Attachment III

24 Attachment R —Cost Allocation ~~Methodology~~and Measurement and Verification Methodologies for ~~Costs~~Demand Reductions Arising Under the Incentivized Day-Ahead Economic Load Curtailment Program ~~that are Recovered Pursuant to Schedule 1~~

Under the Incentivized Day-Ahead Economic Load Curtailment Program ("Program"), costs incurred by the ISO in covering Demand Reduction Providers' Curtailment Initiation Costs and making Demand Reduction Incentive Payments for scheduled and verified Demand Reductions~~,~~ are to be recovered under Schedule 1. ~~These~~ Measurement and verification of actual Demand Reductions scheduled under the Program shall be conducted in accordance with subsections 24.2 and 24.3 and ISO Procedures.

24.1 Cost Allocation Methodology for Payments to Demand Reduction Providers under the Program Recovered Pursuant to Schedule 1

The "Schedule 1 Program Costs" for scheduled and verified Demand Reductions shall be allocated to Transmission Customers, pursuant to the methodology set forth below, on the basis of their Load Ratio Shares and in proportion to the probability, given ~~known~~historical transmission congestion patterns, that a particular Demand Reduction will benefit them by reducing Energy costs in their Load Zones or "Composite Load Zones" (see below).

More specifically, Schedule 1 Program Costs shall be allocated to Transmission Customers each Billing Period as follows:

a) ~~a)~~ Schedule 1 Program Costs shall initially be attributed to the Load Zone where the Generator Bus that was used to bid the Demand Reduction associated with them is located.

b) ~~b)~~ In determining whether and how Transmission Customers located in particular Load Zones, or Composite Load Zones, have benefited from the Demand Reduction, and how much they shall be required to pay a share of the

associated Schedule 1 Program Costs, the ISO shall account for the effects of congestion at the most frequently constrained NYCA interfaces. When none of these interfaces are constrained Transmission Customers in all Load Zones shall be deemed to have benefited from the Demand Reduction and shall pay a share of the associated Schedule 1 Program Costs. When one or more of the most frequently constrained NYCA interfaces is constrained, then Transmission Customers located in a Load Zone, or Composite Load Zone, that is upstream of the constrained interface, shall be deemed to have benefited from an upstream Demand Reduction and shall be required to pay a share of the associated Schedule 1 Program Costs. Similarly, when one or more of the interfaces is congested, Transmission Customers located in a Load Zone, or Composite Load Zone, that is downstream of a constrained interface, shall be deemed to have benefited from a downstream Demand Reduction and shall be required to pay a share of the associated Schedule 1 Program Costs. By contrast, Transmission Customers that are "separated" from a Demand Reduction by a constrained interface shall be deemed not to have benefited from it and shall not be required to pay a share of the associated Schedule 1 Program Costs.

c) ~~c)~~ The ~~NYISO~~ISO shall determine the extent of congestion at the most frequently constrained interfaces using a series of equations that calculate the static probability that: (i) no constraints existed in the transmission system serving the Load Zone or Composite Load Zone; (ii) the Composite Load Zone was upstream of a constraint and curtailment pursuant to the Program occurred

upstream~~,~~ ; and (iii) the Composite Load Zone was downstream of a constraint and curtailment pursuant to the Program occurred downstream.

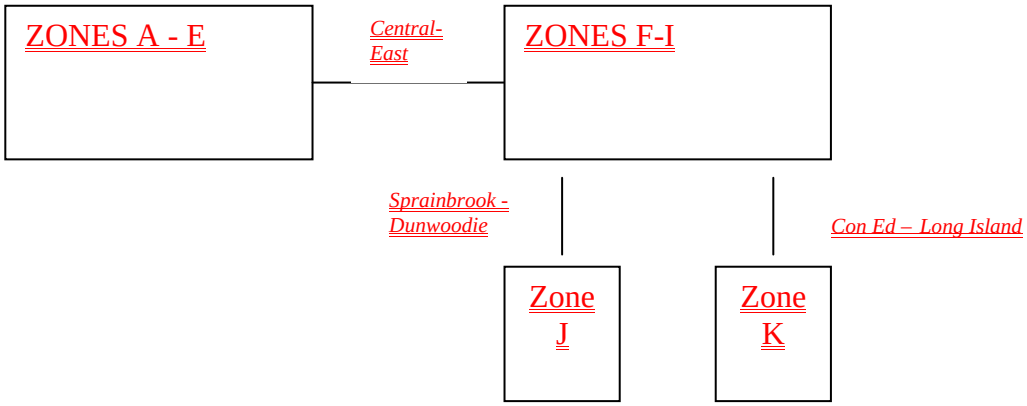
~~d)~~ Costs shall be allocated to each Transmission Customer that is deemed to have benefited from the scheduled and verified Demand Reduction on a Load Ratio Share basis, using Real-Time metered daily Load data~~.~~

~~The ISO and Market Participants will make an annual determination of which NYCA interfaces were most constrained, and the frequency with which they were constrained, normalized to 100%. Composite Load Zones will be defined based on the location of the most frequently constrained interfaces. Additional information concerning this annual determination shall be set forth in the ISO Procedures.~~

d) ~~For reference purposes, the identity of the NYCA interfaces that are currently most frequently constrained, and the equations that will be used to allocate costs to Transmission Customers during the 2001 Summer Capability Period are set forth below.~~ ~~.~~ ~~.~~ The three most frequently constrained interfaces are currently the "Central-East" interface, which divides western from eastern New York State, the Sprainbrook-Dunwoodie interface, which divides New York City and Long Island from the rest of New York State, and the Consolidated Edison Company ("ConEd") - Long Island~~. Interface,~~ interface (including the Y49/Y50 lines), which divides New York City from Long Island~~.~~ Given these limiting interfaces, four Composite Load Zones currently exist, *i.e.*, West of Central-East (Load Zones A, B, C, D, E,), East Upstate Excluding New York City and Long Island (Load Zones F, G, H, I), New York City (Load Zone J), and Long Island (Load

Zone K). The geographic configuration of these Composite Load Zones is depicted in the illustration below.

Relationship Between Frequently Constrained Interfaces and Composite Load Zones



Based on these factors, Schedule 1 Program Costs shall be allocated to Transmission Customers as follows:

For Transmission Customer m in Load Zones A~~, B, C, D or~~ E:

a_1 * ($cost_A$+…+$cost_K$) * $load_m$ / ($load_A$+…+$load_K$) + 'no constraints
a_2 * ($cost_A$+…+$cost_E$) * $load_m$ / ($load_A$+…+$load_E$) + ~~'above~~ 'Central~~-~~ East const
a_3 * ($cost_A$+…+$cost_I$+~~$cost_k$~~$cost_K$) * $load_m$ / ($load_A$+…+$load_I$+~~$load_k$) + 'above S-D~~$load_K$) + 'NYC constraint
a_4 * ($cost_A$+…+$cost_J$) * $load_m$ / ($load_A$+…+$load_J$) ~~'above CE-~~+ 'LI constraint
a_5 * ($cost_A$+…+$cost_E$) * $load_m$ / ($load_A$+…+$load_E$) + 'Cent East + NYC
a_6 * ($cost_A$+…+$cost_E$) * $load_m$ / ($load_A$+…+$load_E$) + 'Cent East + LI
a_7 * ($cost_A$+…+$cost_J$) * $load_m$ / ($load_A$+…+$load_J$) + 'NYC + LI
a_8 * ($cost_A$+…+$cost_E$) * $load_m$ / ($load_A$+…+$load_E$) 'Cent East + NYC + LI

For Transmission Customer m in Load Zones F~~, G, H or~~ I:

a_1 * ($cost_A$+…+$cost_K$) * $load_m$ / ($load_A$+…+$load_K$) + 'no constraints
a_2 * ($cost_F$+…+$cost_K$) * $load_m$ / ($load_F$+…+$load_K$) + ~~'below~~ 'Central~~-~~ East const
a_3 * ($cost_A$+…+$cost_I$+~~$cost_k$~~$cost_K$) * $load_m$ / ($load_A$+…+$load_I$+~~$load_k$) + 'above S-D~~$load_K$) + 'NYC constraint
a_4 * ($cost_A$+…+$cost_J$) * $load_m$ / ($load_A$+…+$load_J$) ~~'above CE-~~+ 'LI constraint
a_5 * ($cost_F$+…+$cost_I$+$cost_K$) * $load_m$ / ($load_F$+…+$load_I$+$load_K$) + 'Cent East + NYC
a_6 * ($cost_F$+…+$cost_J$) * $load_m$ / ($load_F$+…+$load_J$) + 'Cent East + LI
a_7 * ($cost_A$+…+$cost_J$) * $load_m$ / ($load_A$+…+$load_J$) + 'NYC + LI

a_8 * ($cost_F$+…+$cost_J$) * $load_m$ / ($load_F$+…+$load_J$) 'Cent East + NYC + LI

For Transmission Customer m in Load Zone J:

a_1 * ($cost_A$+…+$cost_K$) * $load_m$ / ($load_A$+…+$load_K$) + 'no constraints
a_2 * ($cost_F$+…+$cost_K$) * $load_m$ / ($load_F$+…+$load_K$) + 'below 'Central- East const
a_3 * $cost_J$ * $load_m$ / $load_J$ + 'below S-D 'NYC constraint
a_4 * ($cost_A$+…+$cost_J$) * $load_m$ / ($load_A$+…+$load_J$) 'above CE +
'LI constraint
a_5 * $cost_J$ * $load_m$ / $load_J$ + 'Cent East + NYC
a_6 * ($cost_F$+…+$cost_J$) * $load_m$ / ($load_F$+…+$load_J$) + 'Cent East + LI
a_7 * $cost_J$ * $load_m$ / $load_J$ + 'NYC + LI
a_8 * $cost_J$ * $load_m$ / $load_J$ 'Cent East + NYC + LI

For Transmission Customer m in Load Zone K:

a_1 * ($cost_A$+…+$cost_K$) * $load_m$ / ($load_A$+…+$load_K$) + 'no constraints
a_2 * ($cost_F$+…+$cost_K$) * $load_m$ / ($load_F$+…+$load_K$) + 'below 'Central- East const
a_3 * ($cost_A$+…+$cost_I$+~~$cost_k$~~$cost_K$) * $load_m$ / ($load_A$+…+$load_I$+~~$load_k$) + 'above S-D~~$load_K$) +
'NYC constraint
a_4 * $cost_K$ * $load_m$ / $load_K$ 'below CE +
'LI constraint
~~where~~ a_5 * ($cost_F$+…+$cost_I$+$cost_K$) * $load_m$ / ($load_F$+…+$load_I$+$load_K$) + 'Cent East + NYC
a_6 * $cost_K$ * $load_m$ / $load_K$ + 'Cent East + LI
a_7 * $cost_K$ * $load_m$ / $load_K$ + 'NYC + LI
a_8 * $cost_K$ * $load_m$ / $load_K$ 'Cent East + LI + NYC

In all cases, the variables are:

a_1 = fraction of time when ~~none of the three most limiting interfaces are constrained~~no constraints exist
a_2 = fraction of time when ~~the~~ Central- East interface alone is ~~constrained~~constraining
a_3 = fraction of time when ~~the~~ Sprainbrook-Dunwoodie interface alone is ~~constrained~~constraining
a_4 = fraction of time when ~~the~~ Con Ed-Long Island ~~interface is constrained~~(including the Y49/Y50 lines) interfaces are constraining, but Central East and Sprainbrook-Dunwoodie interfaces are not constraining
a_5 = fraction of time when Central East and Sprainbrook-Dunwoodie interfaces are constraining
a_6 = fraction of time when Central East, Con Ed-Long Island interfaces (including the Y49/Y50 lines) are constraining
a_7 = fraction of time when Sprainbrook-Dunwoodie, Con Ed-Long Island interfaces (including the Y49/Y50 lines) are constraining
a_8 = fraction of time when Central East, Sprainbrook-Dunwoodie, Con Ed-Long Island interfaces (including the Y49/Y50 lines) are constraining

$cost_{A…K}$ = ~~Schedule 1 Program Costs~~ revenue deficiencies due to DADRP Demand Reductions in Load Zones A…K, calculated on a daily basis

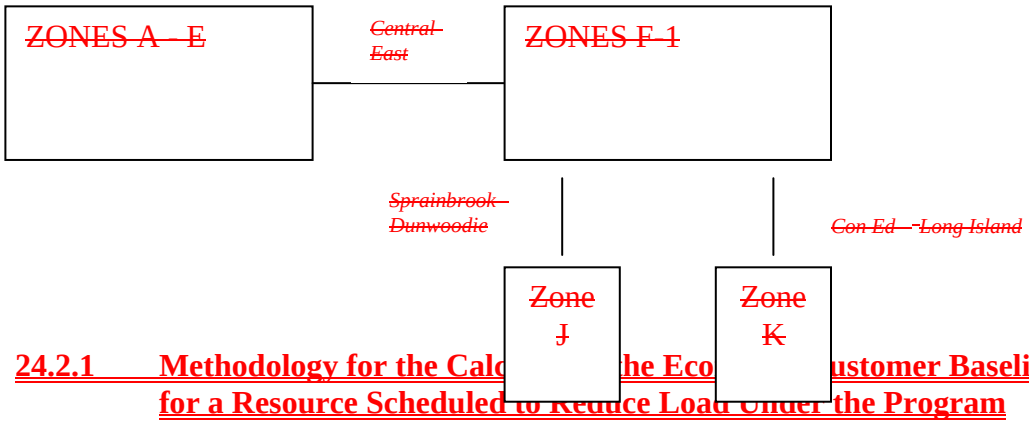
$load_m$ = real-time Load for Transmission Customer m, calculated on a daily basis
$load_{A...K}$ = real-time Loads for all Transmission Customers ~~s~~ in Load ~~Zone~~Zones A…K, calculated on a daily basis

~~The specific values~~

24.2 Measurement of ~~a1, a2 a3 and a4,~~Actual Demand Reduction Scheduled in the Program

The measured amount of Demand Reduction supplied by a Demand Reduction Provider under the Program shall be ~~updated~~the difference between the Demand Reduction Provider's baseline load for each ~~year and~~ scheduled hour, which shall be ~~set forth in the~~ calculated in accordance with section 24.2.1 and ISO Procedures~~.~~, and the actual metered hourly load for each scheduled hour.

~~**Relationship Between Frequently Constrained Interfaces and Composite Load Zones**~~



24.2.1 Methodology for the Calc he Eco ustomer Baseline Load for a Resource Scheduled to Reduce Load Under the Program

The ISO shall employ two different calculation methodologies of the Economic Customer Baseline Load ("ECBL") for scheduled Demand Reductions, depending on whether the Demand Reduction is scheduled on a weekend or a weekday.

24.2.1.1 Definitions

Adjusted Weekday ECBL: For each hour of the scheduled Demand Reduction, the Adjusted Weekday ECBL shall be equal to the ECBL multiplied by the ECBL In-Day Adjustment Factor calculated for the scheduled Demand Reduction period.

ECBL In-Day Adjustment Factor: The ECBL In-Day Adjustment shall be an adjustment factor that is applied to the ECBL for each hour of the scheduled Demand Reduction period.

a) Calculate the ECBL In-Day Adjustment by dividing the average of the metered load for the two hours of the ECBL In-Day Adjustment Period on the day of the scheduled Demand Reduction by the average of the ECBL for the same two hours.

b) The ECBL In-Day Adjustment Factor shall be limited to a minimum of 0.8 and a maximum of 1.2.

ECBL In-Day Adjustment Period: The ECBL Adjustment Period is the time prior to the scheduled Demand Reduction period that is used to determine the ECBL In-Day Adjustment. The hours to be used in the ECBL Adjustment Period shall be the two consecutive hours that occur four hours prior to the first hour of the scheduled Demand Reduction period, provided that the hours are part of the same calendar day.

To determine the two hours of the ECBL In-Day Adjustment Period:

a) The fourth hour before the first hour of the scheduled Demand Reduction period shall be the first hour of the ECBL In-Day Adjustment Period, except when the fourth hour before first hour of the scheduled Demand Reduction period occurs on the previous day.

b) The third hour before the first hour of the scheduled Demand Reduction period shall be the second hour of the ECBL In-Day Adjustment Period, except when the third hour before the first hour of the scheduled Demand Reduction period occurs on the previous day.

c) When the third and/or fourth hour of the ECBL In-Day Adjustment Period occurs on the previous day, the ISO shall use as a substitute the hour beginning midnight on the day of the scheduled Demand Reduction. Both hours of the ECBL In-Day Adjustment Period may equal the hour beginning midnight on the day of the scheduled Demand Reduction.

ECBL Weekday Window: The ECBL Weekday Window is the time period reviewed in determining the ECBL for any hour of scheduled Demand Reduction that takes place on a weekday. It shall consist of the hours from the previous ten weekdays that correspond to each hourly interval of the scheduled Demand Reduction period. Treatment of NERC holidays that occur on weekdays shall be equivalent to all hours scheduled on the NERC holiday.

ECBL Weekend Window: The ECBL Weekend Window is the time period reviewed in determining the ECBL for any hour of scheduled Demand Reduction that takes place on a weekend. It shall consist of the hours from the previous three weekend days of the same type (Saturday or Sunday) that correspond to each hourly interval of the scheduled Demand Reduction period. Treatment of NERC holidays that occur on weekend days shall be equivalent to all hours scheduled on the NERC holiday.

Weekday Proxy: The Weekday Proxy is a value that is substituted for the metered load for any hour in any ECBL Weekday Window in which a Demand Reduction was scheduled. It shall be determined by (1) establishing a new ECBL Weekday Window for that hour consisting of the corresponding hours in the ten weekdays preceding the day the Demand Reduction occurred, and (2) repeating the steps described at section 24.2.1.2 b, c, d, and e.

Weekend Proxy: The Weekend Proxy is a value that is substituted for the metered load for any hour in any ECBL Weekend Window in which a Demand Reduction was scheduled. It shall be

determined by (1) establishing a new ECBL Weekend Window for that hour consisting of the corresponding hours in the three weekends preceding the day the Demand Reduction occurred, and (2) repeating the steps described at section 24.2.1.2 b, c, d, and e.

24.2.1.2 Methodology for the Calculating the Economic Customer Baseline Load for Demand Reductions Scheduled on a Weekday

To determine the ECBL for an hour of scheduled Demand Reduction (a "Target Hour") that occurs on a weekday:

a) Select the hours that comprise the ECBL Weekday Window for that Target Hour.

b) Select the metered load value for each hour in the ECBL Weekday Window where no scheduled Demand Reduction occurred pursuant to this Program.

c) For each hour of the ECBL Weekday Window where a scheduled Demand Reduction occurred, select the Weekday Proxy for that hour and day in place of the actual metered load for that hour.

d) Rank in descending order the metered load and Weekday Proxy values determined in steps b and c.

e) Calculate the average of the fifth and sixth ranked values. The value as so calculated shall be the ECBL for the Target Hour.

f) Apply the ECBL In-Day Adjustment Factor to the ECBL to determine the Adjusted Weekday ECBL for the Target Hour.

24.2.1.3 Methodology for the Calculating the Economic Customer Baseline Load for a Resource's Demand Reduction Scheduled Under the Program on a Weekend

To determine the ECBL for a Target Hour that occurs on a weekend:

a) Select the hours that comprise the ECBL Weekend Window for the Target Hour.

b) Select the metered load value for each hour in the ECBL Weekend Window where no scheduled Demand Reduction occurred pursuant to this Program.

c) For each hour of the ECBL Weekend Window where a Scheduled Demand Reduction occurred, select the ECBL Weekend Proxy for that hour and day in place of the actual metered load for the hour.

d) Rank in descending order the metered load and ECBL Weekend Proxy values determined in steps b and c.

e) Calculate the average of the metered load and ECBL Proxy values. The value so calculated is the ECBL for the Target Hour.

f) Apply the ECBL In-Day Adjustment Factor to the ECBL to calculate the Adjusted Weekend ECBL for the Target Hour.

24.3 Verification of Actual Demand Reduction Scheduled in the Program

Demand Reduction calculated using the Economic Customer Baseline Load methodology is subject to verification by the ISO. -Demand Reduction Providers shall provide the ISO with (1) hourly response data for the actual hourly Demand Reduction supplied by the Demand Response Provider for the scheduled period; (2) metered load data for the hours of scheduled Demand Reduction; (3) the data underlying the ECBL calculations for each scheduled Demand Reduction, including any data required to establish any Weekday Proxy or Weekend Proxy values; and (4) such other information as the ISO may require to verify their actual Demand Reduction. Demand Reduction Providers shall report the data at the time and in the format required by the ISO pursuant to ISO Procedures. If a Demand Reduction Provider fails to report the required data to the ISO in accordance with ISO Procedures, the Demand Reduction Provider will be subject to penalties associated with a failure to supply the scheduled Demand Reductions

and may lose its eligibility to participate in the Program. All Demand Reduction data are subject to audit by the ISO. If the ISO determines that it has made an erroneous payment to a Demand Reduction Provider, it shall have the right to recover it either by reducing other payments to that Demand Reduction Provider or by any other lawful means.