

February 13, 2015

Submitted Electronically

Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street N.E.
Washington, D.C. 20426

Re: New York Independent System Operator, Inc.'s Proposed Amendments to
its Market Administration and Control Area Services Tariff Rate Schedule 2;
Docket No. ER15-____-_____.

Dear Ms. Bose:

The New York Independent System Operator, Inc. ("NYISO") submits this filing pursuant to Section 205 of the Federal Power Act¹ to propose amendments to Rate Schedule 2 of its Market Administration and Control Area Services Tariff ("Services Tariff") that redesign the compensation to Suppliers providing Voltage Support Service ("VSS").² The proposed amendments to Rate Schedule 2 of the Services Tariff would compensate VSS Suppliers based on their capability to provide both leading and lagging voltage support. The proposed compensation rate is \$2,592 per MVar of both leading and lagging capability.³ The NYISO also proposes to inflate the compensation rate annually with the Consumer Price Index ("CPI"). Additional proposed amendments include compensating Suppliers with automatic voltage regulator ("AVR") outages that notify the NYISO of such outages.

The amendments being submitted in this filing received the support of a majority of the NYISO stakeholders, including more than half of the generation owners that voted at the November 20, 2014 Management Committee meeting.

¹ 16 U.S.C. § 824d.

² Capitalized terms that are not otherwise defined herein shall have the meaning specified in the Services Tariff.

³ MVar is the unit of measure for Reactive Power capability.

I. LIST OF DOCUMENTS SUBMITTED

The NYISO submits the following documents:

1. This filing letter;
3. A clean version of the proposed revisions to the NYISO's Services Tariff ("Attachment I"); and
4. A backline version of the proposed revisions to the NYISO's Services Tariff ("Attachment II").

II. COPIES OF CORRESPONDENCE

Correspondence concerning this filing should be served on:

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III. BACKGROUND AND JUSTIFICATION

Voltage Support Service is an essential ancillary service for maintaining reliable bulk power system operations. Since Commission Order No. 888, voltage support has been a mandatory transmission ancillary service and transmission providers must provide at least some reactive power to the transmission system from generators.⁴ The Commission further directed that voltage support suppliers be compensated.⁵

⁴ *Promoting Wholesale Competition Through Open-Access Non-Discriminatory Transmission Service by Public Utilities: Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*. Order No. 888, FERC Stats. & Regs., Regulations Preambles January 1991 - June 1996 ¶ 31,036, at ¶ 31,707 (1996), *order on reh'g*, Order No. 888-A, FERC Stats. & Regs., Regulations Preambles July 1996 - December 2000 ¶ 31,048 at 30,319 (1997). *Order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*. *Order No. 888-C*, 82 FERC ¶ 61,046 (1998). *aff'd in relevant part sub nom. Transmission Access Study Policy Group v. FERC*, 225 F.3d 667 (D.C. Cir. 2000), *aff'd sub nom. New York v. FERC*, 535 U.S. 1 (2002) ("The transmission provider must provide at least some reactive power from generation sources. For this reason, and because a transmission customer has the ability to affect the amount of reactive supply required, we will require that reactive supply and voltage control service be offered as a discrete service, and to the extent feasible, charged for on the basis of the

Since its inception in 1999, the NYISO has been compensating Suppliers of Voltage Support Service.⁶ Rate Schedule 2 of the Services Tariff provides an annual capacity payment per MegaVar (“MVar”), through monthly payments, to those generators that test the capability of the equipment used to supply MVAr and otherwise qualify for voltage support payment under the NYISO’s procedures.⁷ The VSS compensation is cost-based. Currently generators providing VSS are compensated \$3,919/MVar annually based on the lagging reactive power capability demonstrated by the generator’s annual lagging reactive power test or operational data. Leading reactive power tests are required once every three calendar years to qualify for compensation; however, the leading reactive power test results are not directly tied to a generator’s compensation.

The NYISO developed the VSS program compensation changes described in this filing due to increased need for leading reactive power support throughout the New York Control Area (“NYCA”). Since 2010, the number of NYISO requests for leading reactive power support has substantially increased due to higher off-peak transmission voltages. More than 90% of the NYISO’s reactive power support requests during this time have been for leading reactive power support. In contrast, prior to 2010, more than 90% of the NYISO’s reactive power support requests were for lagging reactive power support. To respond to the substantial increase of leading reactive power support requests, the NYISO needs more accurate data on generators’ ability to provide leading reactive power support and NYCA generators should have an incentive to more accurately demonstrate their maximum leading reactive power capabilities through testing or operational data. While reliability rules require generators to perform leading reactive power tests,⁸ their amount of compensation does not depend on the demonstrated capability. As a result, demonstrated capability has varied dramatically from test to test for the same unit. Compensating a generator for its leading reactive power capability will encourage generators to more accurately determine the leading reactive power capability of the unit. Therefore, the NYISO is proposing to reformat the current compensation framework to account for both demonstrated lagging and leading reactive power capability.

The proposed VSS compensation structure will pay qualified VSS Suppliers \$2,592/MVar annually for the total of their demonstrated lagging and leading reactive power

amount required”).

⁵ See e.g., *Midwest Independent Transmission System Operator Inc.*, 109 FERC ¶ 61,005 (2004), *order on reh’g*, 110 FERC ¶ 61,267 (2005) (rejecting the Midwest ISO’s proposed revisions to its Rate Schedule 2 and directing it to provide compensation for generators providing reactive power and voltage control services).

⁶ VSS is provided under Rate Schedule 2 of the NYISO’s Open Access Transmission Tariff (“OATT”).

⁷ VSS suppliers are also compensated under Services Tariff Rate Schedule 2 for lost opportunity costs incurred when they reduce their energy output in order to provide VSS.

⁸ See Northeast Power Coordinating Council, Inc. Reliability Reference Directory # 10 R8 at p. 6. See also NYISO Ancillary Services Manual Section 3.6, http://www.nyiso.com/public/webdocs/markets_operations/documents/Manuals_and_Guides/Manuals/Operations/ancserv.pdf.

capability. VSS Suppliers will be required to demonstrate both lagging and leading reactive power capability annually with test results or operational data. The NYISO expects this compensation structure to result in suppliers demonstrating more accurate leading reactive power capability through more precise testing or actual operations data. The NYISO estimates that more accurate, annual leading reactive power demonstrations should produce a 5% to 15% increase in the amount of leading reactive power capability available to the NYISO and more consistent leading reactive power tests from year to year. The increased leading reactive power capability will allow the NYISO and other Transmission Owners to operate the electric grid more reliably.

The NYISO also proposes to inflate the compensation rate annually based on the average annual CPI. The NYISO added the CPI inflator to its compensation proposal in response to stakeholder feedback. The CPI inflator is a just and reasonable method to escalate VSS payments over time in accordance with cost and inflation trends.⁹ The modified VSS compensation structure proposed in this filing is the product of more than one year of stakeholder presentations, discussions and feedback. During this process, the NYISO stakeholders agreed to add the average annual CPI inflator to the VSS compensation structure starting in 2015. Therefore, the proposed VSS compensation rate for 2016 will be the originally proposed \$2,592/MVAr of tested leading and lagging capability plus one year of the CPI inflator.

The NYISO's proposed redesign of the VSS compensation structure is based on the cost of service information available to the NYISO and extensive discussions with Market Participants. The redesign maintains the approximate total dollar value of the current VSS program in the near term. The redesign simply shifts compensation to both leading and lagging reactive power capability as opposed to only compensating lagging reactive power capability.

In 2002, the NYISO implemented, with the support of its Market Participants, a single cost-based rate for lagging reactive power capability determined from the latest available Commission-approved customer rates for Voltage Support Service for vertically integrated generation owners in New York State.¹⁰ At that time, the NYISO and Market Participants agreed to the \$3,919/MVAr compensation rate based on total costs associated with the total available MVAr of reactive power supply.¹¹ "The current rate has been in place since 2002 and, when established in 2002, was based on full cost support that fully justified the Commission's accepting NYISO's proposed rate. The mere passage of time does not, by itself, invalidate the rate established in 2002."¹² The NYISO has attempted, unsuccessfully,

⁹ *New York Independent System Operator, Inc.*, 135 FERC ¶ 61,170 (2011) at PP 82 and 82 (CPI is also the escalation index used for the NYISO ICAP demand curves).

¹⁰ *New York Independent System Operator, Inc. Filing of Amended Rate Schedule 2 for Market Administration and Control Area Services Tariff, to Provide Payments for Voltage Support Service, and Request for Expedited Action, and Request for Clarification of Prior Payments*, Docket No. ER02-617, December 27, 2001 at p. 6.

¹¹ *Id.* at 6-7.

¹² *New York Independent System Operator, Inc.*, 117 FERC ¶ 61,002 (2006) at P 11.

to redesign the VSS compensation structure since 2002; however, the NYISO and Market Participants were previously unable to develop a mutually agreeable compensation framework.¹³ The redesign proposed in this filing sets forth a just and reasonable rate to compensate Voltage Support Service providers for both leading and lagging reactive power capability that is supported by a majority of NYISO's Market Participants.

The NYISO is also proposing to continue compensating Suppliers with automatic voltage regulator outages when the NYISO receives timely notice of such outages. A fully functioning AVR is required for full VSS compensation; the same as today. The NYISO's proposal creates three categories of Suppliers with AVR outages: (1) Suppliers that commence AVR repairs within thirty days of the outage; (2) Suppliers that notify the NYISO of the outage within thirty days but fail to commence repairs during that time; and (3) Suppliers that fail to notify the NYISO of AVR outages. Each AVR outage category has its own compensation level. Suppliers that commence AVR repairs within thirty days will continue to receive full VSS compensation. A Supplier that notifies the NYISO of AVR outages lasting longer than thirty days, but fails to commence repairs within thirty days, will receive one-half of its monthly VSS payment. The full monthly VSS payment will be restored when the AVR returns to full functionality. Suppliers that fail to notify the NYISO of AVR outages lasting longer than thirty days will be disqualified from the VSS program for the remainder of the calendar year. This payment structure will allow VSS Suppliers to remain in the VSS program while repairing an AVR and facilitate the immediate return to full VSS compensation when an AVR is repaired. VSS Suppliers' ability to immediately return to the VSS program will maintain a more stable amount of reactive power available to the NYISO throughout the year for reliable operation of the bulk power system.

IV. PROPOSED TARIFF REVISIONS

The NYISO proposes the following revisions to Rate Schedule 2, Section 15.2, of its Services Tariff.

Throughout Section 15.2, the NYISO proposes to refer to qualified suppliers of Voltage Support Service as "Voltage Support Resources." The standard term for these resources reduces the need to repeat the cumbersome list of qualified types of resources. The NYISO is not proposing substantive changes to the types of resources that are qualified to provide Voltage Support Service.

- Section 15.2.2.1 - revised to describe the new annual VSS payment structure. The new annual payment will be based on the VSS Compensation Rate of \$2,592/MVAr, adjusted annually by the annual average CPI, multiplied by the sum of the leading and lagging MVAr capacity of the resource.

¹³ See e.g., *New York Independent System Operator, Inc. Exigent Circumstances Proposal to Amend Its Tariffs to Temporarily Deter the Expiration of Voltage Support Service Rates*, Docket No. ER06-291, December 5, 2005.

- Section 15.2.6 - revised to indicate the impacts to a Voltage Support Resource's payments if it fails to maintain an automatic voltage regulator ("AVR") or fails to commence timely repairs. A Voltage Support Resource will be disqualified as a supplier of Voltage Support Service if it fails to notify the NYISO of an AVR outage lasting more than 30 days. Upon disqualification, the Voltage Support Resource will not receive VSS payments until the supplier complies with the conditions outlined in Section 15.2. The NYISO is not proposing any substantive changes to the conditions with this filing. A Voltage Support Resource that notifies the NYISO within thirty days of an AVR outage lasting longer than thirty days, but that fails to commence timely and appropriate repairs, will receive one half of its monthly VSS payment until the AVR returns to full functionality. A Voltage Support Resource will not be eligible for VSS payment in the next compensation year if it fails to repair its AVR and perform an acceptable test in accordance with NYISO procedures.

The tariff revisions proposed in this filing are submitted herewith in both clean and blackline versions.

V. PROPOSED IMPLEMENTATION PLAN

The NYISO proposes to implement the tariff revisions described in this filing on January 1, 2016 in accordance with the effective date requested below, such that the new compensation structure and accompanying tariff changes are effective for the entire calendar year.

The NYISO also commits to undertake a comprehensive review of the VSS program in 2020, four years after implementation of the changes proposed in this filing. The NYISO's review will focus on the impacts of the VSS program compensation changes that are described in this filing letter and the accompanying proposed tariff modifications. The review will also examine whether any other potential improvements to the VSS program are appropriate at that time. The NYISO will describe the comprehensive review and its findings to stakeholders at a working group meeting(s).

VI. REQUESTED EFFECTIVE DATE AND REQUEST FOR WAIVER

The NYISO respectfully requests that the tariff revisions proposed in this filing be permitted to become effective on January 1, 2016. The NYISO respectfully requests that the Commission issue an order on this filing within 60 days of the date the filing is submitted.

The NYISO requests a waiver of Commission regulations to allow the NYISO to make this filing more than 120 days prior to the date on which the proposed revisions are to become operational.¹⁴ No Market Participant will be prejudiced by NYISO's request because the proposed implementation timetable was developed in consultation with Market

¹⁴ See 18 CFR §35.3(a)(1).

Participants. Market Participants have known, for some time, that the NYISO will be prepared to implement the revised compensation structure for the entire 2016 calendar year. The NYISO seeks acceptance of these tariff revisions now to give VSS Suppliers time to test and prepare for the revised compensation structure in 2016. Since VSS compensation is an annual payment, the NYISO also seeks to have one compensation structure in place for each complete calendar year. Therefore, the existing VSS compensation structure will continue through the end of 2015 and the VSS compensation structure proposed herein will be in place for all of 2016.

VII. STAKEHOLDER APPROVAL

The NYISO's Management Committee approved these tariff amendments on November 20, 2014, with affirmative votes from almost 80% of stakeholders. The NYISO Board of Directors approved these tariff amendments on January 13, 2015.

VIII. SERVICE LIST

The NYISO will send an electronic link to this filing to the official representative of each of its customers, to each participant on its stakeholder committees, to the New York Public Service Commission, and to the New Jersey Board of Public Utilities. In addition, the complete filing will be posted on the NYISO's website at www.nyiso.com.

IX. CONCLUSION

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept the proposed tariff changes identified in the Attachments hereto within 60 days of this filing, with an effective date of January 1, 2016.

Respectfully submitted,

/s/ James H. Sweeney

James H. Sweeney, Attorney

New York Independent System Operator, Inc.

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