

Attachment IV

2.15 Definitions - O

Obligation Procurement Period: The period of time for which LSEs shall be required to satisfy their Unforced Capacity requirements. Starting with the 2001-2002 Winter Capability Period, Obligation Procurement Periods shall be one calendar month in duration and shall begin on the first day of each calendar month.

Off-Peak: The hours between 11 p.m. and 7 a.m., prevailing Eastern Time, Monday through Friday, and all day Saturday and Sunday, and NERC-defined holidays, or as otherwise decided by the ISO.

Offeror: An entity that offers to sell Unforced Capacity in an auction.

On-Peak: The hours between 7 a.m. and 11 p.m. inclusive, prevailing Eastern Time, Monday through Friday, except for NERC-defined holidays, or as otherwise decided by the ISO.

Open Access Same-Time Information System ("OASIS"): The information system and standards of conduct contained in Part 37 of the Commission's regulations and all additional requirements implemented by subsequent Commission orders dealing with OASIS.

Operating Agreement: An agreement between the ISO and a non-incumbent owner of transmission facilities in the New York Control Area concerning the operation of the transmission facilities in the form of the agreement set forth in Appendix H (Section 31.11) of Attachment Y of the OATT.

Operating Capacity: Capacity that is readily converted to Energy and is measured in MW.

Operating Committee: A standing committee of the ISO created pursuant to the ISO Agreement, which coordinates operations, develops procedures, evaluates proposed system expansions and acts as a liaison to the NYSRC.

Operating Data: Pursuant to Section 5.12.5 of this Tariff, Operating Data shall mean GADS Data, data equivalent to GADS Data, CARL Data, metered Load data, or actual system failure occurrences data, all as described in the ISO Procedures.

Operating Requirement: The amount calculated in accordance with Section 26.4.2 of Attachment K to this Services Tariff.

Operating Reserves : Capacity that is available to supply Energy or reduce demand and that meets the requirements of the ISO. The ISO will administer Operating Reserves markets, in the manner described in this Article 4 and Rate Schedule 4 of this ISO Services Tariff, to satisfy the various Operating Reserves requirements, including locational requirements, established by the Reliability Rules and other applicable reliability standards. The basic Operating Reserves products that will be procured by the ISO on behalf of the market are classified as follows:

- (1) Spinning Reserve: Operating Reserves provided by Generators and Demand Side Resources that meet the eligibility criteria set forth in Rate Schedule 4 of this ISO

Services Tariff, ~~that~~ are already synchronized to the NYS Power System, and can respond to instructions to change their output level, or reduce their Energy usage, within ten (10) minutes. Generators utilizing inverter-based energy storage technology and that otherwise meet the eligibility criteria set forth in this ISO Services Tariff may provide Spinning Reserves. Spinning Reserves may not be provided ~~by~~ Demand Side Resources that ~~are~~ facilitates demand reduction using a Local Generators, unless that Local Generator utilizes inverter-based energy storage technology, or by Behind-the-Meter Net Generation Resources that are comprised of more than one generating unit that are dispatched as a single aggregate unit;

(2) 10-Minute Non-Synchronized Reserve: Operating Reserves provided by Generators Behind-the-Meter Net Generation Resources that are comprised of more than one generating unit that are dispatched as a single aggregate unit, or Demand Side Resources, including Demand Side Resources using Local Generators, that meet the eligibility criteria set forth in Rate Schedule 4 of this ISO Services Tariff and that can be started, synchronized and can change their output level within ten (10) minutes; and

(3) 30-Minute Reserve: Synchronized Operating Reserves provided by Generators, except Behind-the-Meter Net Generation Resources that are comprised of more than one generating unit and dispatched as a single aggregate unit, and Demand Side Resources that ~~are do~~ not facilitate demand reduction using Local Generators, or that facilitate demand reduction using a Local Generator utilizing inverter-based energy storage technology; or non-synchronized Operating Reserves provided by Generators, Behind-the-Meter Net Generation Resources that are comprised of more than one generating unit and dispatched as a single aggregate unit, or Demand Side Resources that meet the eligibility criteria set forth in Rate Schedule 4 of this ISO Services Tariff and that can respond to instructions to change their output level within thirty (30) minutes, including starting and synchronizing to the NYS Power System.

Operating Reserve Demand Curve: A series of quantity/price points that defines the maximum Shadow Price for Operating Reserves meeting a particular Operating Reserve requirement corresponding to each possible quantity of Resources that the ISO's software may schedule to meet that requirement. A single Operating Reserve Demand Curve will apply to both the Day-Ahead Market and the Real-Time Market for each of the ISO's twelve Operating Reserve requirements.

Operating Study Power Flow: A Power Flow analysis that is performed at least once before each Capability Period that is used to determine each Interface Transfer Capability for the Capability Period (See Attachment M to the ISO OATT).

Operational Control: Directing the operation of the Transmission Facilities Under ISO Operational Control to maintain these facilities in a reliable state, as defined by the Reliability Rules. The ISO shall approve operational decisions concerning these facilities, made by each Transmission Owner before the Transmission Owner implements those decisions. In accordance with ISO Procedures, the ISO shall direct each Transmission Owner to take certain actions to restore the system to the Normal State. Operational Control includes security monitoring, adjustment of generation and transmission resources, coordination and approval of changes in transmission status for maintenance, determination of changes in transmission status for

reliability, coordination with other Control Areas, voltage reductions and Load Shedding, except that each Transmission Owner continues to physically operate and maintain its facilities, including those facilities that it has agreed to operate and maintain in accordance with an operation and maintenance agreement.

Optimal Power Flow (“OPF”): As defined in the ISO OATT.

Order Nos. 888 et seq.: The Final Rule entitled Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, issued by the Commission on April 24, 1996, in Docket Nos. RM95-8-000 and RM94-7-001, as modified on rehearing, or upon appeal. (See FERC Stats. & Regs. [Regs. Preambles January 1991 - June 1996] ¶ 31,036 (1996) (“Order No. 888”), on reh’g, III FERC Stats. & Regs. ¶ 31,048 (1997) (“Order No. 888-A”), on reh’g, 81 FERC ¶ 61,248 (1997) (“Order No. 888-B”), order on reh’g, 82 FERC ¶ 61,046 (1998) (“Order No. 888-C”)).

Order Nos. 889 et seq.: The Final Rule entitled Open Access Same-Time Information System (formerly Real- Time Information Networks) and Standards of Conduct, issued by the Commission on April 24, 1996, in Docket No. RM95-9-000, as modified on rehearing, or upon appeal. (See FERC Stats. & Regs. [Regs. Preambles 1991-1996] ¶ 31,035 (1996) (“Order No. 889”), on reh’g, III FERC Stats. & Regs. ¶ 31,049 (1997) (“Order No. 889-A”), on reh’g, 81 FERC ¶ 61,253 (1997) (“Order No. 889-B”)).

Original Residual TCC: As defined in the ISO OATT.

Out-of-Merit: The designation of Resources committed and/or dispatched by the ISO at specified output limits for specified time periods to meet Load and/or reliability requirements that differ from or supplement the ISO’s security constrained economic commitment and/or dispatch.

2.19 Definitions - S

Safe Operations: Actions which avoid placing personnel and equipment in peril with regard to the safety of life and equipment damage.

Scarcity Reserve Demand Curve: A series of quantity/price points that defines the maximum Shadow Price for Operating Reserves to meet a Scarcity Reserve Requirement for which the pricing rules established in Section 15.4.6.1.1(b) of Rate Schedule 4 of this ISO Services Tariff apply corresponding to each possible quantity of Resources that the ISO's software may schedule to satisfy that requirement. A single Scarcity Reserve Demand Curve will apply to the Real-Time Market for each such Scarcity Reserve Requirement.

Scarcity Reserve Region: A Load Zone or group of Load Zones containing EDRP and/or SCRs that have been called by the ISO to address the same reliability need, as such reliability need is determined by the ISO.

Scarcity Reserve Requirement: A 30-Minute Reserve requirement established by the ISO for a Scarcity Reserve Region in accordance with Rate Schedule 4 of this ISO Services Tariff.

Scheduled Energy Injections: As defined in the ISO OATT.

Scheduled Energy Withdrawals: As defined in the ISO OATT.

Scheduled Line: A transmission facility or set of transmission facilities: (a) that provide a distinct scheduling path interconnecting the ISO with an adjacent control area, (b) over which Customers are permitted to schedule External Transactions, (c) for which the ISO separately posts TTC and ATC, and (d) for which there is the capability to maintain the Scheduled Line actual interchange at the DNI, or within the tolerances dictated by Good Utility Practice. Each Scheduled Line is associated with a distinct Proxy Generator Bus. Transmission facilities shall only become Scheduled Lines after the Commission accepts for filing revisions to the NYISO's tariffs that identify a specific set or group of transmission facilities as a Scheduled Line. The transmission facilities that are Scheduled Lines are identified in Section 4.4.4 of the Services Tariff.

SCR Aggregation: One or more Special Case Resources registered by the Responsible Interface Party at a single PTID, with the Load of each Special Case Resource electrically located within the same single Load Zone and the total of all Loads at the PTID greater than or equal to 0.1 MW.

SCR Change of Load: A decrease in the Load of the SCR that meets the criteria of a Qualified Change of Load Condition and the SCR Load Change Reporting Threshold in accordance with this Services Tariff and results in a total Load reduction, within the range of hours that corresponds with the Capability Period SCR Load Zone Peak Hours, and the total Load reduction persists for more than seven (7) and less than or equal to sixty (60) continuous days from the first date of the reduction of the Load.

SCR Change of Status: The decrease to be treated as an adjustment to the applicable Average Coincident Load of a Special Case Resource when the SCR meets the criteria of a Qualified Change of Status Condition and the SCR Load Change Reporting Threshold in accordance with this Services Tariff and results in a total Load reduction, within the range of hours that corresponds with the Capability Period SCR Load Zone Peak Hours, and the total Load reduction persists for more than sixty (60) continuous days from the first date of the reduction of the Load.

SCR Load Change Reporting Threshold: For a Special Case Resource with an applicable ACL greater than or equal to 500 kW, a reduction or increase in total Load not attributable to fluctuations in Load due to weather as described in ISO Procedures, that is equal to or greater than (i) thirty (30) percent of the applicable ACL for any month within the Capability Period, or (ii) five (5) MW in the NYC Locality or ten(10) MW if in any other Load Zone; whichever is less. For SCRs that elect to enroll with an Incremental ACL and do not increase the eligible Installed Capacity associated with the SCR, the RIP may enroll the SCR with a lower percentage change to its total Load increase as specified in Section 5.12.11.1.5 of this Services Tariff.

SCUC: Security Constrained Unit Commitment, described in Section 4.2.4 of this ISO Services Tariff.

Secondary Holder: As defined in the ISO OATT.

Second Settlement: The process of: (1) identifying differences between Energy production, Energy consumption or NYS Transmission System usage scheduled in a First Settlement and actual production, consumption, or usage during the Dispatch Day; and (2) assigning financial responsibility for those differences to the appropriate Customers and Market Participants. Charges for Energy supplied (to replace generation deficiencies or unscheduled consumption), and payments for Energy consumed (to absorb consumption deficiencies or excess Energy supply) or changes in transmission usage will be based on the Real-Time LBMPs.

Secondary Market: As defined in the ISO OATT.

Security Coordinator: An entity that provides the security assessment and Emergency operations coordination for a group of Control Areas. A Security Coordinator must not participate in the wholesale or retail merchant functions.

Self-Committed Fixed: A bidding mode in which a Generator is self-committed and opts not to be Dispatchable over any portion of its operating range.

Self-Committed Flexible: A bidding mode in which a Dispatchable Generator follows Base Point Signals within a portion of its operating range, but self-commits.

Self-Supply: The provision of certain Ancillary Services, or the provision of Energy to replace Marginal Losses by a Transmission Customer using either the Transmission Customer's own Generators or generation obtained from an entity other than the ISO.

Service Agreement: The agreement, in the form of Attachment A to the Tariff, and any amendments or supplements thereto entered into by a Customer and the ISO of service under the

Tariff, or any unexecuted Service Agreement, amendments or supplements thereto, that the ISO unilaterally files with the Commission.

Service Commencement Date: The date that the ISO begins to provide service pursuant to the terms of a Service Agreement, or in accordance with the Tariff.

Settlement: The process of determining the charges to be paid to, or by, a Customer to satisfy its obligations.

Shadow Price: The marginal value of relieving a particular Constraint which is determined by the reduction in system cost that results from an incremental relaxation of that Constraint.

Shift Factor (“SF”): A ratio, calculated by the ISO, that compares the change in power flow through a transmission facility resulting from the incremental injection and withdrawal of power on the NYS Transmission System.

Shutdown Period: An ISO approved period of time immediately following a shutdown order, such as a zero base point, that has been designated by the Customer, during which unstable operation prevents the unit from accurately following its base points.

Sink Price Cap Bid: A monotonically increasing Bid curve provided by an entity engaged in an Export, other than an entity submitting a CTS Interface Bid, to indicate the relevant Proxy Generator Bus LBMP at or below which that entity is willing to either purchase Energy in the LBMP Markets or, in the case of Bilateral Transactions, to accept Transmission Service, where the MW amounts on the Bid curve represent the desired increments of Energy that the entity is willing to purchase at various price points.

Southeastern New York (“SENY”): An electrical area comprised of Load Zones G, H, I, J, and K, as identified in the ISO Procedures.

Special Case Resource (“SCR”): Demand Side Resources whose Load is capable of being interrupted upon demand at the direction of the ISO, and/or Demand Side Resources that have a Local Generator, which is not visible to the ISO’s Market Information System and is rated 100 kW or higher, that can be operated to reduce Load from the NYS Transmission System or the distribution system at the direction of the ISO. Special Case Resources are subject to special rules, set forth in Section 5.12.11.1 of this ISO Services Tariff and related ISO Procedures, in order to facilitate their participation in the Installed Capacity market as Installed Capacity Suppliers. ~~SCRs that do not use Local Generators may be offered as synchronized Operating Reserves and Regulation Service and Energy in the Day Ahead Market. SCRs, using Local Generators rated 100 kW or higher, that are not visible to the ISO’s Market Information System may also be offered as non-synchronized Operating Reserves.~~

Special Case Resource Capacity: The Installed Capacity Equivalent of the Unforced Capacity which has been sold by a Special Case Resource in the Installed Capacity market during the current Capability Period.

Start-Up Period: An ISO approved period of time immediately following synchronization to the Bulk power system, which has been designated by a Customer and bid into the Real-Time

Market, during which unstable operation prevents the unit from accurately following its base points. The Start-Up Period shall be set to zero for a BTM:NG Resource.

Station Power: Station Power shall mean the Energy used by a Generator:

1. for operating electric equipment located on the Generator site, or portions thereof, owned by the same entity that owns the Generator, which electrical equipment is used by the Generator exclusively for the production of Energy and any useful thermal energy associated with the production of Energy; and
2. for the incidental heating, lighting, air conditioning and office equipment needs of buildings, or portions thereof, that are: owned by the same entity that owns the Generator; located on the Generator site; and
3. used by the Generator exclusively in connection with the production of Energy and any useful thermal energy associated with the production of Energy.

Station Power does not include any Energy: (i) used to power synchronous condensers; (ii) used for pumping at a pumped storage facility or for charging a Limited Energy Storage Resource; or (iii) provided during a Black Start restoration by Generators that provide Black Start Capability Service.

Start-Up Bid: A Bid parameter that may vary hourly and that identifies the payment a Supplier requires to bring a Generator up to its specified minimum operating level from an offline state or a Demand Side Resource from a level of no Demand Reduction to its specified minimum level of Demand Reduction. If the Supplier is a BTM:NG Resource, it shall not submit a Start-Up Bid.

Start-Up Bids submitted for a Generator that is not able to complete its specified minimum run time (of up to a maximum of 24 hours) within the Dispatch Day are expected to include expected net costs related to the hour(s) that a Generator needs to run on the day following the Dispatch Day in order to complete its minimum run time. The component of the Start-Up Bid that incorporates costs that the Generator expects to incur on the day following the Dispatch Day is expected to reflect the operating costs that the Supplier does not expect to be able to recover through LBMP revenues while operating to meet the Generator's minimum run time, at the minimum operating level Bid for that Generator for the hour of the Dispatch Day in which the Generator is scheduled to start-up. Settlement rules addressing Start-Up Bids that incorporates costs related to the hours that a Generator needs to run on the day following the Dispatch Day on which the Generator is committed are set forth in Attachment C to this ISO Services Tariff.

Storm Watch: Actual or anticipated severe weather conditions under which region-specific portions of the NYS Transmission System are operated in a more conservative manner by reducing transmission transfer limits.

Strandable Costs: Prudent and verifiable expenditures and commitments made pursuant to a Transmission Owner's legal obligations that are currently recovered in the Transmission Owner's retail or wholesale rate that could become unrecoverable as a result of a restructuring of the electric utility industry and/or electricity market, or as a result of retail-turned-wholesale customers, or customers switching generation or Transmission Service suppliers.

Stranded Investment Recovery Charge: A charge established by a Transmission Owner to recover Strandable Costs.

Study Month: The calendar month for which the ISO calculates the Monthly Net Benefit Offer Floor, in accordance with Section 4.2.1.9 of the ISO Services Tariff and ISO Procedures.

Subzone: That portion of a Load Zone in a Transmission Owner's Transmission District.

Supplemental Event Interval: Any RTD interval in which there is a maximum generation pickup or a large event reserve pickup or which is one of the three RTD intervals following the termination of the maximum generation pickup or the large event reserve pickup.

Supplemental Resource Evaluation ("SRE"): A determination of the least cost selection of additional Generators, which are to be committed, to meet: (i) changed or local system conditions for the Dispatch Day that may cause the Day-Ahead schedules for the Dispatch Day to be inadequate to meet the reliability requirements of the Transmission Owner's local system or to meet Load or reliability requirements of the ISO; or (ii) forecast Load and reserve requirements over the six-day period that follows the Dispatch Day.

Supplier: A Party that is supplying the Capacity, Demand Reduction, Energy and/or associated Ancillary Services to be made available under the ISO OATT or the ISO Services Tariff, including Generators, BTM:NG Resources, and Demand Side Resources that satisfy all applicable ISO requirements.

System Resource: A portfolio of Unforced Capacity provided by Resources located in a single ISO-defined Locality, the remainder of the NYCA, or any single External Control Area, that is owned by or under the control of a single entity, which is not the operator of the Control Area where such Resources are located, and that is made available, in whole or in part, to the ISO.

15.4 Rate Schedule 4 - Payments for Supplying Operating Reserves

This Rate Schedule applies to payments to Suppliers that provide Operating Reserves to the ISO. Transmission Customers will purchase Operating Reserves from the ISO under Rate Schedule 5 of the ISO OATT.

15.4.1 General Responsibilities and Requirements

15.4.1.1 ISO Responsibilities

The ISO shall procure on behalf of its Customers a sufficient quantity of Operating Reserve products to comply with the Reliability Rules and with other applicable reliability standards, as well as Scarcity Reserve Requirements. These quantities shall be established under Section 15.4.7 of this Rate Schedule for locational Operating Reserve requirements and Section 15.4.6.2 of this Rate Schedule for Scarcity Reserve Requirements. To the extent that the ISO enters into Operating Reserve sharing agreements with neighboring Control Areas its Operating Reserves requirements shall be adjusted as, and where, appropriate.

The ISO shall define requirements for Spinning Reserve, which may be met only by Suppliers that are eligible, under Section 15.4.1.2 of this Rate Schedule, to provide Spinning Reserve; 10-Minute Reserve, which may be met by Suppliers that are eligible to provide either Spinning Reserve or 10-Minute Non-Synchronized Reserve; and 30-Minute Reserve, which may be met by Suppliers that are eligible to provide any Operating Reserve product. The ISO shall also define locational requirements for Spinning Reserve, 10-Minute Reserve, and 30-Minute Reserve located East of Central-East, in Southeastern New York and on Long Island. In addition to being subject to the preceding limitations on Suppliers that can meet each of these requirements, the requirements for Operating Reserve located East of Central-East may only be met by eligible Suppliers that are located East of Central-East, requirements for Operating

Reserve located in Southeastern New York may only be met by eligible Suppliers that are located in Southeastern New York, and requirements for Operating Reserve located on Long Island may only be met by eligible Suppliers located on Long Island. Each of these Operating Reserve requirements shall be defined consistent with the Reliability Rules and other applicable reliability standards. The ISO shall also establish Scarcity Reserve Requirements in the Real-Time Market pursuant to Section 15.4.6.2 of this Rate Schedule, which may be met by Suppliers eligible to provide 30-Minute Reserve. Scarcity Reserve Requirements may only be met by eligible Suppliers that are located in the Scarcity Reserve Region associated with a given Scarcity Reserve Requirement. The ISO shall select Suppliers of Operating Reserves products to meet these requirements, including the locational Operating Reserves requirements and Scarcity Reserve Requirements, as part of its overall co-optimization process.

The ISO shall select Operating Reserves Suppliers that are properly located electrically so that all locational Operating Reserves requirements determined consistently with the requirements of Section 15.4.7 of this Rate Schedule and Scarcity Reserve Requirements determined consistently with the requirements of Section 15.4.6.2 of this Rate Schedule are satisfied, and so that transmission Constraints resulting from either the commitment or dispatch of Generators do not limit the ISO's ability to deliver Energy to Loads in the case of a Contingency. The ISO will ensure that Suppliers that are compensated for using Capacity to provide one Operating Reserve product are not simultaneously compensated for providing another Operating Reserve product, or Regulation Service, using the same Capacity (consistent with the additive market clearing price calculation formulae in Sections 15.4.5.1 and 15.4.6.1 of this Rate Schedule).

15.4.1.2 Supplier Eligibility Criteria

The ISO shall enforce the following criteria, which define which types of Suppliers are eligible to supply particular Operating Reserve products.

15.4.1.2.1 Spinning Reserve:

Suppliers that are ISO Committed Flexible or Self-Committed Flexible, are operating within the dispatchable portion of their operating range, are capable of responding to ISO instructions to change their output level within ten minutes, and that meet the criteria set forth in the ISO Procedures shall be eligible to supply Spinning Reserve (except for Demand Side Resources that are Local Generators not utilizing inverter-based energy storage technology and Behind-the-Meter Net Generation Resources that are comprised of more than one generating unit and dispatched as a single aggregate unit). Suppliers utilizing inverter-based energy storage technology, and that meet the criteria set forth in the ISO Procedures, shall be eligible to supply Spinning Reserve.

15.4.1.2.2 10-Minute Non-Synchronized Reserve:

(i) Off-line Generators that are capable of starting, synchronizing, and increasing their output level within ten (10) minutes, (ii) Behind-the-Meter Net Generation Resources that are comprised of more than one generating unit and dispatched as a single aggregate unit that are capable of increasing their output level within ten (10) minutes, and (iii) Demand Side Resources that are capable of reducing their Energy usage within ten (10) minutes, that meet the criteria set forth in the ISO Procedures shall be eligible to supply 10-Minute Non-Synchronized Reserve.

15.4.1.2.3 30-Minute Reserve:

Generators, except Behind-the-Meter Net Generation Resources that are comprised of more than one generating unit and dispatched as a single aggregate unit, that are ISO-Committed Flexible or Self-Committed Flexible and operating within the dispatchable portion of their operating range and Demand Side Resources that do not facilitate demand reduction using,~~that are not~~ Local Generators, or that facilitate demand reduction using a Local Generator utilizing inverter-based energy storage technology, that are capable of reducing their Energy usage within thirty (30) minutes shall be eligible to supply synchronized 30-Minute Reserves. Suppliers utilizing inverter-based energy storage technology, and that meet the criteria set forth in the ISO Procedures, shall be eligible to supply synchronized 30-Minute Reserves. (i) Off-line Generators that are capable of starting, synchronizing, and increasing their output level within thirty (30) minutes, (ii) Behind-the-Meter Net Generation Resources that are comprised of more than one generating unit and dispatched as a single aggregate unit that are capable of increasing their output level within thirty (30) minutes, and (iii) Demand Side Resources that are capable of reducing their Energy usage within thirty (30) minutes, that meet the criteria set forth in the ISO Procedures shall be eligible to supply non-synchronized 30-Minute Reserves.

15.4.1.2.4 Self-Committed Fixed and ISO-Committed Fixed Generators:

Shall not be eligible to provide any kind of Operating Reserve.

15.4.1.3 Other Supplier Requirements

All Suppliers of Operating Reserve must be located within the NYCA and must be under ISO Operational Control. Each Supplier bidding to supply Operating Reserve or reduce demand must be able to provide Energy or reduce demand consistent with the Reliability Rules and the ISO Procedures when called upon by the ISO.

All Suppliers that are selected to provide Operating Reserves shall ensure that their Resources maintain and deliver the appropriate quantity of Energy, or reduce the appropriate quantity of demand, when called upon by the ISO during any interval in which they have been selected.

Generators or Demand Side Resources that are selected to provide Operating Reserve in the Day-Ahead Market or any supplemental commitment may increase their Incremental Energy Bids or Demand Reduction Bids for portions of their Resources that have been scheduled through those processes; provided however, that they are not otherwise prohibited from doing so pursuant to other provisions of the ISO's Tariffs. They may not, however, reduce their Day-Ahead Market or supplemental commitments in real-time except to the extent that they are directed to do so by the ISO. Generators and Demand Side Resources may enter into alternate sales arrangements utilizing any Capacity that has not been scheduled to provide Operating Reserve.

15.4.2 General Day-Ahead Market Rules

15.4.2.1 Bidding and Bid Selection

Resources capable of providing Spinning Reserve, 10-Minute Non-Synchronized Reserve and/or 30-Minute Reserve in the Day-Ahead commitment may submit Availability Bids for each hour of the upcoming day. If a Supplier offers Resources that are capable, based on their indicated commitment status, of providing Operating Reserves but does not submit an Availability Bid, its Day-Ahead Bid will be rejected in its entirety. A Supplier may resubmit a complete Day-Ahead Bid, provided that the new bid is timely.

The ISO may schedule Suppliers that make themselves available to provide Operating Reserves up to the following maximum Operating Reserve levels: (i) for Spinning Reserves, the

Resource's emergency response rate multiplied by ten; (ii) for 10-Minute Non-Synchronized Reserves, or for non-synchronized 30-Minute Reserves, the Resource's UOLN or UOLE, whichever is applicable at the relevant time (the Resource may offer one product or the other depending on the time required for it to start-up and synchronize to the grid; and (iii) for synchronized 30-Minute Reserves, the Resource's emergency response rate multiplied by twenty.

However, the sum of the amount of Energy or Demand Reduction each Resource is scheduled to provide, the amount of Regulation Service it is scheduled to provide, and the amount of each Operating Reserves product it is scheduled to provide shall not exceed its UOLN or UOLE, whichever is applicable.

The ISO shall select Operating Reserve Suppliers for each hour of the upcoming day through a co-optimized Day-Ahead commitment process that minimizes the total bid cost of Energy, Operating Reserves and Regulation Service, using Bids submitted pursuant to Article 4.2 of, and Attachment D to, this ISO Services Tariff. As part of the co-optimization process, the ISO shall determine how much of each Operating Reserves product particular Suppliers will be required to provide in light of the Reliability Rules and other applicable reliability standards, including the locational Operating Reserves requirements specified above.

15.4.2.2 ISO Notice Requirement

The ISO shall notify each Operating Reserve Supplier that has been selected in the Day-Ahead Market of the amount of each Operating Reserve product that it has been scheduled to provide.

15.4.2.3 Real-Time Market Responsibilities of Suppliers Scheduled to Provide Operating Reserves in the Day-Ahead Market

Suppliers that are scheduled Day-Ahead to provide Operating Reserves shall either provide Operating Reserve, Energy or Demand Reductions in real-time when scheduled by the ISO in all hours for which they have been selected to provide Operating Reserve and are physically capable of doing so. However, Suppliers that are scheduled Day-Ahead to provide Operating Reserves and have startup periods of two hours or less may advise the ISO no later than three hours prior to the first hour of their Day-Ahead schedule that they will not be available to provide Operating Reserves or Energy in real-time under normal conditions. Such Suppliers will be required to settle their Day-Ahead schedule at real-time prices pursuant to Section 15.4.6.3 of this Rate Schedule. The only restriction on Suppliers' ability to exercise this option is that all Suppliers with Day-Ahead Operating Reserves schedules must make the scheduled amount of Capacity available to the ISO for dispatch in the RTD if the ISO initiates a Supplemental Resource Evaluation.

15.4.3 General Real-Time Market Rules

15.4.3.1 Bid Selection

The ISO will automatically select Operating Reserves Suppliers in real-time from eligible Resources, that submit Real-Time Bids pursuant to Section 4.4 of, and Attachment D to, this ISO Services Tariff. Each Supplier will automatically be assigned a real-time Operating Reserves Availability bid of \$0/MW for the quantity of Capacity that it makes available to the ISO in its Real-Time Bid. The ISO may schedule Suppliers that make themselves available to provide Operating Reserves up to the following maximum Operating Reserve levels: (i) for Spinning Reserves, the Resource's emergency response rate multiplied by ten; (ii) for 10-Minute Non-Synchronized Reserves, or for non-synchronized 30-Minute Reserves, the Resource's UOL_N or

UOL_E, whichever is applicable at the relevant time (the Resource may offer one product or the other depending on the time required for it to start-up and synchronize to the grid); and (iii) for synchronized 30-Minute Reserves, the Resource's emergency response rate multiplied by twenty. However, the sum of the amount of Energy or Demand Reduction, that each Resource is scheduled to provide, the amount of Regulation Service it is scheduled to provide, and the amount of each Operating Reserves product it is scheduled to provide shall not exceed its UOL_N or UOL_E, whichever is applicable.

Suppliers will thus be selected on the basis of their response rates, their applicable upper operating limits, and their Energy Bids (which will reflect their opportunity costs) through a co-optimized real-time commitment process that minimizes the total bid cost of Energy, or Demand Reduction, Regulation Service, and Operating Reserves. As part of the process, the ISO shall determine how much of each Operating Reserves product particular Suppliers will be required to provide in light of the Reliability Rules and other applicable reliability standards, including the locational Operating Reserves requirements and Scarcity Reserve Requirements specified above.

15.4.3.2 ISO Notice Requirement

The ISO shall notify each Supplier of Operating Reserve that has been scheduled by RTD of the amount of Operating Reserve that it must provide.

15.4.3.3 Obligation to Make Resources Available to Provide Operating Reserves

Any Resource that is eligible to supply Operating Reserves and that is made available to ISO for dispatch in Real-Time must also make itself available to provide Operating Reserves.

15.4.3.4 Activation of Operating Reserves

All Resources that are selected by the ISO to provide Operating Reserves shall respond to the ISO's directions to activate in real-time.

15.4.3.5 Performance Tracking and Supplier Disqualifications

When a Supplier committed to supply Operating Reserves is activated, the ISO shall measure and track its actual Energy production or its Demand Reduction against its expected performance in real-time. The ISO may disqualify Suppliers that consistently fail to provide Energy or Demand Reduction when called upon to do so in real-time from providing Operating Reserves in the future. If a Resource has been disqualified, the ISO shall require it to pass a re-qualification test before accepting any additional Bids to supply Operating Reserves from it. Disqualification and re-qualification criteria shall be set forth in the ISO Procedures.

15.4.4 Operating Reserves Settlements - General Rules

15.4.4.1 Establishing Locational Reserve and Scarcity Reserve Requirement Prices

Except as noted below, the ISO shall calculate separate Day-Ahead Market and Real-Time Market prices for each of the products in four locations: (i) West of Central-East ("West" or "Western"); (ii) East of Central-East excluding Southeastern New York ("Eastern"); (iii) Southeastern New York excluding Long Island ("Southeastern"); and (iv) Long Island ("L.I."). The ISO will thus calculate twelve different locational Operating Reserve prices in both the Day-Ahead Market and the Real-Time Market. The ISO will also calculate prices in the Real-Time Market for each of the products in a Scarcity Reserve Region, if applicable. Day-Ahead locational reserve prices shall be calculated pursuant to Section 15.4.5 of this Rate Schedule.

Real-Time locational Operating Reserves prices and Scarcity Reserve Requirement prices shall be calculated pursuant to Section 15.4.6 of this Rate Schedule

15.4.4.2 Settlements Involving Suppliers of Operating Reserves Located on Long Island

Suppliers of Operating Reserves located on Long Island shall receive settlement payments as if they were providing Operating Reserves located in Southeastern New York, except in the case of a Scarcity Reserve Requirement for a Scarcity Reserve Region that includes Long Island in addition to one or more other Load Zones. In this instance, suppliers of Operating Reserves located on Long Island shall receive settlement payments as if they were providing Operating Reserves located in Southeastern New York and in the applicable Scarcity Reserve Region. The ISO will calculate separate locational Long Island Operating Reserves prices and Long Island Scarcity Reserve Requirement prices for Scarcity Reserve Regions that include Long Island but will not post them or use them for settlement purposes.

15.4.4.3 “Cascading” of Operating Reserves

The ISO will deem Spinning Reserve to be the “highest quality” Operating Reserve, followed by 10-Minute Non-Synchronized Reserve and by 30-Minute Reserve. The ISO shall substitute higher quality Operating Reserves in place of lower quality Operating Reserves, when doing so lowers the total as-bid cost, *i.e.*, when the marginal cost for the higher quality Operating Reserve product is lower than the marginal cost for the lower quality Operating Reserve product, and the substitution of a higher quality for the lower quality product does not cause locational Operating Reserve requirements or Scarcity Reserve Requirements to be violated. To the extent, however, that reliability standards require the use of higher quality Operating Reserves, substitution cannot be made in the opposite direction.

The market clearing price of higher quality Operating Reserves will not be set at a price below the market clearing price of lower quality Operating Reserves in the same location or Scarcity Reserve Region. Thus, the market clearing price of Spinning Reserves will not be below the price for 10-Minute Non-Synchronized Reserves or 30-Minute Reserves and the market clearing price for 10-Minute Non-Synchronized Reserves will not be below the market clearing price for 30-Minute Reserves.

15.4.5 Operating Reserve Settlements – Day-Ahead Market

15.4.5.1 Calculation of Day-Ahead Market Clearing Prices

The ISO shall calculate hourly Day-Ahead Market clearing prices for each Operating Reserve product at each location. Each Day-Ahead Market clearing price shall equal the sum of the relevant Day-Ahead locational Shadow Prices for that product in that hour, subject to the restriction described in Section 15.4.4.3 of this Rate Schedule.

The Day-Ahead Market clearing price for a particular Operating Reserve product in a particular location shall reflect the Shadow Prices associated with all of the ISO-defined Operating Reserve requirements, including locational requirements, that a particular Operating Reserves product from a particular location may be used to satisfy in a given hour. The ISO shall calculate Day-Ahead Market clearing prices using the following formulae:

Market clearing price for Western 30-Minute Reserves = SP1

Market clearing price for Western 10-Minute Non-Synchronized Reserves = SP1 + SP2

Market clearing price for Western Spinning Reserves = SP1 + SP2 + SP3

Market clearing price for Eastern 30-Minute Reserves = SP1 + SP4

Market clearing price for Eastern 10-Minute Non-Synchronized Reserves = SP1 + SP2
+ SP4 +
SP5

Market clearing price for Eastern Spinning Reserves = $SP1 + SP2 + SP3 + SP4 + SP5 + SP6$

Market clearing price for Southeastern 30-Minute Reserves = $SP1 + SP4 + SP7$

Market clearing price for Southeastern 10-Minute Non-Synchronized Reserves = $SP1 + SP2 + SP4 + SP5 + SP7 + SP8$

Market clearing price for Southeastern Spinning Reserves = $SP1 + SP2 + SP3 + SP4 + SP5 + SP6 + SP7 + SP8 + SP9$

Market clearing price for L.I. 30-Minute Reserves = $SP1 + SP4 + SP7 + SP10$

Market clearing price for L.I. 10-Minute Non-Synchronized Reserves = $SP1 + SP2 + SP4 + SP5 + SP7 + SP8 + SP10 + SP11$

Market clearing price for L.I. Spinning Reserves = $SP1 + SP2 + SP3 + SP4 + SP5 + SP6 + SP7 + SP8 + SP9 + SP10 + SP11 + SP12$

Where:

SP1 = Shadow Price for total 30-Minute Reserve requirement constraint for the hour

SP2 = Shadow Price for total 10-Minute Reserve requirement constraint for the hour

SP3 = Shadow Price for total Spinning Reserve requirement constraint for the hour

SP4 = Shadow Price for Eastern, Southeastern, or L.I. 30-Minute Reserve requirement constraint for the hour

SP5 = Shadow Price for Eastern, Southeastern, or L.I. 10-Minute Reserve requirement constraint for the hour

SP6 = Shadow Price for Eastern, Southeastern, or L.I. Spinning Reserve requirement constraint for the hour

SP7 = Shadow Price for Southeastern, or L.I. 30-Minute Reserve requirement constraint for the hour

SP8 = Shadow Price for Southeastern, or L.I. 10-Minute Reserve requirement constraint for the hour

SP9 = Shadow Price for Southeastern, or L.I. Spinning Reserve requirement constraint for the hour

SP10 = Shadow Price for Long Island 30-Minute Reserve requirement constraint for the hour

SP11 = Shadow Price for Long Island 10-Minute Reserve requirement constraint for the hour

SP12 = Shadow Price for Long Island Spinning Reserve requirement constraint for the hour

Day-Ahead locational Shadow Prices will be calculated by SCUC. Each hourly Day-Ahead Shadow Price for each Operating Reserves requirement shall equal the marginal Bid cost of scheduling Resources to provide additional Operating Reserves to meet that requirement in that hour, including any impact on the Bid Production Cost of procuring Energy or Regulation Service that would result from procuring an increment of Operating Reserve to meet the requirement in that hour, as calculated during the fifth SCUC pass described in Section 17.1.3 of Attachment B to this Services Tariff. As a result, the Shadow Price for each Operating Reserves requirement shall include the Day-Ahead Availability Bid of the marginal Resource selected to meet that requirement (or the applicable price on the Operating Reserve Demand Curve for that requirement during shortage conditions), plus any margins on the sale of Energy or Regulation Service in the Day-Ahead Market that that Resource would forego if scheduling it to provide additional Operating Reserve to meet that requirement would lead to it being scheduled to provide less Energy or Regulation Service. Shadow Prices will also be consistent with the Operating Reserve Demand Curves described in Section 15.4.7 of this Rate Schedule, which will ensure that Operating Reserves are not scheduled by SCUC at a cost greater than the relevant Operating Reserve Demand Curve indicates should be paid. If more Operating Reserve of a particular quality than is needed is scheduled to meet a particular locational Operating Reserve requirement, the Shadow Price for that Operating Reserve requirement constraint shall be set at zero.

Each Supplier that is scheduled Day-Ahead to provide Operating Reserve shall be paid the applicable Day-Ahead Market clearing price, based on its location and the quality of Operating Reserve scheduled, multiplied by the amount of Operating Reserve that the Supplier is scheduled to provide in each hour.

15.4.5.2 Other Day-Ahead Payments

A Supplier that bids on behalf of (i) a Generator that provides Operating Reserves or (ii) a Demand Side Resource that provides Operating Reserves may be eligible for a Day-Ahead Bid Production Cost guarantee payment pursuant to Section 4.6.6 and Attachment C of this ISO Services Tariff.

15.4.6 Operating Reserve Settlements – Real-Time Market

15.4.6.1 Calculation of Real-Time Market Clearing Prices

The ISO shall calculate Real-Time Market clearing prices for each Operating Reserve product for each location in every interval and Scarcity Reserve Region in each interval for which a Scarcity Reserve Requirement is established by the ISO. Each real-time market-clearing price shall equal the sum of the relevant real-time locational Shadow Prices and Scarcity Reserve Requirement Shadow Prices for a given product, subject to the restriction described in Section 15.4.4.3 of this Rate Schedule.

The Real-Time Market clearing price for a particular Operating Reserve product for a particular location or Scarcity Reserve Region shall reflect the Shadow Prices associated with all of the ISO-defined Operating Reserve requirements, including locational requirements and Scarcity Reserve Requirements, that a particular Operating Reserves product from that location or Scarcity Reserve Region may be used to satisfy in a given interval. The ISO shall calculate the Real-Time Market clearing prices using the following formulae:

Market clearing price for Western 30-Minute Reserves = SP1

Market clearing price for Western 10-Minute Non-Synchronized Reserves = SP1 + SP2

Market clearing price for Western Spinning Reserves = SP1 + SP2 + SP3

Market clearing price for Eastern 30-Minute Reserves = SP1 + SP4

Market clearing price for Eastern 10-Minute Non-Synchronized Reserves = SP1 + SP2 + SP4 + SP5

Market clearing price for Eastern Spinning Reserves = SP1 + SP2 + SP3 + SP4 + SP5 + SP6

Market clearing price for Southeastern 30-Minute Reserves = SP1 + SP4 + SP7

Market clearing price for Southeastern 10-Minute Non-Synchronized Reserves = SP1 + SP2 + SP4 + SP5 + SP7 + SP8

Market clearing price for Southeastern Spinning Reserves = SP1 + SP2 + SP3 + SP4 + SP5 + SP6 + SP7 + SP8 + SP9

Market clearing price for L.I. 30-Minute Reserves = SP1 + SP4 + SP7 + SP10

Market clearing price for L.I. 10-Minute Non-Synchronized Reserves = SP1 + SP2 + SP4 + SP5 + SP7 + SP8 + SP10 + SP11

Market clearing price for L.I. Spinning Reserves = SP1 + SP2 + SP3 + SP4 + SP5 + SP6 + SP7 + SP8 + SP9 + SP10 + SP11 + SP12

Where:

SP1 = Shadow Price for total 30-Minute Reserve requirement constraint and, if applicable, Scarcity Reserve Requirement constraint for the interval

SP2 = Shadow Price for total 10-Minute Reserve requirement constraint for the interval

SP3 = Shadow Price for total Spinning Reserve requirement constraint for the interval

SP4 = Shadow Price for Eastern, Southeastern, or L.I. 30-Minute Reserve requirement constraint and, if applicable, Scarcity Reserve Requirement constraint for the interval

SP5 = Shadow Price for Eastern, Southeastern, or L.I. 10-Minute Reserve requirement constraint for the interval

SP6 = Shadow Price for Eastern, Southeastern, or L.I. Spinning Reserve requirement constraint for the interval

SP7 = Shadow Price for Southeastern, or L.I. 30-Minute Reserve requirement constraint and, if applicable, Scarcity Reserve Requirement constraint for the interval

SP8 = Shadow Price for Southeastern, or L.I. 10-Minute Reserve requirement constraint for the interval

SP9 = Shadow Price for Southeastern, or L.I. Spinning Reserve requirement constraint for the interval

SP10 = Shadow Price for Long Island 30-Minute Reserve requirement constraint and, if applicable, Scarcity Reserve Requirement constraint for the interval

SP11 = Shadow Price for Long Island 10-Minute Reserve requirement constraint for the interval

SP12 = Shadow Price for Long Island Spinning Reserve requirement constraint for the interval

Real-time locational and Scarcity Reserve Requirement Shadow Prices will be calculated by the ISO's RTD. Each Real-Time Shadow Price for each Operating Reserves requirement, including a Scarcity Reserve Requirement, in each RTD interval shall equal the marginal Bid cost of scheduling Resources to provide additional Operating Reserves to meet that requirement in that interval, including any impact on the Bid Production Cost of procuring Energy or Regulation Service that would result from procuring an increment of Operating Reserve to meet the requirement in that interval, as calculated during the second RTD pass described in Section 17.1.2.1.2.2 of Attachment B to this ISO Services Tariff. As a result, the Shadow Price for each Operating Reserves requirement, including a Scarcity Reserve Requirement, shall include the Real-Time Availability Bid of the marginal Resource selected to meet that requirement (or the applicable price on the Operating Reserve Demand Curve or Scarcity Reserve Demand Curve for that requirement during shortage conditions), plus any margins on the sale of Energy or Regulation Service in the Real-Time Market that that Resource would forego if scheduling it to provide additional Operating Reserve to meet that requirement would lead to it being scheduled to provide less Energy or Regulation Service. Shadow Prices will also be consistent with the

Operating Reserve Demand Curves and Scarcity Reserve Demand Curve described in Section 15.4.7 of this Rate Schedule, which will ensure that Operating Reserves are not scheduled by RTC at a cost greater than the relevant Operating Reserve Demand Curve or Scarcity Reserve Demand Curve indicates should be paid. If there is more Operating Reserve of the required quality than is needed to meet a particular locational Operating Reserve requirement or Scarcity Reserve Requirement then the Shadow Price for that Operating Reserve requirement or Scarcity Reserve Requirement constraint shall be zero.

Each Supplier that is scheduled in real-time to provide Operating Reserve shall be paid the applicable Real-Time Market clearing price, based on its location and the quality of Operating Reserve scheduled, multiplied by the amount of Operating Reserve that the Supplier is scheduled to provide in each interval that was not scheduled Day-Ahead.

15.4.6.1.1 The Real-Time Market clearing price shall also reflect the Shadow Price for any Scarcity Reserve Requirement constraint as part of the applicable 30-Minute Reserve requirement constraint Shadow Price for the Load Zones included in the Scarcity Reserve Region. The inclusion of Scarcity Reserve Requirement constraint Shadow Prices in the calculation of Real-Time Market clearing prices is as set forth below:

- (a) When the Load Zones included in a Scarcity Reserve Region are identical to the Load Zones of an existing locational reserve region, the Scarcity Reserve Requirement will be added to the existing 30-Minute Reserve requirement for the locational reserve region and the Shadow Price for the Scarcity Reserve Requirement will be the Shadow Price for the revised 30-Minute Reserve

requirement. The use of Scarcity Reserve Requirement Shadow Prices in calculating Real-Time Market clearing in such circumstances is as follows:

- i. If the Scarcity Reserve Requirement is for a Scarcity Reserve Region that includes Load Zones A, B, C, D, E, F, G, H, I, J and K (*i.e.*, all Load Zones), then the Shadow Price for the Scarcity Reserve Requirement shall be SP1. SP1 shall be utilized in the same manner as described in the formulae above in calculating Real-Time Market clearing prices;
- ii. If the Scarcity Reserve Requirement is for a Scarcity Reserve Region that includes Load Zones F, G, H, I, J and K (*i.e.*, all East of Central-East Load Zones), but does not include Load Zones A, B, C, D or E, then the Shadow Price for the Scarcity Reserve Requirement shall be SP4. SP4 shall be utilized in the same manner as described in the formulae above in calculating Real-Time Market clearing prices;
- iii. If the Scarcity Reserve Requirement is for a Scarcity Reserve Region that includes Load Zones G, H, I, J and K (*i.e.*, all Southeastern New York Load Zones), but does not include Load Zones A, B, C, D, E or F, then the Shadow Price for the Scarcity Reserve Requirement shall be SP7. SP7 shall be utilized in the same manner as described in the formulae above in calculating Real-Time Market clearing prices; or
- iv. If the Scarcity Reserve Requirement is for a Scarcity Reserve Region that includes Load Zone K (*i.e.*, Long Island only), but does not include Load Zones A, B, C, D, E, F, G, H, I or J, then the Shadow Price for the Scarcity Reserve

Requirement shall be SP10. SP10 shall be utilized in the same manner as described in the formulae above in calculating Real-Time Market clearing prices.

- (b) When the Load Zones included in the Scarcity Reserve Region are not identical to the Load Zones of an existing locational reserve region, the Shadow Price attributable to the Scarcity Reserve Requirement will be added to the applicable Shadow Price for the 30-Minute Reserve requirement for the existing locational reserve region to which all of the Load Zones included in the Scarcity Reserve Region belong. The inclusion of the Scarcity Reserve Requirement Shadow Prices shall apply only to the Load Zones included as part of a Scarcity Reserve Region. The use of Scarcity Reserve Requirement Shadow Prices in calculating Real-Time Market clearing in such circumstances is as follows:
 - i. If the Scarcity Reserve Requirement is for a Scarcity Reserve Region that includes at least one or more of Load Zones A, B, C, D or E and Section 15.4.6.1.1(a)(i) of this Rate Schedule is not applicable, then the Shadow Price for the Scarcity Reserve Requirement shall be included in SP1 for each of the Load Zones included in the Scarcity Reserve Region. This SP1 value shall be utilized in the same manner as described in the formulae above in calculating Real-Time Market clearing prices for each of the Load Zones included in the Scarcity Reserve Region;
 - ii. If the Scarcity Reserve Requirement is for a Scarcity Reserve Region that includes at least Load Zone F, but does not include Load Zones A, B, C, D or E and Section 15.4.6.1.1(a)(ii) of this Rate Schedule is not applicable, then the Shadow Price for the Scarcity Reserve Requirement shall be included in SP4 for

each of the Load Zones included in the Scarcity Reserve Region. This SP4 value shall be utilized in the same manner as described in the formulae above in calculating Real-Time Market clearing prices for each of the Load Zones included in the Scarcity Reserve Region; or

- iii. If the Scarcity Reserve Requirement is for a Scarcity Reserve Region that includes at least one or more of Load Zones G, H, I or J, but does not include Load Zones A, B, C, D, E or F and Section 15.4.6.1.1(a)(iii) of this Rate Schedule is not applicable, then the Shadow Price for the Scarcity Reserve Requirement shall be included in SP7 for each of the Load Zones included in the Scarcity Reserve Region. This SP7 value shall be utilized in the same manner as described in the formulae above in calculating Real-Time Market clearing prices for each of the Load Zones included in the Scarcity Reserve Region.

15.4.6.2 Establishment of Scarcity Reserve Requirements in the Real-Time Market During EDRP/SCR Activations

The ISO will establish a Scarcity Reserve Requirement for each Scarcity Reserve Region when it has called upon the EDRP and/or SCRs in identified Load Zones to reduce Load to address a reliability need. The Scarcity Reserve Requirement will be applicable for all real-time intervals during which the ISO has activated EDRP and/or SCRs within the applicable Scarcity Reserve Region to provide Load reduction. The Scarcity Reserve Requirement for each affected real-time interval shall be an amount equal to the sum of the applicable values for the Expected EDRP/SCR MW for all of the Load Zones included in a Scarcity Reserve Region, less the Available Operating Capacity in the Scarcity Reserve Region; provided, however, that a Scarcity Reserve Requirement shall not have a value less than zero.

The applicable value of the Expected EDRP/SCR MW for each Load Zone included in a Scarcity Reserve Region to be used in calculating the Scarcity Reserve Requirement is dependent upon whether the Load reduction for a given interval is deemed voluntary or mandatory for purposes of calculating the Scarcity Reserve Requirement, as further described below. If the ISO has satisfied the notification requirements set forth in Section 5.12.11.1 of this ISO Services Tariff for the SCRs within any Load Zone for any hour encompassed by the EDRP/SCR activation(s) for the day at issue, the Load reduction for all intervals encompassed by such activation(s) are deemed to be mandatory for the purposes of calculating any Scarcity Reserve Requirement only and the corresponding value for a mandatory Load reduction is used for SCRs in determining any Scarcity Reserve Requirement. In all other circumstances not encompassed by the preceding sentence, the Load reduction for all intervals encompassed by such EDRP/SCR activation(s) are deemed to be voluntary for the day at issue and the corresponding value for a voluntary Load reduction is used for SCRs in determining any Scarcity Reserve Requirement. For EDRP, Load reduction is deemed to be voluntary in all intervals and the value for EDRP included in the Expected EDRP/SCR MW value for each Load Zone reflects the voluntary nature of the Load reduction.

15.4.6.3 Operating Reserve Balancing Payments

Any deviation in performance from a Supplier's Day-Ahead schedule to provide Operating Reserves, including deviations that result from schedule modifications made by the ISO, shall be settled pursuant to the following rules.

- (a) When the Supplier's real-time Operating Reserves schedule is less than its Day-Ahead Operating Reserves schedule, the Supplier shall pay a charge for the imbalance equal to the product of: (i) the Real-Time Market clearing price for the

relevant Operating Reserves Product in the relevant location or Scarcity Reserve Region; and (ii) the difference between the Supplier's Day-Ahead and real-time Operating Reserves schedules.

- (b) When the Supplier's real-time Operating Reserves schedule is greater than its Day-Ahead Operating Reserves schedule, the ISO shall pay the Supplier an amount to compensate it for the imbalance equal to the product of: (i) the Real-Time Market clearing price for the relevant Operating Reserve product in the relevant location or Scarcity Reserve Region; and (ii) the difference between the Supplier's Day-Ahead and real-time Operating Reserves schedules.

15.4.6.4 Other Real-Time Payments

The ISO shall pay Generators that are selected to provide Operating Reserves Day-Ahead, but are directed to convert to Energy production in real-time, the applicable Real-Time LBMP for all Energy they are directed to produce in excess of their Day-Ahead Energy schedule.

A Supplier that bids on behalf of (i) a Generator that provides Operating Reserves or (ii) a Demand Side Resource that provides Operating Reserves may be eligible for a Bid Production Cost guarantee payment pursuant to Section 4.6.6 and Attachment C of this ISO Services Tariff.

A Supplier that provides Operating Reserves may also be eligible for a Day-Ahead Margin Assurance Payment pursuant to Section 4.6.5 and Attachment J of this ISO Services Tariff.

15.4.7 Operating Reserve Demand Curves and Scarcity Reserve Demand Curve

The ISO shall establish twelve Operating Reserve Demand Curves, one for each locational Operating Reserves requirement. Specifically, there shall be a demand curve for: (i) Total Spinning Reserves; (ii) Eastern, Southeastern or Long Island Spinning Reserves; (iii)

Southeastern or Long Island Spinning Reserves (iv) Long Island Spinning Reserves; (v) Total 10-Minute Reserves; (vi) Eastern, Southeastern or Long Island 10-Minute Reserves; (vii) Southeastern or Long Island 10-Minute Reserves; (viii) Long Island 10-Minute Reserves; (ix) Total 30-Minute Reserves (including separate demand curves applicable for each real-time interval the ISO has established a Scarcity Reserve Requirement); (x) Eastern, Southeastern or Long Island 30-Minute Reserves (including separate demand curves applicable for each real-time interval the ISO has established certain Scarcity Reserve Requirements); (xi) Southeastern or Long Island 30-Minute Reserves (including separate demand curves applicable for each real-time interval the ISO has established certain Scarcity Reserve Requirements); and (xii) Long Island 30-Minute Reserves (including a separate demand curve applicable for each real-time interval the ISO has established a Scarcity Reserve Requirement for which the pricing rules established in Section 15.4.6.1.1(a)(iv) of this Rate Schedule apply). Each Operating Reserve Demand Curve will apply to both the Day-Ahead Market and the Real-Time Market for the relevant product and location, except for those demand curves that apply to certain Scarcity Reserve Requirements which will be applicable only during the real-time intervals that a Scarcity Reserve Requirement has been established by the ISO. The ISO shall also establish a Scarcity Reserve Demand Curve for each Scarcity Reserve Requirement established by the ISO in the Real-Time Market for which the pricing rules established in Section 15.4.6.1.1(b) of this Rate Schedule apply. A Scarcity Reserve Demand Curve will be applicable only during the real-time intervals that such a Scarcity Reserve Requirement has been established by the ISO.

The market clearing pricing for Operating Reserves shall be calculated pursuant to Sections 15.4.5.1 and 15.4.6.1 of this Rate Schedule and in a manner consistent with the demand

curves established in this Section so that Operating Reserves are not purchased by SCUC, RTC or RTD at a cost higher than the relevant demand curve indicates should be paid.

The ISO Procedures shall establish and post a target level for each locational Operating Reserves requirement for each hour, which will be the number of MW of Operating Reserves meeting that requirement that the ISO would seek to maintain in that hour. To the extent not otherwise already adjusted pursuant to Section 15.4.6.1.1(a) of this Rate Schedule, during each real-time interval in which the ISO has established a Scarcity Reserve Requirement, the ISO will adjust the target level for the locational 30-Minute Reserves requirement to account for the Scarcity Reserve Requirement within the existing locational reserve region(s) to which all the Load Zones included in the Scarcity Reserve Region belong. The ISO will then define an Operating Reserves demand curve for that hour corresponding to each Operating Reserves requirement as follows:

- (a) Total Spinning Reserves: For quantities of Operating Reserves meeting the total Spinning Reserves requirement that are less than or equal to the target level for that locational requirement, the price on the total Spinning Reserves demand curve shall be \$775/MW. For all other quantities, the price on the total Spinning Reserves demand curve shall be \$0/MW.
- (b) Eastern, Southeastern or Long Island Spinning Reserves: For quantities of Operating Reserves meeting the Eastern, Southeastern or Long Island Spinning Reserves requirement that are less than or equal to the target level for that locational requirement, the price on the Eastern, Southeastern or Long Island Spinning Reserves demand curve shall be \$25/MW. For all other quantities, the

price on the Eastern, Southeastern or Long Island Spinning Reserves demand curve shall be \$0/MW.

- (c) Southeastern or Long Island Spinning Reserves: For quantities of Operating Reserves meeting the Southeastern or Long Island Spinning Reserves requirement that are less than or equal to the target level for that locational requirement, the price on the Southeastern or Long Island Spinning Reserves demand curve shall be \$25/MW. For all other quantities, the price on the Southeastern or Long Island Spinning Reserves demand curve shall be \$0/MW.
- (d) Long Island Spinning Reserves: For quantities of Operating Reserves meeting the Long Island Spinning Reserves requirement that are less than or equal to the target level for that locational requirement, the price on the Long Island Spinning Reserves demand curve shall be \$25/MW. For all other quantities, the price on the Long Island Spinning Reserves demand curve shall be \$0/MW.
- (e) Total 10-Minute Reserves: For quantities of Operating Reserves meeting the total 10-minute reserves requirement that are less than or equal to the target level for that locational requirement, the price on the total 10-minute reserves demand curve shall be \$750/MW. For all other quantities, the price on the total 10-minute reserves demand curve shall be \$0/MW.
- (f) Eastern, Southeastern or Long Island 10-Minute Reserves: For quantities of Operating Reserves meeting the Eastern, Southeastern or Long Island 10-minute reserves requirement that are less than or equal to the target level for that locational requirement, the price on the Eastern, Southeastern or Long Island 10-minute reserves demand curve shall be \$775/MW. For all other quantities, the

price on the Eastern, Southeastern or Long Island 10-minute reserves demand curve shall be \$0/MW.

- (g) Southeastern or Long Island 10-Minute Reserves: For quantities of Operating Reserves meeting the Southeastern or Long Island 10-Minute Reserves requirement that are less than or equal to the target level for that locational requirement, the price on the Southeastern or Long Island 10-Minute Reserves demand curve shall be \$25/MW. For all other quantities, the price on the Southeastern or Long Island 10-Minute Reserves demand curve shall be \$0/MW.
- (h) Long Island 10-Minute Reserves: For quantities of Operating Reserves meeting the Long Island 10-minute reserves requirement that are less than or equal to the target level for that locational requirement, the price on the Long Island 10-minute reserves demand curve shall be \$25/MW. For all other quantities, the price on the Long Island 10-minute reserves demand curve shall be \$0/MW.
- (i) Total 30-Minute Reserves: For quantities of Operating Reserves meeting the total 30-Minute Reserves requirement that are less than or equal to the target level for that locational requirement minus 955 MW, the price on the total 30-Minute Reserves demand curve shall be \$750/MW. For quantities of Operating Reserves meeting the total 30-Minute Reserves requirement that are less than or equal to the target level for that locational requirement minus 655 MW but that exceed the target level for that locational requirement minus 955 MW, the price on the total 30-Minute Reserves demand curve shall be \$200/MW. For quantities of Operating Reserves meeting the total 30-Minute Reserves requirement that are less than or equal to the target level for that locational requirement minus 300

MW but that exceed the target level for that locational requirement minus 655 MW, the price on the total 30-Minute Reserves demand curve shall be \$100/MW. For quantities of Operating Reserves meeting the total 30-Minute Reserves requirement that are less than or equal to the target level for that locational requirement but that exceed the target level for that locational requirement minus 300 MW, the price on the total 30-Minute Reserves demand curve shall be \$25/MW. For all other quantities, the price on the total 30-Minute Reserves demand curve shall be \$0/MW. However, the ISO will not schedule more total 30-Minute Reserves than the level defined by the requirement for that hour.

During each real-time interval that the ISO has established a Scarcity Reserve Requirement in the Real-Time Market for which the pricing rules established in Section 15.4.6.1.1(a)(i) of this Rate Schedule apply, the applicable Operating Reserves demand curve for total 30-Minute Reserves shall be as follows: For quantities of Operating Reserves meeting the total 30-Minute Reserves locational requirement target level plus the Scarcity Reserve Requirement (“NYCA scarcity target level”) that are less than or equal to the NYCA scarcity target level minus an amount equal to the sum of 955 MW and the Scarcity Reserve Requirement, the price on the total 30-Minute Reserves demand curve shall be \$750/MW. For quantities of Operating Reserves meeting the NYCA scarcity target level that are less than or equal to the NYCA scarcity target level but that exceed the NYCA scarcity target level minus an amount equal to the sum of 955 MW and the Scarcity Reserve Requirement, the price on the total 30-Minute Reserves demand curve shall be \$500/MW. For all other quantities, the price on the total 30-Minute

Reserves demand curve shall be \$0/MW. However, the ISO will not schedule more total 30-Minute Reserves than the level defined by the total 30-Minute Reserves locational requirement plus the Scarcity Reserve Requirement for that interval.

During each real-time interval that the ISO has established a Scarcity Reserve Requirement(s) in the Real-Time Market, other than a Scarcity Reserve Requirement for which the pricing rules established in Section 15.4.6.1.1(a)(i) of this Rate Schedule apply, the applicable Operating Reserves demand curve for total 30-Minute Reserves shall be as follows: For quantities of Operating Reserves meeting the total 30-Minute Reserves locational requirement target level plus the applicable Scarcity Reserve Requirement(s) (“adjusted NYCA target level”) that are less than or equal to the adjusted NYCA target level minus 955 MW, the price on the total 30-Minute Reserves demand curve shall be \$750/MW. For quantities of Operating Reserves meeting the adjusted NYCA target level that are less than or equal to the adjusted NYCA target level but that exceed the adjusted NYCA target level minus 955 MW, the price on the total 30-Minute Reserves demand curve shall be \$500/MW. For all other quantities, the price on the total 30-Minute Reserves demand curve shall be \$0/MW. However, the ISO will not schedule more total 30-Minute Reserves than the level defined by the total 30-Minute Reserves locational requirement plus the applicable Scarcity Reserve Requirement(s) for that interval.

- (j) Eastern, Southeastern or Long Island 30-Minute Reserves: For quantities of Operating Reserves meeting the Eastern, Southeastern or Long Island 30-Minute

Reserves requirement that are less than or equal to the target level for that locational requirement, the price on the Eastern, Southeastern or Long Island 30-Minute Reserves demand curve shall be \$25/MW. For all other quantities, the price on the Eastern, Southeastern or Long Island 30-Minute Reserves demand curve shall be \$0/MW.

During each real-time interval that the ISO has established a Scarcity Reserve Requirement in the Real-Time Market for which the pricing rules established in Section 15.4.6.1.1(a)(ii) of this Rate Schedule apply, the applicable Operating Reserves demand curve for Eastern, Southeastern or Long Island 30-Minute Reserves shall be as follows: For quantities of Operating Reserves meeting the Eastern, Southeastern or Long Island 30-Minute Reserves locational requirement target level plus the Scarcity Reserve Requirement (“Eastern scarcity target level”) that are less than or equal to the Eastern scarcity target level minus an amount equal to the Eastern, Southeastern or Long Island 30-Minute Reserves locational requirement target, the price on the Eastern, Southeastern or Long Island 30-Minute Reserves demand curve shall be \$500/MW. For the quantities of Operating Reserves meeting the Eastern scarcity target level that are less than or equal to the Eastern scarcity target level but exceed the Eastern scarcity target level minus an amount equal to the Eastern, Southeastern or Long Island 30-Minute Reserves locational requirement target level, the price on the Eastern, Southeastern or Long Island 30-Minute Reserves demand curve shall be \$25/MW. For all other quantities, the price on the Eastern, Southeastern or Long Island 30-Minute Reserves demand curve shall be \$0/MW.

During each real-time interval that the ISO has established a Scarcity Reserve Requirement(s) in the Real-Time Market for which all the Load Zones encompassed by such Scarcity Reserve Requirement belong to the East of Central-East reserve region, other than a Scarcity Reserve Requirement for which the pricing rules established in Section 15.4.6.1.1(a)(ii) of this Rate Schedule apply, the applicable Operating Reserves demand curve for Eastern, Southeastern or Long Island 30-Minute Reserves shall be as follows: For quantities of Operating Reserves meeting the Eastern, Southeastern or Long Island 30-Minute Reserves locational requirement target level plus the applicable Scarcity Reserve Requirement(s) (“adjusted Eastern target level”) that are less than or equal to the adjusted Eastern target level, the price on the Eastern, Southeastern or Long Island 30-Minute Reserves demand curve shall be \$25/MW. For all other quantities, the price on the Eastern, Southeastern or Long Island 30-Minute Reserves demand curve shall be \$0/MW.

- (k) Southeastern or Long Island 30-Minute Reserves: For quantities of Operating Reserves meeting the Southeastern or Long Island 30-Minute Reserves requirement that are less than or equal to the target level for that locational requirement, the price on the Southeastern or Long Island 30-Minute Reserves demand curve shall be \$500/MW. For all other quantities, the price on the Southeastern or Long Island 30-Minute Reserves demand curve shall be \$0/MW.

During each real-time interval that the ISO has established a Scarcity Reserve Requirement in the Real-Time Market for which the pricing rules established in Section 15.4.6.1.1(a)(iii) of this Rate Schedule apply, the applicable Operating

Reserves demand curve for Southeastern or Long Island 30-Minute Reserves shall be as follows: For quantities of Operating Reserves meeting the Southeastern or Long Island 30-Minute Reserves locational requirement target level plus the Scarcity Reserve Requirement (“Southeastern scarcity target level”) that are less than or equal to the Southeastern scarcity target level, the price on the Southeastern or Long Island 30-Minute Reserves demand curve shall be \$500/MW. For all other quantities, the price on the Southeastern or Long Island 30-Minute Reserves demand curve shall be \$0/MW.

During each real-time interval that the ISO has established a Scarcity Reserve Requirement(s) in the Real-Time Market for which all the Load Zones encompassed by such Scarcity Reserve Requirement belong to the Southeastern New York reserve region, other than a Scarcity Reserve Requirement for which the pricing rules established in Section 15.4.6.1.1(a)(iii) of this Rate Schedule apply, the applicable Operating Reserves demand curve for Southeastern or Long Island 30-Minute Reserves shall be as follows: For quantities of Operating Reserves meeting the Southeastern or Long Island 30-Minute Reserves locational requirement target level plus the applicable Scarcity Reserve Requirement(s) (“adjusted Southeastern target level”) that are less than or equal to the adjusted Southeastern target level, the price on the Southeastern or Long Island 30-Minute Reserves demand curve shall be \$500/MW. For all other quantities, the price on the Southeastern or Long Island 30-Minute Reserves demand curve shall be \$0/MW.

- (1) Long Island 30-Minute Reserves: For quantities of Operating Reserves meeting the Long Island 30-Minute Reserves requirement that are less than or equal to the target level for that locational requirement, the price on the Long Island 30-Minute Reserves demand curve shall be \$25/MW. For all other quantities, the price on the Long Island 30-Minute Reserves demand curve shall be \$0/MW.
- During each real-time interval that the ISO has established a Scarcity Reserve Requirement in the Real-Time Market for which the pricing rules established in Section 15.4.6.1.1(a)(iv) of this Rate Schedule apply, the applicable Operating Reserves demand curve for Long Island 30-Minute Reserves shall be as follows:
- For quantities of Operating Reserves meeting the Long Island 30-Minute Reserves locational requirement target level plus the Scarcity Reserve Requirement (“Long Island scarcity target level”) that are less than or equal to the Long Island scarcity target level minus an amount equal to the Long Island 30-Minute Reserves locational requirement target, the price on the Long Island 30-Minute Reserves demand curve shall be \$500/MW. For the quantities of Operating Reserves meeting the Long Island scarcity target level that are less than or equal to the Long Island scarcity target level but exceed the Long Island scarcity target level minus an amount equal to the Long Island 30-Minute Reserves locational requirement target level, the price on the Long Island 30-Minute Reserves demand curve shall be \$25/MW. For all other quantities, the price on the Long Island 30-Minute Reserves demand curve shall be \$0/MW.

The ISO will procure additional Operating Reserves to meet each Scarcity Reserve Requirement established by the ISO in the Real-Time Market for which the pricing rules

established in Section 15.4.6.1.1(b) of this Rate Schedule apply. The Scarcity Reserve Demand Curve for each real-time interval in which the ISO has established such a Scarcity Reserve Requirement shall be defined as follows: For quantities of Operating Reserves meeting the Scarcity Reserve Requirement that are less than or equal to the Scarcity Reserve Requirement, the price on the Scarcity Reserve Demand Curve shall be \$500/MW. For all other quantities, the price on the Scarcity Reserve Demand Curve shall be \$0/MW.

In order to respond to operational or reliability problems that arise in real-time, the ISO may procure any Operating Reserve product at a quantity and/or price point different than those specified above. The ISO shall post a notice of any such purchase as soon as reasonably possible and shall report on the reasons for such purchases at the next meeting of its Business Issues Committee. The ISO shall also immediately initiate an investigation to determine whether it is necessary to modify the quantity and price points specified above to avoid future operational or reliability problems. The ISO will consult with its Market Monitoring Unit when it conducts this investigation.

If the ISO determines that it is necessary to modify the quantity and/or price points specified above in order to avoid future operational or reliability problems it may temporarily modify them for a period of up to ninety days. If circumstances reasonably allow, the ISO will consult with its Market Monitoring Unit, the Business Issues Committee, the Commission, and the PSC before implementing any such modification. In all circumstances, the ISO will consult with those entities as soon as reasonably possible after implementing a temporary modification.

Not later than 90 days after the implementation of the Operating Reserves Demand Curves the ISO, in consultation with its Market Advisor, shall conduct an initial review of them in accordance with the ISO Procedures. The scope of the review shall include, but not be limited

to, an analysis of whether any Operating Reserve Demand Curve should be adjusted upward or downward in order to optimize the economic efficiency of any, or all, of the ISO Administered Markets. The ISO and the Market Advisor shall perform additional quarterly reviews, subject to the same scope requirement, during the remainder of the first year that this Section 15.4.7 is in effect. After the first year, the ISO shall perform periodic reviews, subject to the same scope requirement, and the Market Monitoring Unit shall be given the opportunity to review and comment on the ISO's periodic reviews of the Operating Reserve Demand Curves and Scarcity Reserve Demand Curve.

The responsibilities of the Market Monitoring Unit that are addressed in the above section of Rate Schedule 4 to the Services Tariff are also addressed in Section 30.4.6.4.2 of Attachment O.

15.4.8 Self-Supply

Transactions may be entered into to provide for Self-Supply of Operating Reserves. Except as noted in the next paragraph, Customers seeking to Self-Supply Operating Reserves must place the Generator(s) supplying any one of the Operating Reserves under ISO control. The Generator(s) must meet ISO rules for acceptability. The amount that any such Customer will be charged for Operating Reserves will be reduced by the market value of the services provided by the specified Generator(s) as determined in the ISO Services Tariff.

Alternatively, Customers, including LSEs, may enter into Day-Ahead Bilateral financial Transactions, *e.g.*, contracts-for-differences, in order to hedge against price volatility in the Operating Reserves markets.