

October 29, 2010

By Electronic Filing

Hon. Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: *New York Independent System Operator, Inc.*, Docket No. ER11-1956-000
Proposed Tariff Amendments to NYISO's Voltage Support Service Program**

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act¹, the New York Independent System Operator, Inc. ("NYISO") hereby submits proposed revisions to its Market Administration and Control Area Services Tariff ("Services Tariff") to exclude resources located outside the New York Control Area ("NYCA") from participating in the NYISO's Voltage Support Service ("VSS")² program. By excluding these resources, the NYISO's VSS program will be limited to Suppliers that the NYISO directly controls and which are electrically located within the New York Control Area ("NYCA"). The NYISO does not have the ability to direct any external resources to produce or absorb reactive power³. If the NYISO requires reactive power at its borders, from external resources that it does not directly control, the NYISO requests the reactive power from the neighboring control area operators. Similarly, when an external control area operator needs voltage service at its border with New York, the external control area operator will call on the New York control room operators to direct a Supplier internal to New York to provide reactive power. These proposed amendments will provide equality in the NYISO's VSS program by ensuring that the NYISO compensates only similarly situated VSS providers.

I. Documents Submitted

1. This filing letter;

¹ 16 U.S.C § 824(d)

² Capitalized terms not otherwise defined herein shall have the meaning specified in Article 1.0 of the OATT and Article 2 of the Services Tariff.

³ Reactive Power is produced by capacitors (synchronous condensers), Qualified Non-Generator Voltage Support Resources, and over-excited Generators and absorbed by reactors or under-excited Generators and other inductive devices including the inductive portion of Loads (*See*, NYISO Services Tariff § 2.18).

2. A clean version of the proposed revisions to the NYISO's Services Tariff; and
3. A blacklined version of the proposed revisions to the NYISO's Services Tariff.

II. Background and Justification

Transmission Customers within the NYCA are required to purchase reactive power from the NYISO pursuant to the terms of the NYISO's Open Access Transmission Tariff ("OATT"). Compensation for resources that provide this service is set forth in Rate Schedule 2 of the NYISO Services Tariff. The VSS program compensates resources that offer their reactive power capacity to the NYISO to the benefit of NYCA Loads. Any resource that provides the proper equipment and successfully completes the testing requirements within the prescribed timelines can apply to be a Supplier in the program. Following Supplier testing, the NYISO calculates an annual compensation amount based upon a fixed dollar amount per megaVAR demonstrated during the test. This payment is distributed to the Supplier in twelve equal payments over the compensation year. These payments are reduced only if the Supplier fails to respond to the NYISO's request.

Once a Supplier is committed to be in the VSS program the NYISO can direct the Supplier at any time to operate its voltage support resources within its demonstrated reactive capability limits. The NYISO's VSS program is not market-based. Resources do not bid to supply the service and there is no economic evaluation involved in becoming a VSS Supplier. Unlike the NYISO's energy markets, which compensate a unit per megawatt of Energy produced, resources in the VSS program are only entitled to the annual payment amount based upon their tested capability. The payment is made regardless of how much voltage support the Supplier is called upon to provide to, or how frequently it is called upon by, the NYISO during the compensation year. In exchange for these payments, the NYISO retains the ability to direct the Supplier to produce or absorb reactive power whenever necessary.

The NYISO is proposing these tariff changes to limit the annual payment available under the Services Tariff Rate Schedule 2 to resources that it has the ability to directly control. This includes only those voltage support resources electrically located within the NYCA. The process by which the NYISO obtains needed voltage support from Suppliers located outside the NYCA is completely different and does not support their participation in this program.

When the NYISO requires voltage support at its borders, it requests it from the neighboring control area operators pursuant to Joint Operating Agreements and other operational protocols. The request is not directed to any specific Supplier, as it would be if the voltage support was needed from a Supplier located inside the NYCA and controlled directly by the NYISO. The operators in the neighboring control area choose which internal Supplier to direct to provide the requested VSS to the NYISO, if it can be provided at all. The NYISO does not have the ability to direct any external resources to produce or absorb reactive power and does not know which resource will be available to provide this support when the request is made to the neighboring control area.

Moreover, the physical nature of reactive power limits the ability of a resource to provide reactive power to distant Loads. Therefore, Suppliers beyond the NYCA electrical border cannot realistically provide this service to the NYCA Loads that, absent this tariff amendment, would be required to purchase it.

III. Description of Proposed Tariff Revisions

The NYISO is proposing two changes to its Services Tariff to implement this change. First, the NYISO proposes to add to a requirement that Suppliers must be electrically located within the NYCA to qualify to participate in the VSS program. The specific change to Section 15.2.1.1 of the Services Tariff is identified as follows:

15.2.1.1 Suppliers

To qualify for payments, Suppliers of Voltage Support Service shall provide a Resource that has an AVR, or a Qualified Non-Generator Voltage Support Resource, which resource is electrically located within the NYCA.

The NYISO also proposes to eliminate language in Section 15.2.2 of the Service's Tariff which explicitly authorizes external ICAP Suppliers to receive VSS payments subject to criteria established by the NYISO. The language the NYISO is seeking to strike reads:

15.2.2 Payments

Each month, Suppliers whose Resource(s) meet the requirement to supply Installed Capacity, as described in Article 5 of the ISO Services Tariff, and are under contract to supply Installed Capacity shall receive one-twelfth (1/12th) of the annual payment calculated under Section 15.2.2.1 of this Rate Schedule for Voltage Support Service. ~~To the extent Suppliers of Installed Capacity are electrically located outside the NYCA, payments for Voltage Support Service will be subject to criteria established by ISO.~~

IV. Effective Date

The NYISO requests an effective date of January 1, 2011, more than 60 days from the date of this filing. The NYISO is requesting this date because it is the beginning of the NYISO's 2011 Voltage Support program compensation year. However, the NYISO respectfully requests a decision prior to December 30, 2010 so that it can adequately prepare for the 2011 compensation year.

V. Requisite Stakeholder Approval

The NYISO's Management Committee approved, with abstentions, this proposal at the August 25, 2010 meeting. The NYISO's Board of Directors approved this proposal at its September 20, 2010 meeting.

VI. Communications and Correspondence

All communications and service in this proceeding should be directed to:

Robert E. Fernandez, General Counsel
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VII Service

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 electric utility regulatory agency of New Jersey. In addition, the complete filing will be posted on the NYISO's website at www.nyiso.com.

VIII. Conclusion

Wherefore, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept this filing to be effective January 1, 2011.

Respectfully submitted,

/s/ Kristin A. Bluvas
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