), and Central Hudson Gas and Electric Corporation (CH) (collectively, NYSEG-RGE-CH), the Long Island Power Authority (LIPA),<sup>7</sup> and the New York Municipal Power Agency (NYMPA) filed timely motions to intervene and comments.

7. LIPA and NYMPA support the proposed revisions to the NYISO OATT and Services Tariff. NYMPA adds that VSS payments should only be made to reactive sources that are capable of responding to requests from NYISO operations and have agreed to be under NYISO's operational control, and that NYISO's proposal adds necessary details to the tariff provisions to assure that NYMPA's concerns are addressed. LIPA states that VSS has been provided by the CSC to the New York system without compensation for over four years, and it commends NYISO for working to initiate compensation to CSC.

8. NYSEG-RGE-CH states that, at this time, it takes no position on the inclusion of New Voltage Resources among those entities eligible to receive payment for VSS. However, NYSEG-RGE-CH takes issue with the current method of determining and assessing VSS rates. NYSEG-RGE-CH argues that VSS rates are unjustly socialized (i.e., averaged) across all customers resulting in customers who place minimal voltage support burdens on the system, or who are served by low-cost VSS suppliers, overpaying for VSS, while customers that place high voltage support burdens on the system, or who are served by higher-cost VSS suppliers underpay for VSS. NYSEG-RGE-CH also argues that current VSS rates are based on outdated data.

9. In addition, NYSEG-RGE-CH argues that, until this year, VSS rates had been determined and assessed on an interim basis under Schedule No. 2 of the Services Tariff, which had a sunset provision that was extended each year to allow the rate to continue pending the filing and acceptance of a permanent VSS rate. According to NYSEG-RGE-CH, it had anticipated that the Commission would require any permanent VSS rate to be fully supported by cost support and considered carefully by the Commission. NYSEG-RGE-CH states that earlier this year, after the Commission eliminated the sunset provision in the April 2006 Order, NYSEG and RGE filed for rehearing of that decision.

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<sup>6</sup> The New York Transmission Owners are: Consolidated Edison Company of New York, Inc., New York Power Authority, Niagara Mohawk Power Corporation d/b/a National Grid, and Orange and Rockland Utilities, Inc.

<sup>7</sup> LIPA filed on behalf of itself and the Long Island Lighting Company, its operating subsidiary.

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2006), the timely unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

11. NYISO states that the issue of compensating non-generator reactive power suppliers has been evaluated through the NYISO stakeholder process and that the NYISO market participants support the proposed amendments. In addition, NYISO states that the proposed tariff revisions are intended to ensure that generator and non-generator equipment that supply reactive power to the bulk power system are treated comparably under the NYISO OATT and Services Tariff. Based on our review of the revised tariff sheets, the Commission finds that the proposed tariff revisions treat generator and non-generator equipment comparably for purposes of VSS.

12. Further, we find that NYSEG-RGE-CH's comments are not germane to the question of whether the proposed tariff revisions should be accepted (i.e., whether NYISO's current tariff provisions for compensating generators and synchronous condensers for reactive power should be extended to non-generators). First, although NYSEG-RGE-CH raises concerns about the current VSS rate methodology here, it also states that, at this time, it takes no position on the inclusion of New Voltage Resources as entities eligible to receive payment for VSS. Second, NYSEG-RGE raised the same issues in its request for rehearing of the April 2006 Order. Subsequent to NYSEG-RGE-CH filing comments in the instant proceeding, we issued an order denying rehearing.<sup>8</sup> In that order, we stated that the current rate has been in place since 2002 and, when established in 2002, was based on cost support that justified the Commission's accepting the rate.<sup>9</sup> The mere passage of time does not, by itself, invalidate that rate.<sup>10</sup>

13. Accordingly, we accept the proposed tariff revisions effective October 31, 2006, as requested.

By direction of the Commission.

Magalie R. Salas,  
Secretary.

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<sup>8</sup> *N.Y. Indep. Sys. Operator Inc.*, 117 FERC ¶ 61,002 (2006).

<sup>9</sup> *Id.* at P 11.

<sup>10</sup> *Id.*

APPENDIX

New York Independent System Operator, Inc.  
Tariff Sheets Accepted Effective October 31, 2006

FERC Electric Tariff, Original Volume No. 1

Fourth Revised Sheet No. 15  
Second Revised Sheet No. 46  
Second Revised Sheet No. 46A  
First Revised Sheet No. 63  
First Revised Sheet No. 64

FERC Electric Tariff, Original Volume No. 1, Schedule 2

First Revised Sheet No. 246  
Second Revised Sheet No. 248

FERC Electric Tariff, Original Volume No. 2

Eighth Revised Sheet No. 61  
Ninth Revised Sheet No. 61A

FERC Electric Tariff, Original Volume No. 2, Schedule 2

Eighth Revised Sheet No. 256  
Second Revised Sheet No. 257  
Sixth Revised Sheet No. 258  
First Revised Sheet No. 259  
Third Revised Sheet No. 262  
Second Revised Sheet No. 263  
Second Revised Sheet No. 264  
Second Revised Sheet No. 265  
Second Revised Sheet No. 266  
Second Revised Sheet No. 267  
Second Revised Sheet No. 268