

6.5 Schedule 5 - Charges for Operating Reserve Service

The ISO must offer this service when Transmission Service is used to serve Load within the NYCA. The Transmission Customer must either purchase this service from the ISO or make alternative comparable arrangements to satisfy its Operating Reserve obligation. The charges for Operating Reserve Service are set forth below. Operating Reserves requirements are defined by the ISO as is described in Rate Schedule 4 of the ISO Services Tariff, in accordance with the Reliability Rules and other applicable reliability standards. The ISO shall monitor the level of Operating Reserves utilizing the security monitoring program. Transmission Customers, Transmission Owners and Suppliers shall supply all data required for the proper operation of the security monitoring program.

The NYSRC shall be responsible for evaluating the adequacy of the criteria for determining the required level of Operating Reserves and shall modify such criteria from time to time as required. The ISO shall establish additional categories of Operating Reserves if necessary to ensure reliability.

6.5.1 General Requirements

The ISO shall select Operating Reserves Suppliers that are properly located electrically so that all Operating Reserves requirements, as defined in Rate Schedule 4 of the ISO Services Tariff are satisfied and so that transmission Constraints resulting from either the commitment or dispatch of Suppliers do not limit the 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 nature of the market clearing price calculation formulae in Sections 15.4.5.1 and 15.4.6.1 of Rate Schedule 4 of the ISO Services Tariff).

6.5.2 Operating Reserves Charges

Each Transmission Customer engaging in an Export and each LSE shall pay an hourly charge equal to the product of (A) cost to the ISO of providing all Operating Reserves for a given hour; and (B) the ratio of (i) the LSE's hourly Load or the Transmission Customer's hourly scheduled Export to (ii) the sum of all Load in the NYCA and all scheduled Exports for a given hour. The cost to the ISO of providing Operating Reserves in each hour will equal the total amount that the ISO pays to procure Operating Reserves on behalf of the market in the Day-Ahead Market and the Real-Time Market, less payments collected from entities that are scheduled to provide less Operating Reserves in the Real-Time Market than in the Day-Ahead Market during that hour, under Rate Schedule 4 of the ISO Services Tariff. The ISO shall aggregate the hourly charges to produce a total charge for a given Dispatch Day.

Transmission Customers taking service under Section 5 of the OATT to supply Station Power as third-party providers shall pay to the ISO a daily charge for this service equal to the product of (A) the cost to the ISO of providing all Operating Reserves for the day less any revenues from penalties collected during the day and (B) the ratio of (i) the Transmission Customer's Station Power supplied under Section 5 of the OATT for the day to (ii) the sum of all Load in the NYCA and all scheduled Exports for the day. The ISO shall credit the daily charges paid for Operating Reserves by Transmission Customers taking service under Section 5 of the OATT to supply Station Power as third-party providers on a Load ratio share basis to the Load in the NYCA for that day and all scheduled Exports for the day.

6.5.3 Self-Supply

Transmission Customers, including LSEs, may provide for Self-Supply of Operating Reserve by placing generation facilities supplying any one of the Operating Reserves under ISO Operational Control. The generation facilities must meet ISO rules for acceptability. The amount that any such customer will be charged for Operating Reserves Services will be reduced by the market value of the services provided by the specified generation facilities as determined in the ISO Services Tariff. In addition, Transmission 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.