

4.1 Market Services - General Rules

4.1.1 Overview

Market Services include all services and functions performed by the ISO under this Tariff related to the sale and purchase of Energy, Capacity or Demand Reductions, and the payment to Suppliers who provide Ancillary Services in the ISO Administered Markets.

4.1.2 Independent System Operator Authority

The ISO shall provide all Market Services in accordance with the terms of the ISO Services Tariff and the ISO Related Agreements. The ISO shall be the sole point of Application for all Market Services provided in the NYCA. Each Market Participant that sells or purchases Energy, including Demand Side Resources, Special Case Resources and Emergency Demand Response Program participants, sells or purchases Capacity, or provides Ancillary Services in the ISO Administered Markets utilizes Market Services and must take service as a Customer under this Tariff and enter into a Service Agreement under the Tariff, as set forth in Attachment A; each entity that withdraws Energy to supply Load within the NYCA or provides Installed Capacity to an LSE serving Load within the NYCA utilizes the Control Area Services provided by the ISO and benefits from the reliability achieved as a result of ISO Control Area Services, must take service as a Customer under this Tariff and enter into a Service Agreement under this Tariff, as set forth in Attachment A; and each entity that has its virtual bids accepted and thereby engages in Virtual Transactions and each entity that purchases Transmission Congestion Contracts, excluding Transmission Congestion Contracts that are created prior to January 1, 2010, utilizes Market Services and must take service as a Customer under this Tariff and enter into a Services Agreement under this Tariff, as set forth in Attachment A. Each Customer that utilizes Market

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Services also utilizes Transmission Service and shall obtain Transmission Service under the ISO OATT.

4.1.3 Informational and Reporting Requirements

The ISO shall operate and maintain an OASIS, including a Bid/Post System that will facilitate the posting of Bids to supply Energy, Ancillary Services and Demand Reductions by Suppliers for use by the ISO and the posting of Locational Based Marginal Prices ("LBMP") and schedules for accepted Bids for Energy, Ancillary Services and Demand Reductions. The Bid/Post System will be used to post schedules for Bilateral Transactions. The Bid Post System also will provide historical data regarding Energy and Capacity market clearing prices in addition to Congestion Costs.

4.1.4 Scheduling Prerequisites

Pursuant to ISO Procedures, Each Customer Transaction offered in the Energy, Installed Capacity, Ancillary Services or Transmission Congestion Contract market shall be subject to a minimum Transaction-size of one (1) megawatt ("MW"), between each Point of Injection and Point of Withdrawal in any given hour provided however, Regulation Service may be offered in tenths of a MW and provided further, pursuant to ISO Procedures, Special Case Resources may offer a minimum of 100 kW of Unforced Capacity in the Installed Capacity Market. Each Transaction above one (1) megawatt must may be scheduled in tenths of a whole-megawatts provided, however, Bilateral Transactions and External Transactions in the LBMP Market must be bid and scheduled in increments of one (1) megawatt.

4.1.5 Communication Requirements for Market Services

Customers ~~and Transmission Customers may shall~~ utilize ~~a variety of communications facilities to access the ISO's OASIS and Bid/Post System, including but not limited to, conventional~~ Internet service providers ~~to access the ISO's OASIS and bid/post system, wide area networks such as NERC net, and dedicated communications circuits~~. Customers shall arrange for and maintain all communications facilities for the purpose of communication of commercial data to the ISO. Each Customer shall be the customer of record for the telecommunications facilities and services its uses and shall assume all duties and responsibilities associated with the procurement, installation and maintenance of the subject equipment and software.

4.1.6 Customer Responsibilities

All purchasers in the Day-Ahead or Real-Time Markets who withdraw Energy within the NYCA or at an NYCA Interconnection with another Control Area must obtain Transmission Service under the ISO OATT. All Customers requesting service under the ISO Services Tariff to engage in Virtual Transactions must obtain Transmission Service under the ISO OATT.

All LSEs serving Load in the NYCA must comply with the Installed Capacity requirements set forth in Article 5 of this ISO Services Tariff.

All Customers taking service under the ISO Services Tariff must pay the Market Administration and Control Area Services Charge, as specified in Rate Schedule 1 of this ISO Services Tariff.

A Generator or Demand Side Resource with a real time physical operating problem that makes it impossible for it to operate in the bidding mode in which it was scheduled shall notify the NYISO.

4.1.7 Customer Compliance with Laws, Regulations and Orders

All Customers shall comply with all applicable federal, state and local laws, regulations and orders, including orders from the ISO.

4.1.7.1 Violations of FERC's orders, rules and regulations also violate this Section 4.1.7 of the ISO Services Tariff. In particular, if FERC or a court of competent jurisdiction determines there has been a violation of FERC's regulations related to electric energy market manipulation (*see* 18 C.F.R. Section 1c.2, or any successor provision thereto), such violation is also a violation of this ISO Services Tariff if such violation affects or is related to the ISO Administered Markets.

4.1.7.2 If the ISO becomes aware that a Customer may be engaging in, or might have engaged in, electric energy market manipulation, it shall promptly inform its Market Monitoring Unit.

4.1.7.3 This Section 4.1.7 of the ISO Services Tariff does not independently empower the ISO or its Market Monitoring Unit to impose penalties for, or to provide a remedy for, violations of FERC's prohibition against electric energy market manipulation, or for other violations of the ISO's Tariffs.

4.1.8 Commitment for Reliability

Suppliers with generating units committed by the ISO for service to ensure NYCA reliability or local system reliability will recover startup and minimum generation costs that were not bid, that were not known before the close of the Real-Time Scheduling Window, and that were not recovered in the Dispatch Day, provided however, eligibility to recover such additional costs shall not be available for megawatts scheduled Day-Ahead. Payment for such costs shall

be determined, as if bid, pursuant to the provisions of Attachment C of this Tariff. Payments for securing NYCA reliability and local system reliability shall be recovered by the ISO in accordance with Rate Schedule 1 of the ISO OATT.

Re-dispatching costs incurred as a result of reductions in Transfer Capability caused by Storm Watch ("Storm Watch Costs") shall be aggregated and recovered on a monthly basis by the ISO exclusively from Transmission Customers in Load Zone J. The ISO shall calculate Storm Watch Costs by multiplying the real-time Shadow Price of any binding constraint associated with a Storm Watch, by the higher of (a) zero; or (b) the scheduled Day-Ahead flow across the constraint minus the actual real-time flow across the constraint.

4.1.9 Incremental Cost Recovery for Units Responding to Local Reliability Rule I-R3 or I-R5

Generating units designated pursuant to the New York State Reliability Council's Local Reliability Rule I-R3 -- Loss of Generator Gas Supply (New York City) or I-R5 -- Loss of Generator Gas Supply (Long Island), as being required to burn an alternate fuel at designated minimum levels based on forecast Load levels in Load Zones J and K (for purposes of this Section 4.1.9, "eligible units"), shall be eligible to recover the variable operating costs associated with burning the required alternate fuel pursuant to the provisions of this Section 4.1.9. For purposes of this Section 4.1.9, the periods of time for which Consolidated Edison invokes Local Reliability Rule I-R3 or LIPA invokes Local Reliability Rule I-R5 and in which the eligible unit burns its required alternate fuel, including that period of time required to move into and out of Rule I-R3 or I-R5 compliance, shall be referred to as the "Eligibility Period." For Eligibility Periods, the eligible unit shall recover its variable operating costs associated with burning the required alternate fuel if and to the extent that such variable operating costs are not reflected in the reference level for that unit for the hours included in the Eligibility Period,

pursuant to ISO procedures. To be recoverable, variable operating costs associated with burning the required alternate fuel must be incurred during an Eligibility Period and must be incurred only because Local Reliability Rule I-R3 or I-R5 was invoked.

Rules for determining: (i) variable operating costs associated with burning the required alternate fuel that would not have been incurred but for the requirement to burn the required alternate fuel as established by Local Reliability Rules I-R3 and I-R5; and (ii) Eligibility Periods shall be specified in ISO Procedures. Payments made by the ISO to the eligible unit to reimburse the variable operating costs paid pursuant to this Section 4.1.9 shall be in addition to any LBMP, Ancillary Service or other revenues received as a result of the eligible unit's Day-Ahead or Real-Time dispatch for that day.

There shall be no recovery of costs pursuant to this Section 4.1.9 for any hour for which the indexed variable operating costs of the required alternate fuel that is being burned pursuant to Rule I-R3 or I-R5 is less than the indexed variable operating costs for natural gas, as determined by the ISO.

The ISO shall make available for the Transmission Owner in whose subzone the Generator is located: (i) the identity of Generators determined by the ISO to be eligible to recover the variable operating costs associated with burning the required alternate fuel pursuant to the provisions of this section; (ii) the start and stop hours for each claimed Eligibility Period and (iii) the amount of alternative fuel for which the Generator has sought to recover variable operating costs.