5.11 Requirements Applicable to LSEs

5.11.1 Allocation of the NYCA Minimum Unforced Capacity Requirement

Each Transmission Owner and each municipal electric utility will submit to the ISO, for its review pursuant to mutually agreed upon procedures which shall be described in the ISO Procedures, the weather-adjusted Load within its Transmission District during the hour in which actual Load in the NYCA was highest (the "NYCA peak Load") for the current Capability Year. (Municipal electric utilities may elect not to submit weather-adjusted data, in which case, weather adjustments shall be performed per ISO procedures. The ISO shall use these data to determine the Adjusted Actual Load at the time of the NYCA peak Load for each Transmission District and municipal electric utility pursuant to ISO Procedures, which shall ensure that transmission losses and the effects of demand reduction programs are treated in a consistent manner and that all weather normalization procedures meet a minimum criterion described in the ISO Procedures. Each Transmission District or municipal electric utility Load forecast coincident with the NYCA peak shall be the product of that Transmission District or municipal electric utility's Adjusted Actual Load at the time of the NYCA peak Load multiplied by one plus the regional Load growth factor for that Transmission District or municipal electric utility developed pursuant to Section 5.10 of this Tariff. After calculating each Transmission District or municipal electric utility Load forecast, if the ISO determines that an Adjusted Actual Load determined for a Transmission District or municipal electric utility does not reflect reasonable expectations of what Load might reasonably have been expected to occur in that Transmission District or area served by that municipal electric utility in that Capability Year, after taking into consideration the adjustments to account for weather normalization, transmission losses and demand response programs that are described in the ISO Procedures, the ISO Procedures shall

also authorize the ISO to substitute its own measures of Adjusted Actual Load for that Transmission District or area serviced by that municipal electric utility in this calculation, subject to the outcome of dispute resolution procedures if invoked. The ISO's measure of Adjusted Actual Load shall be binding unless otherwise determined as the result of dispute resolution procedures that may be invoked. Each Transmission Owner must also submit aggregate Adjusted Load data, coincident with the NYCA peak hour, for all customers served by each LSE active within its Transmission District. The aggregate Load data may be derived from direct meters or Load profiles of the customers served. Each Transmission Owner shall be required to submit such forecasts and aggregate peak Load data in accordance with the ISO Procedures. Each municipal electric utility may choose to submit its peak Load forecast based on the Transmission District's peak Load forecast provided by a Transmission Owner or to provide its own. Any disputes arising out of the submittals required in this paragraph shall be resolved through the Expedited Dispute Resolution Procedures set forth in Section 5.17 of this Tariff.

All aggregate Load data submitted by a Transmission Owner must be accompanied by documentation indicating that each affected LSE has been provided the data regarding the assignment of customers to the affected LSE. Any disputes between LSEs and Transmission Owners regarding such data or assignments shall be resolved through the Expedited Dispute Resolution Procedures set forth in Section 5.17 of this Tariff, or the Transmission Owner's retail access procedures, as applicable.

The ISO shall allocate the NYCA Minimum Unforced Capacity Requirement among all LSEs serving Load in the NYCA prior to the beginning of each Capability Year. It shall then adjust the NYCA Minimum Unforced Capacity Requirement and reallocate it among LSEs before each Winter Capability Period as necessary to reflect changes in the factors used to

translate ICAP requirements into Unforced Capacity requirements. Each LSE's share of the NYCA Minimum Unforced Capacity Requirement will equal the product of: (i) the NYCA Minimum Installed Capacity Requirement as translated into a NYCA Minimum Unforced Capacity Requirement; and (ii) the ratio of the sum of the Load forecasts coincident with the NYCA peak Load for that LSE's customers in each Transmission District to the NYCA peak Load forecast.

Each LSE Unforced Capacity Obligation will equal the product of (i) the ratio of that LSE's share of the NYCA Minimum Unforced Capacity Requirement to the total NYCA Minimum Unforced Capacity Requirement and (ii) the total of all of the LSE Unforced Capacity Obligations for the NYCA established by the ICAP Spot Market Auction. The LSE Unforced Capacity Obligation will be determined in each Obligation Procurement Period by the ICAP Spot Market Auction, in accordance with the ISO Procedures. Each LSE will be responsible for acquiring sufficient Unforced Capacity to satisfy its LSE Unforced Capacity Obligations. LSEs with Load in more than one Locality will have an LSE Unforced Capacity Obligation for each Locality.

Prior to the beginning of each Capability Period, Transmission Owners shall submit the required Load-shifting information to the ISO and to each LSE affected by the Load-shifting, in accordance with the ISO Procedures. In the event that there is a pending dispute regarding a Transmission Owner's forecast, the ISO shall nevertheless establish each LSE's portion of the NYCA Minimum Unforced Capacity Requirement applicable at the beginning of each Capability Period in accordance with the schedule established in the ISO Procedures, subject to possible adjustments that may be required as a result of resolution of the dispute through the Expedited Dispute Resolution Procedures set forth in Section 5.17 of this Tariff.

Each month, as Transmission Owners report customers gained and lost by LSEs through Load-shifting, the ISO will adjust each LSE's portion of the NYCA Minimum Unforced Capacity Requirement such that (i) the total Transmission District Installed Capacity requirement remains constant and (ii) an individual LSE's allocated portion reflects the gains and losses. If an LSE loses a customer as a result of that customer leaving the Transmission District, the Load-losing LSE shall be relieved of its obligation to procure Unforced Capacity to cover the Load associated with the departing customer as of the date that the customer's departure is accepted by the ISO and shall be free to sell any excess Unforced Capacity. In addition, when a customer leaves the Transmission District, the ISO will adjust each LSE's portion of the NYCA Minimum Unforced Capacity Requirement so that the total Transmission District's share of the NYCA Minimum Unforced Capacity Requirement remains constant.

5.11.2 LSE Obligations

Each LSE must procure Unforced Capacity in an amount equal to its LSE Unforced Capacity Obligation, less its Capacity Requirement Offset as described in Section 5.11.5 of this Services Tariff, from any Installed Capacity Supplier through Bilateral Transactions with purchases in ISO-administered Installed Capacity auctions, by self-supply from qualified sources, or by a combination of these methods. Each LSE must certify the amount of Unforced Capacity it has or has obtained prior to the beginning of each Obligation Procurement Period by submitting completed Installed Capacity certification forms to the ISO by the date specified in the ISO Procedures. The Installed Capacity certification forms submitted by the LSEs shall be in the format and include all the information prescribed by the ISO Procedures.

All LSEs shall participate in the ICAP Spot Market Auction pursuant to Section 5.14.1 of this Tariff.

5.11.3 Load-Shifting Adjustments

The ISO shall account for Load-shifting among LSEs each month using the best available information provided to it and the affected LSEs by the individual Transmission Owners**.** The ISO shall, upon notice of Load-shifting by a Transmission Owner and verification by the relevant Load-losing LSE, increase the Load-gaining LSE's LSE Unforced Capacity Obligation, as applicable, and decrease the Load-losing LSE's LSE Unforced Capacity Obligation, as applicable, to reflect the Load-shifting.

The Load-gaining LSE shall pay the Load-losing LSE an amount, pro-rated on a daily basis, based on the Market-Clearing Price of Unforced Capacity determined in the most recent previous applicable ICAP Spot Market Auction until the first day of the month after the nearest following Monthly Installed Capacity Auction is held. The amount paid by a Load-gaining LSE shall reflect any portion of the Load-losing LSE's LSE Unforced Capacity Obligation that is attributable to the shifting Load for the applicable Obligation Procurement Period, in accordance with the ISO Procedures. In addition, the amount paid by a Load-gaining LSE shall be reduced by the Load-losing LSE's share of any rebate associated with the lost Load paid pursuant to Section 5.15 of this Tariff.

Each Transmission Owner shall report to the ISO and to each LSE serving Load in its Transmission District the updated, aggregated LSE Loads with documentation in accordance with and by the date set forth in the ISO Procedures. The ISO shall reallocate a portion of the NYCA Minimum Unforced Capacity Requirement and the Locational Minimum Unforced Capacity Requirement, as applicable, to each LSE for the following Obligation Procurement Period, which shall reflect all documented Load-shifts as of the end of the current Obligation Procurement Period. Any disputes among Market Participants concerning Load-shifting shall be

resolved through the Expedited Dispute Resolution Procedures set forth in Section 5.17 of this Tariff, or the Transmission Owner's retail access procedures, as applicable. In the event of a pending dispute concerning a Load-shift, the ISO shall make its Obligation Procurement Period Installed Capacity adjustments as if the Load-shift reported by the Transmission Owners had occurred, or if the dispute pertains to the timing of a Load-shift, as if the Load-shift occurred on the effective date reported by the Transmission Owner, but will retroactively modify these allocations, as necessary, based on determinations made pursuant to the Expedited Dispute Resolution Procedures set forth in Section 5.17 of this Tariff, or the Transmission Owner's retail access procedures, as applicable.

5.11.4 LSE Locational Minimum Installed Capacity Requirements

The ISO will determine the Locational Minimum Installed Capacity Requirements, stated as a percentage of the Locality's forecasted Capability Year peak Load and expressed in Unforced Capacity terms, that shall be uniformly applicable to each LSE serving Load within a Locality. In establishing Locational Minimum Installed Capacity Requirements, the ISO will take into account all relevant considerations, including the total NYCA Minimum Installed Capacity Requirement, the NYS Power System transmission Interface Transfer Capability, the election by the holder of rights to UDRs that can provide Capacity from an External Control Area with a capability year start date that is different than the corresponding ISO Capability Year start date ("dissimilar capability year"), the Reliability Rules and any other FERC-approved Locational Minimum Installed Capacity Requirements.

The Installed Capacity Supplier holding rights to UDRs from an External Control Area with a dissimilar capability year shall have one opportunity for a Capability Year in which the Scheduled Line will first be used to offer Capacity associated with the UDRs, to elect that the

ISO determine Locational Minimum Installed Capacity Requirements without a quantity of MW from the UDRs for the first month in the Capability Year, and with the same quantity of MW as Unforced Capacity for the remaining months, in each case (a) consistent with and as demonstrated by a contractual arrangement to utilize the UDRs to import the quantity of MW of Capacity into a Locality, and (b) in accordance with ISO Procedures (a "capability year adjustment election"). If there is more than one Installed Capacity Supplier holding rights to UDRs concurrently, an Installed Capacity Supplier's election pursuant to the preceding sentence (x) shall be binding on the entity to which the NYISO granted the UDRs up to the quantity of MW to which the Installed Capacity Supplier holds rights, and a subsequent assignment of these UDRs to another rights holder will not create the option for another one-time election by the new UDR rights holder, and (y) shall not affect the right another Installed Capacity Supplier may have to make an election. The right to make an election shall remain unless and until an election has been made by one or more holders of rights to the total quantity of MW corresponding to the UDRs. Absent this one-time election, the UDRs shall be modeled consistently for all months in each Capability Year as elected by the UDR rights holder in its notification to the ISO in accordance with ISO Procedures. Upon such an election, the ISO shall determine the Locational Minimum Unforced Capacity Requirement (i) for the first month of the Capability Year without the quantity of MW of Capacity associated with the UDRs, and (ii) for the remaining eleven months as Unforced Capacity. After the Installed Capacity Supplier has made its one-time election for a quantity of MW, the quantity of MW associated with the UDRs held by the Installed Capacity Supplier shall be modeled consistently for all months in any future Capability Period.

The Locational Minimum Unforced Capacity Requirement represents a minimum level of Unforced Capacity that must be secured by LSEs in each Locality in which it has Load for each Obligation Procurement Period. The Locational Minimum Unforced Capacity Requirement for each Locality shall equal the product of the Locational Minimum Installed Capacity Requirement for a given Locality (with or without the UDRs if there is a capability year adjustment election by a rights holder) and the ratio of (1) the total amount of Unforced Capacity that the specified Resources are qualified to provide (with or without the UDRs associated with dissimilar capability periods, as so elected by the rights holder) during each month in the Capability Period, as of the time the Locational Minimum Unforced Capacity Requirement is determined as specified in ISO Procedures, to (2) the sum of the DMNCs used to determine the Unforced Capacities of such Resources for such Capability Period (with or without the DMNCs associated with the UDRs, as so elected by the rights holder). The foregoing calculation shall be determined using the Resources in the given Locality in the most recent final version of the ISO's annual Load and Capacity Data Report, with the addition of Resources commencing commercial operation since completion of that report and the deletion of Resources with scheduled or planned retirement dates before or during such Capability Period. Under the provisions of this Services Tariff and the ISO Procedures, each LSE will be obligated to procure its LSE Unforced Capacity Obligation, less its Capacity Requirement Offset as described in Section 5.11.5 of this Services Tariff. The LSE Unforced Capacity Obligation will be determined for each Obligation Procurement Period by the ICAP Spot Market Auction, in accordance with the ISO Procedures.

Qualified Resources will have the opportunity to supply amounts of Unforced Capacity to meet the LSE Unforced Capacity Obligation as established by the ICAP Spot Market Auction.

To be counted towards the locational component of the LSE Unforced Capacity Obligation, Unforced Capacity owned by the holder of UDRs or contractually combined with UDRs must be deliverable to the NYCA interface with the UDR transmission facility pursuant to NYISO requirements and consistent with the election of the holder of the rights to the UDRs set forth in this Section.

In addition, any Customer that purchases Unforced Capacity associated with any generation that is subject to capacity market mitigation measures in an ISO-administered auction may not resell that Unforced Capacity in a subsequent auction at a price greater than the annual mitigated price cap, as applied in accordance with the ISO Procedures in accordance with Sections 5.13.2, 5.13.3, and 5.14.1 of this Tariff. The ISO shall inform Customers that purchase Unforced Capacity in an ISO-administered auction of the amount of Unforced Capacity they have purchased that is subject to capacity market mitigation measures.

The ISO shall have the right to audit all executed Installed Capacity contracts and related documentation of arrangements by an LSE to use its own generation to meet its Locational Minimum Installed Capacity Requirement for an upcoming Obligation Procurement Period.

5.11.5 Capacity Requirement Offset Program

Pursuant to the Capacity Requirement Offset Program, the ISO will offset, on a one-for-one basis, an LSE's Unforced Capacity Obligation with the $UCAP_c$ of Capacity Offset Demand Resources successfully enrolled by a Responsible Enrolling Party with the ISO for that month for that LSE. The $UCAP_c$ available to the LSE from enrolled Capacity Offset Demand Resources cannot exceed the amount of the LSE's Unforced Capacity Obligation, as established prior to the beginning of each Capability Period.

Subject to this cap: (i) Capacity Offset Demand Resources enrolled for an LSE in Load Zone K may only offset the LSE's Long Island Locality Unforced Capacity Requirement, (ii) Capacity Offset Demand Resources enrolled for an LSE in Load Zone J may only offset the LSE's New York City Locality Unforced Capacity Requirement, (iii) Capacity Offset Demand Resources enrolled for an LSE in Load Zones G, H, I may only offset the LSE's G-J Locality Unforced Capacity Requirement, and (iv) Capacity Offset Demand Resources enrolled for an LSE in Load Zones A, B, C, D, E, F may only offset the LSE's NYCA Unforced Capacity Requirement.

5.11.5.1 Responsible Enrolling Parties

An LSE may appoint a Responsible Enrolling Party as its agent, in accordance with ISO Procedures, for all purposes related to the LSE's participation in the ISO's Capacity Requirement Offset Program under Section 5.11.5 of this Services Tariff including, without limitation, undertaking on behalf of the LSE, enrolling, testing and reporting obligations associated with the Capacity Offset Demand Resources enrolled for the LSE. The LSE shall also be responsible for all settlements, including deficiency charges, related to its participation in the ISO's Capacity Requirement Offset Program and service under Section 5.11.5 of this Services Tariff, whether the result of action taken directly by the LSE or the Responsible Enrolling Party on behalf of the LSE.

A Responsible Enrolling Party may enroll Demand Side Resources as Capacity Offset Demand Resources in the Capacity Requirement Offset Program, if the Demand Side Resources are available to operate at the direction of the ISO in order to reduce Load from the NYS Transmission System and/or the distribution system for a minimum of four (4) consecutive hours each day. Demand Side Resources subject to operating limitations established by environmental

permits, may enroll as Capacity Offset Demand Resources and will not be required to operate in excess of two (2) hours and which will be derated by the ISO pursuant to ISO Procedures to account for the Load serving equivalence of the hours actually available. Capacity Offset Demand Resources are obligated to reduce their Load following notice of the potential need to operate twenty-one (21) hours in advance if notification is provided by 3:00 P.M. ET, or twenty-four (24) hours in advance otherwise, and a notification to operate two (2) hours ahead. When a Responsible Enrolling Party enrolls a Demand Side Resource that uses an eligible Local Generator, any amount of generation that can reduce Load from the NYS Transmission System and/or distribution system at the direction of the ISO that was produced by the Local Generator during the hour coincident with the NYCA or Locality peaks, upon which the LSE Unforced Capacity Obligation of the LSE that serves that Capacity Offset Demand Resource is based, must be accounted for when the LSE's Unforced Capacity Obligation for the upcoming Capability Year is established. Responsible Enrolling Parties must provide this generator data in accordance with ISO Procedures so that the ISO can adjust upwards the LSE Unforced Capacity Obligation to prevent double-counting.

The ISO will have discretion, pursuant to ISO Procedures, to exempt Local Generators that are incapable of starting in two (2) hours from the requirement to operate on two (2) hours notification. Local Generators, enrolled in the Capacity Requirement Offset Program as Capacity Offset Demand Resources that can be operated to reduce Load from the NYS Transmission System and/or distribution system at the direction of the ISO, and Loads, enrolled in the Capacity Requirement Offset Program as Capacity Offset Demand Resources that are capable of being interrupted upon demand, that are not available on certain hours or days will be

derated by the ISO, pursuant to ISO Procedures, to reflect the Load serving equivalence of the hours they are actually available.

The ISO may request Capacity Offset Demand Resource performance from fewer than the total number of Capacity Offset Demand Resources within the NYCA in accordance with ISO Procedures. Directions from the NYISO to reduce Load from the NYS Transmission System and/or the distribution system may be due to (i) a forecasted reserve shortage, (ii) an ISO declared Major Emergency State, (iii) an ISO request to perform made in response to a request for assistance for Load relief purposes or as a result of a Local Reliability Rule, or (iv) a test called by the ISO for such Load reduction, in accordance with ISO Procedures and shall require a response for four (4) consecutive hours, or the duration of the event, whichever is less, provided that notice was given of the potential need to operate twenty-one (21) hours in advance of notification is provided by 3:00 P.M. ET, or twenty-four (24) hours in advance otherwise, and a notification to operate two (2) hours ahead. Transmission Owners that require assistance from enrolled Capacity Offset Demand Resources for Load relief purposes or as a result of a Local Reliability Rule, shall direct their requests for assistance to the ISO for implementation consistent with the terms of this section.

Capacity Offset Demand Resources will be required to comply with verification and validation procedures set forth in the ISO Procedures. Such procedures will not require metering other than interval billing meters on customer Load or testing other than sustained disconnect, as appropriate, unless agreed to by the customer, except that Capacity Offset Demand Resources not otherwise required to reduce Load in a Capability Period will be required to run a test once every Capability Period in accordance with the ISO Procedures.

Responsible Enrolling Parties with Capacity Offset Demand Resources that were requested to reduce Load in any month shall submit performance data to the NYISO, within 75 days of each called event or test, in accordance with ISO Procedures. Failure by a Responsible Enrolling Party to submit performance data for any Capacity Offset Demand Resources required to respond to the event or test within the 75-day limit will result in zero performance attributed to those Capacity Offset Demand Resources for purposes of satisfying the Capacity Offset Demand Resource's offset obligation. All performance data are subject to verification and audit by the NYISO and its market monitoring unit. If the ISO determines that it has awarded an erroneous Capacity Requirement Offset to a Load Serving Entity, the ISO shall have the right to recover the value of an erroneous Capacity Requirement Offset by resolving the issue pursuant to Section 5.11.5.8 of this Services Tariff or other lawful means.

The historical performance of a Demand Side Resource that participated in the SCR program shall continue to be attributed to that Demand Side Resource after the date in which Section 5.11.5 becomes effective. If the Demand Side Resource enrolls in the Capacity Requirement Offset Program, its historical performance shall continue to be used to calculate all applicable performance factors and deficiencies in accordance with ISO Procedures.

5.11.5.2 $UCAP_c$ and $ICAP_c$ Calculation

The ISO shall calculate for each Capacity Offset Demand Resource the amount of, $UCAP_c$, or the Unforced Capacity Credit, that each Responsible Enrolling Party is qualified to enroll in accordance with the ISO's calculations of a Capacity Offset Demand Resource's applicable Average Coincident Load and with formulae provided in the ISO Procedures. $ICAP_c$,

or the Installed Capacity Credit, available from the Capacity Offset Demand Resource shall be the ICAP Credit equivalent of its $UCAP_c$.

5.11.5.3 Average Coincident Load of a Capacity Offset Demand Resource

The ISO must receive from the Responsible Enrolling Party that enrolls a Capacity Offset Demand Resource, the applicable metered Load data required to calculate an ACL for that Capacity Offset Demand Resource as provided below and in accordance with ISO Procedures. The NYISO shall calculate a Capacity Offset Demand Resource's ACL using the metered Load for the applicable Capability Period Load Zone Peak Hours that indicates the Load consumed by each Capacity Offset Demand Resource that is supplied by the NYS Transmission System and/or distribution system and is exclusive of any generation produced by a Local Generator, other behind-the-meter generator, or other supply source located behind the Capacity Offset Demand Resource's meter, that served some of the Capacity Offset Demand Resource's Load.

The ISO shall use the average of the highest twenty (20) one-hour peak Loads of the Capacity Offset Demand Resource taken from the Load data reported for the Capability Period Load Zone Peak Hours during the Prior Equivalent Capability Period, and taking into account the resource's reported verified Load reduction in a Transmission Owner's demand response program in hours coincident with any of these hours, to create a Capacity Offset Demand Resource ACL baseline. The verified Load reduction of a Demand Side Resource while the resource was participating in either of the ISO's economic demand response programs (the Day Ahead Demand Response Program and the Demand Side Ancillary Services Program) in hours coincident with any of the applicable Capability Period Load Zone Peak Hours will be taken into account when creating the Capacity Offset Demand Resource ACL. For the Day Ahead Demand

Response Program, the verified Load reduction that occurred in response to a DADRP schedule shall be added to the Capability Period Load Zone Peak Hour for which the reduction in response to a DADRP schedule occurred. For the Demand Side Ancillary Services Program, the Load value to be used in calculating the ACL for each hour during the Capability Period Load Zone Peak Hours in which a non-zero Base Point Signal the ISO provides to the resource, shall be the greater of (a) the DSASP Baseline MW value in the interval immediately preceding the first non-zero Base Point Signal in the Capability Period Load Zone Peak Hour and (b) the metered Load of the resource as reported by the Responsible Enrolling Party for the Capability Period Load Zone Peak Hour. When the non-zero Base Point Signal dispatch of a DSASP resource begins in one hour and continues into consecutive hours, and the consecutive hour is identified as being a Capability Period Load Zone Peak Hour, the DSASP Baseline MW value in effect at the beginning of the dispatch of the non-zero Base Point Signal shall be the MW value used for purposes of determining the applicable Load value for that Capability Period Load Zone Peak Hour, in accordance with the preceding sentence. The ISO will post to its website the Capability Period Load Zone Peak Hours for each zone ninety (90) days prior to the beginning of the Capability Period for which the ACL will be in effect.

In the Capacity Offset Demand Resource enrollment file uploaded by the Responsible Enrolling Party each month within the Capability Period, among other required information, the Responsible Enrolling Party shall provide the Capacity Offset Demand Resource's metered Load values for the applicable Capability Period Load Zone Peak Hours necessary to compute the ACL for each Capacity Offset Demand Resource.

The exception to this requirement to report the required metered Load data for the ACL, is dependent upon one or more of the eligibility conditions for Capacity Offset Demand

Resource enrollment with a Provisional ACL provided in Section 5.11.5.4 of this Services Tariff and ISO Procedures. For Capacity Offset Demand Resources that meet the criteria to enroll with a Provisional ACL, the ISO must receive from the Responsible Enrolling Party a Provisional ACL as provided in Section 5.11.5.4 of this Services Tariff and in accordance with ISO Procedures.

In addition to the requirement for Responsible Enrolling Parties to report each Capacity Offset Demand Resource's metered Load values that occurred during the Capability Period Load Zone Peak Hours, in accordance with this Services Tariff and ISO Procedures during the enrollment process, any qualifying increase in a Capacity Offset Demand Resource's Load that will be supplied by the NYS Transmission System and/or distribution system may be reported as an Incremental ACL, subject to the limitations and verification reporting requirements provided in Section 5.11.5.7 of this Services Tariff and in accordance with ISO Procedures. Incremental ACL values must be reported using the required enrollment file that may be uploaded by the Responsible Enrolling Party during each month's enrollment period. Responsible Enrolling Parties may not report Incremental ACL values for any Capacity Offset Demand Resources that are enrolled in the Capability Period with a Provisional ACL.

A reduction in a Capacity Offset Demand Resource's Load that is supplied by the NYS Transmission System and/or distribution system and meets the criteria for a Demand Side Resource Change of Status must be reported by the Responsible Enrolling Party as a Demand Side Resource Change of Status as provided by Section 5.11.5.5 of this Services Tariff and in accordance with ISO Procedures.

The ACL is the basis for the upper limit of $ICAP_c$, except in circumstances when the Capacity Offset Demand Resource has reported a Demand Side Resource Change of Status or

reported an Incremental ACL pursuant to Sections 5.11.5.5 and 5.11.5.7 of this Services Tariff. The basis for the upper limit of $ICAP_c$ for a Capacity Offset Demand Resource that has experienced a Demand Side Resource Change of Status or reported an Incremental ACL shall be the Net ACL.

5.11.5.4 Use of a Provisional Average Coincident Load

A Capacity Offset Demand Resource may be enrolled using a Provisional ACL in lieu of an ACL when one of the following conditions has been determined by the ISO to apply: (i) the Capacity Offset Demand Resource has not previously been enrolled with the ISO in the Capacity Offset Program, or the Special Case Resource program for any Prior Equivalent Capability Period for which the Capacity Offset Demand Resource enrollment with a Provisional ACL is intended, (ii) the Capacity Offset Demand Resource was enrolled with a Provisional ACL in the Prior Equivalent Capability Period either as a Special Case Resource or as a Capacity Offset Demand Resource and was required to report fewer than twenty (20) hours of metered Load verification data that correspond with the Capability Period Load Zone Peak Hours based on the meter installation date of the Capacity Offset Demand Resource, (iii) the Responsible Enrolling Party attempting to enroll the Capacity Offset Demand Resource with a Provisional ACL is either not the same Responsible Enrolling Party that enrolled the Demand Side Resource in the Prior Equivalent Capability Period or is not the same entity that enrolled the Capacity Offset Demand Resource as an SCR in the Prior Equivalent Capability Period, and interval billing meter data for the Demand Side Resource from the Prior Equivalent Capability Period is not obtainable by the enrolling Responsible Enrolling Party and not available to be provided to the enrolling Responsible Enrolling Party by the ISO. The Provisional ACL may be applicable to a Capacity Offset Demand Resource for a maximum of three (3) consecutive Capability Periods

when enrolled with the same Responsible Enrolling Party, beginning with the Capability Period in which the Capacity Offset Demand Resource was first enrolled by the Responsible Enrolling Party.

A Capacity Offset Demand Resource enrolled in the Capability Period with a Provisional ACL may not be enrolled by another Responsible Enrolling Party for the remainder of the Capability Period and the Provisional ACL value shall apply to the resource for the entire Capability Period for which the value is established. If a Demand Side Resource is enrolled with a Provisional ACL in the NYISO Special Case Resource program during a Capability Period in which the Capacity Requirement Offset Program becomes effective, then the Demand Side Resource is not eligible to be enrolled in this Capacity Requirement Offset Program until the following Capability Period.

The Provisional ACL is the Responsible Enrolling Party's forecast of the Capacity Offset Demand Resource's ACL and shall be the basis for the upper limit of $ICAP_c$ for which the Responsible Enrolling Party may enroll the Capacity Offset Demand Resource during the Capability Period.

Any Capacity Offset Demand Resource enrolled with a Provisional ACL shall be subject to actual in-period verification. A Verified ACL shall be calculated by the ISO using the top twenty (20) one-hour peak Loads reported for the Capacity Offset Demand Resource from the Capability Period Load Zone Peak Hours that are applicable to verify the Provisional ACL in accordance with ISO Procedures and taking into account the resource's reported verified Load reductions in a Transmission Owner's demand response program that are coincident with any of the applicable Capability Period Load Zone Peak Hours. In addition, verified Load reduction of a Demand Side Resource while that resource was participating in either of the ISO's economic

demand response programs (the Day Ahead Demand Response Program and the Demand Side Ancillary Services Program) in hours coincident with any of the applicable Capability Period Load Zone Peak Hours will be taken into account when creating the Capacity Offset Demand Resource Verified ACL. For the Day Ahead Demand Response Program, the verified Load reduction that occurred in response to a DADRP schedule shall be added to the Capability Period Load Zone Peak Hour for which the reduction in response to a DADRP schedule occurred. For the Demand Side Ancillary Services Program, the Load value to be used in calculating the Verified ACL for each hour during the Capability Period Load Zone Peak Hours in which a non-zero Base Point Signal the ISO provides to the resource, shall be the greater of (a) the DSASP Baseline MW value in the interval immediately preceding the first non-zero Base Point Signal in the Capability Period Load Zone Peak Hour and (b) the metered Load of the resource as reported by the Responsible Enrolling Party for the Capability Period Load Zone Peak Hour. When the non-zero Base Point Signal dispatch of a DSASP resource begins in one hour and continues into consecutive hours, and the consecutive hour is identified as being a Capability Period Load Zone Peak Hour, the DSASP Baseline MW value in effect at the beginning of the dispatch of the non-zero Base Point Signal shall be the MW value used for purposes of determining the applicable Load value for that Capability Period Load Zone Peak Hour, in accordance with the preceding sentence.

Following the Capability Period for which a resource with a Provisional ACL was enrolled, the Responsible Enrolling Party shall provide to the ISO the metered Load data required to calculate the Verified ACL of the resource. The ISO shall compare the Provisional ACL to the Verified ACL to determine, after applying the applicable performance factor, whether the $UCAP_c$ of the Capacity Offset Demand Resource had been overstated and whether a

shortfall has occurred as provided under Section 5.11.5.8.1 of this Services Tariff. If the Responsible Enrolling Party fails to provide verification data required to compute the Verified ACL of the resource enrolled with a Provisional ACL by the deadline: (a) the Verified ACL of the resource shall be set to zero for each Capability Period in which the resource with a Provisional ACL was enrolled and verification data was not reported, and (b) the Load Serving Entity that received the Capacity Requirement Offset may be subject to penalties in accordance with this Services Tariff.

5.11.5.5 Reporting a Demand Side Resource Change of Load or Demand Side Resource Change of Status

5.11.5.5.1 Demand Side Resource Change of Load

The Responsible Enrolling Party is required to identify and record a Demand Side Resource Change of Load as described in ISO Procedures. When the total Load reduction for Demand Side Resources that have a Demand Side Resource Change of Load within the same Load Zone is greater than or equal to 5 MWs, the Responsible Enrolling Party shall report the Demand Side Resource Change of Load for each Demand Side Resource in accordance with ISO Procedures.

5.11.5.5.2 Demand Side Resource Change of Status

The Responsible Enrolling Party shall report a Demand Side Resource Change of Status in accordance with ISO Procedures. The ISO shall adjust the applicable ACL of the Demand Side Resource for a reported Demand Side Resource Change of Status to the Net ACL, for all months to which the Demand Side Resource Change of Status is applicable. When a Demand Side Resource Change of Status is reported under clause (i), (ii) or (iii) within the definition of a Qualified Change of Status Condition and the Demand Side Resource has provided a Capacity

Requirement Offset, the Demand Side Resource shall be evaluated for a potential shortfall under Section 5.11.5.8.1 of this Services Tariff. Failure by the Responsible Enrolling Party to report a Demand Side Resource Change of Status shall be evaluated as a potential shortfall under Section 5.11.5.8.1 of this Service Tariff and evaluated for failure to report under Section 5.11.5.8.2 of this Services Tariff.

Demand Side Resources that were required to perform in the first performance test in the Capability Period in accordance with ISO Procedures, including being required to perform in the first performance test in the Capability Period while a SCR before Section 5.11.5 became effective, and that subsequently report or change a reported Demand Side Resource Change of Status value after the first performance test in the Capability Period shall be required to demonstrate the performance of the resource against the Net ACL value in the second performance test in the Capability Period. The exceptions to this provision occur when i) a Demand Side Resource's eligible Installed Capacity and/or Installed Capacity Credit is set to zero throughout the period of the Demand Side Resource Change of Status, ii) when a Demand Side Resource's eligible Installed Capacity and/or Installed Capacity Credit is decreased by at least the same kW value as the reported Demand Side Resource Change of Status, or iii) if a Demand Side Resource Change of Status is reported, and prior to the second performance test, the Demand Side Resource returns to the full applicable ACL enrolled prior to the Demand Side Resource Change of Status. Performance in both performance tests shall be used in calculation of the resource's performance factors and all associated performance factors, deficiencies and penalties. If the Responsible Enrolling Party fails to report the performance for a resource that was required to perform in the second performance test in the Capability Period: (a) the resource will be assigned a performance of zero (0) for the test hour, and (b) the Load Serving Entity that

received the Capacity Requirement Offset shall be evaluated for failure to report under Section 5.11.5.8.2 of this Services Tariff.

Notwithstanding the provisions of section 5.12.11 of this Services Tariff, if a Responsible Enrolling Party enrolls a Demand Side Resource as a Capacity Offset Demand Resource in the Capability Period in which Section 5.11.5 becomes effective, and that Demand Side Resource was enrolled in the same Capability Period as a Special Case Resource which experienced a Demand Side Resource Change of Status in the Capability Period, the Responsible Enrolling Party shall be responsible for all testing required pursuant to this section following enrollment of the Demand Side Resource as a Capacity Offset Demand Resource.

5.11.5.6 Average Coincident Load of a Capacity Offset Demand Resource Aggregation

The ISO shall calculate the Average Coincident Load of a Capacity Offset Demand Resource Aggregation each month in accordance with ISO Procedures.

5.11.5.7 Use of an Incremental Average Coincident Load

A Responsible Enrolling Party may report any qualifying increase to a Capacity Offset Demand Resource's Average Coincident Load as Incremental Average Coincident Load in the Responsible Enrolling Party enrollment file upload and in accordance with this Services Tariff and ISO Procedures.

For Capacity Offset Demand Resources with a total Load increase equal to or greater than twenty (20) percent and less than thirty (30) percent of the applicable ACL, the Responsible Enrolling Party may enroll the Capacity Offset Demand Resource with an Incremental ACL provided that the eligible Installed Capacity Credit does not increase from the prior enrollment months within the same Capability Period and prior to enrollment with an Incremental ACL. If

the Demand Side Resource was enrolled as a Special Case Resource in the NYISO's Special Case Resource program within the same Capability Period, and prior to enrollment with an Incremental ACL, the maximum eligible Installed Capacity of the Special Case Resource shall be used as the maximum eligible Installed Capacity Credit of the Capacity Offset Demand Resource. If the Capacity Offset Demand Resource is enrolled with an Incremental ACL and it is the first month of the Capacity Offset Demand Resource's enrollment in the applicable Capability Period, the enrolled eligible Installed Capacity Credit value shall not exceed the maximum eligible Installed Capacity Credit of the Capacity Offset Demand Resource from the Prior Equivalent Capability Period. If the Demand Side Resource was enrolled as a Special Case Resource in the NYISO's Special Case Resource program in the Prior Equivalent Capability Period, the maximum eligible Installed Capacity of the Special Case Resource shall be used as the maximum eligible Installed Capacity Credit of the Capacity Offset Demand Resource. When no enrollment exists for the Demand Side Resource in the Prior Equivalent Capability Period and it is the first month of the Capacity Offset Demand Resource's enrollment in the applicable Capability Period, the enrolled eligible Installed Capacity Credit of the Capacity Offset Demand Resource shall not exceed the ACL calculated from the Capability Period Load Zone Peak Hours. For Capacity Offset Demand Resources with a total Load increase equal to or greater than thirty (30) percent of the applicable ACL, the Responsible Enrolling Party may enroll the Capacity Offset Demand Resource with an Incremental ACL and an increase to the Capacity Offset Demand Resource's eligible Installed Capacity Credit and is required to test as described in this section of the Service Tariff.

The ISO shall adjust the ACL of the Capacity Offset Demand Resource for an Incremental ACL for all months for which the Incremental ACL is reported by the Responsible

Enrolling Party. For resources reporting an Incremental ACL, the Net ACL shall equal the enrolled ACL plus the reported Incremental ACL less any applicable Demand Side Resource Change of Status and shall be the basis for the upper limit of $ICAP_c$ for which the Responsible Enrolling Party may enroll the Capacity Offset Demand Resource during the Capability Period.

An Incremental ACL is a discrete change to the Capacity Offset Demand Resource operations that is expected to result in an increase to the Load that the Capacity Offset Demand Resource will consume from the NYS Transmission System and/or distribution system. It is not available to account for random fluctuations in Load, such as those caused by weather or other seasonal Load variations. Therefore, the ACL of a Capacity Offset Demand Resource may only be increased once per Capability Period and the amount of the increase enrolled must remain the same for all months for which the Incremental ACL is reported. A Capacity Offset Demand Resource enrolled in the Capability Period with an Incremental ACL may not be enrolled by another Responsible Enrolling Party for the remainder of the Capability Period. If a Demand Side Resource is enrolled with an Incremental ACL in the NYISO Special Case Resource program during a Capability Period in which this Capacity Requirement Offset Program becomes effective, then the Demand Side Resource is not eligible to be enrolled as a Capacity Offset Demand Resource until the following Capability Period. A Capacity Offset Demand Resource enrolled in the Capability Period with a Provisional ACL is not eligible to enroll with an Incremental ACL.

Following the Capability Period for which a Capacity Offset Demand Resource has been enrolled with an Incremental ACL, the Responsible Enrolling Party shall provide the hourly metered Load verification data that corresponds to the Monthly Load Zone Peak Hours identified by the ISO for all months in which an Incremental ACL value was reported for the Capacity

Offset Demand Resource. For each month for which verification data was required to be reported, the ISO shall calculate a Monthly ACL that will be used in the calculation of a Verified ACL. The Monthly ACL shall equal the average of the Capacity Offset Demand Resource's top twenty (20) one-hour metered Load values that correspond with the applicable Monthly Load Zone Peak Hours, and taking into account (i) the resource's reported verified Load reduction in a Transmission Owner's demand response program in hours coincident with any of these hours and (ii) the verified Load reduction of a Demand Side Resource while that resource was participating in either of the ISO's economic demand response programs (the Day Ahead Demand Response Program and the Demand Side Ancillary Services Program) in hours coincident with any of these hours. For the Day Ahead Demand Response Program, the verified Load reduction that occurred in response to a DADRP schedule shall be added to the Monthly Load Zone Peak Hour for which the reduction in response to a DADRP schedule occurred. For the Demand Side Ancillary Services Program, the Load value to be used in calculating the Monthly ACL for each hour during the Monthly Load Zone Peak Hours in which a non-zero Base Point Signal the ISO provides to the resource, shall be the greater of (a) the DSASP Baseline MW value in the interval immediately preceding the first non-zero Base Point Signal in the Monthly Load Zone Peak Hour and (b) the metered Load of the resource as reported by the Responsible Enrolling Party for the Monthly Load Zone Peak Hour. When the non-zero Base Point Signal dispatch of a DSASP resource begins in one hour and continues into consecutive hours, and the consecutive hour is identified as being a Monthly Load Zone Peak Hour, the DSASP Baseline MW value in effect at the beginning of the dispatch of the non-zero Base Point Signal shall be the MW value used for purposes of determining the applicable Load value for that Monthly Load Zone Peak Hour, in accordance with the preceding sentence. The Verified

ACL shall be the average of the two (2) highest Monthly ACLs during the Capability Period in which the Demand Side Resource was enrolled with an Incremental ACL within the same Capability Period.

For any month for which verification data for the Incremental ACL is required but not timely submitted to the ISO in accordance with ISO procedures, the ISO shall set the metered Load values for the Capacity Offset Demand Resource to zero. When a Monthly ACL is set to zero, the Verified ACL will be calculated as the average of: a) the two (2) highest Monthly ACLs during the Capability Period in which the Capacity Offset Demand Resource was enrolled with an Incremental ACL within the same Capability Period; plus b) the Monthly ACLs for all months in which the Capacity Offset Demand Resource was enrolled within the same Capability Period with an Incremental ACL in the Capability Period for which the Responsible Enrolling Party failed to provide the minimum verification data required. In addition, a LSE that received a Capacity Requirement Offset from a Capacity Offset Demand Resource with a Verified ACL calculated pursuant to this paragraph may be subject to a penalty for each month for which verification data was required and not reported in accordance with this Services Tariff.

For each Capacity Offset Demand Resource that is enrolled with an Incremental ACL, the ISO shall compare the Net ACL calculated from the resource enrollment (ACL plus Incremental ACL less any applicable Demand Side Resource Change of Status) to the Verified ACL calculated for the Capacity Offset Demand Resource to determine if the Responsible Enrolling Party's use of an Incremental ACL may have resulted in a shortfall pursuant to Section 5.11.5.8.1of this Services Tariff.

A Capacity Offset Demand Resource that was required to perform in the first performance test in the Capability Period in accordance with ISO Procedures and was

subsequently enrolled using an Incremental ACL and an increase in the amount of Installed Capacity Credit that the Capacity Offset Demand Resource is eligible to provide, shall be required to demonstrate performance against the maximum amount of eligible Installed Capacity Credit reported for the Capacity Offset Demand Resource in the second performance test in the Capability Period. Performance in this test shall be measured from the Net ACL. Performance in both performance tests shall be used in calculation of the resource's performance factor and all associated performance factors, deficiencies and penalties. If the Responsible Enrolling Party fails to report the performance for a resource that was required to perform in the second performance test in the Capability Period: (a) the resource will be assigned a performance of zero (0) for the test hour, and (b) the Load Serving Entity that received the Capacity Requirement Offset shall be evaluated for failure to report under Section 5.11.5.8.2 of this Services Tariff.

5.11.5.8 Deficiencies and Sanctions Applicable to Load Serving Entities Participating in the Capacity Requirement Offset Program

5.11.5.8.1 Applicable Deficiencies

If a Load Serving Entity is found, at any point during a Capability Period, to have had a shortfall for that Capability Period, *e.g.*, when the amount of Unforced Capacity Credit that it provides is found to be less than the amount it was committed to provide, the Load Serving Entity shall be retrospectively liable to pay the ISO the monthly deficiency charge equal to one and one-half times the applicable Market-Clearing Price of Unforced Capacity determined using the applicable ICAP Demand Curve for that ICAP Spot Market Auction times the amount of its shortfall for each month the Load Serving Entity is deemed to have a shortfall. A Load Serving Entity may experience a shortfall when, in addition to the deficiencies described in Sections

5.11.5.8.1.1 through 5.11.5.8.1.4 below,, it claims an ineligible or unavailable Installed Capacity Credit associated with a properly or improperly enrolled Capacity Offset Demand Resource.

The ISO, when evaluating whether a Load Serving Entity has a shortfall, may use either Unforced Capacity Credit data or Installed Capacity Credit data; provided, however, that the ISO shall convert any shortfall MWs based on Installed Capacity Credit data to its Unforced Capacity Credit equivalent prior to calculating the amount of any deficiency charge. All shortfalls shall be measured in MWs in increments of 0.1 MW.

Any monies collected by the ISO pursuant to Section 5.11.5.8.1 and 5.11.5.8.2 will be applied to reduce the Rate Schedule 1 charge under this Services Tariff.

There are four specific shortfalls applicable to Load Serving Entities: 1. shortfall for Provisional ACL; 2. shortfall for Incremental ACL; 3. shortfall for Demand Side Resource Change of Status; and 4. shortfall for Responsible Enrolling Party portfolio performance. The deficiency charge for any such shortfall shall be equal to the Unforced Capacity Credit equivalent of the shortfall multiplied by one and one-half times the applicable Market-Clearing Price of Unforced Capacity determined using the applicable ICAP Demand Curve for the ICAP Spot Market Auction for each month the Load Serving Entity is deemed to have a shortfall.

There are three distinct measures of shortfall that are attributable to a Responsible Enrolling Party, described in this section, where individual Capacity Offset Demand Resources that have been enrolled with a Provisional ACL or an Incremental ACL, or that experience a Demand Side Resource Change of Status may result in a shortfall. When multiple deficiency charges are attributable to a Responsible Enrolling Party for the same Capacity Offset Demand Resource, and are assessed to a Load Serving Entity in a single Capability Period, the ISO shall

assess to the Load Serving Entity only the greatest deficiency charge for such Capacity Offset Demand Resource.

5.11.5.8.1.1 Shortfall for Provisional ACL

After each Capacity Offset Demand Resource with a Provisional ACL has its Verified ACL determined for the Capability Period in which it had a Provisional ACL (such determination in accordance with Section 5.11.5.4 and ISO Procedures) the ISO shall determine if there is a shortfall due to the Provisional ACL being greater than the Verified ACL. This shortfall shall be equal to the value, if positive, of (x) the Provisional ACL of the Capacity Offset Demand Resource, minus (y) the Verified ACL of the Capacity Offset Demand Resource. The shortfall calculated for the Capacity Offset Demand Resource for a month shall not exceed the amount of Installed Capacity Credit associated with the Capacity Offset Demand Resource that was provided for that month. If the ISO does not receive data to determine the Capacity Offset Demand Resource's Verified ACL for the Capability Period for which the Capacity Offset Demand Resource was enrolled with a Provisional ACL the Verified ACL shall equal zero.

5.11.5.8.1.2 Shortfall for Incremental ACL

If a Responsible Enrolling Party reported an Incremental ACL, the ISO shall determine there is a shortfall when the Net ACL is greater than the Verified ACL. This shortfall shall be equal to the value, if positive, of (x) the enrolled Net ACL of the Capacity Offset Demand Resource, minus (y) the Verified ACL of the Capacity Offset Demand Resource for each month in which the Responsible Enrolling Party provided the Capacity Offset Demand Resource's Installed Capacity Credit. The shortfall calculated for the Capacity Offset Demand Resource for

a month shall not exceed the amount of Installed Capacity Credit associated with the Capacity Offset Demand Resource that was provided for that month. If the ISO does not receive data to determine the Verified ACL for each month within the Capability Period that the Capacity Offset Demand Resource was enrolled with an Incremental ACL, the Monthly ACL for each unreported month shall equal zero (0) and be used in the calculation of the Verified ACL in accordance with Section 5.11.5.7 of this Services Tariff.

5.11.5.8.1.3 Shortfall for Demand Side Resource Change of Status

If a Demand Side Resource Change of Status occurs, the ISO shall determine if a shortfall exists, based on the Responsible Enrolling Party's reporting of the Demand Side Resource Change of Status.

When a Demand Side Resource Change of Status is reported by the Responsible Enrolling Party in advance and no Installed Capacity Credit associated with the Demand Side Resource has been used as a Capacity Requirement Offset, a shortfall has not occurred. If the Demand Side Resource Change of Status is reported by the Responsible Enrolling Party, but the Installed Capacity Credit associated with the Demand Side Resource has already been used as a Capacity Requirement Offset for one or more months a shortfall exists for these months, the shortfall shall be equal to the reduction to the ACL reported in the Demand Side Resource Change of Status, but shall not exceed the amount of Installed Capacity Credit provided for each month.

When the Responsible Enrolling Party fails to report the Demand Side Resource Change of Status during the Capability Period, for each month in which the Demand Side Resource's Installed Capacity Credit was provided and the Demand Side Resource Change of Status was in effect, the ISO shall determine the shortfall MW using the maximum one hour metered Load for

the month. The shortfall amount for each month in which the Demand Side Resource Change of Status was in effect shall equal the value of Demand Side Resource ACL minus the maximum one hour metered Load for the month, but shall not exceed the Demand Side Resource's Installed Capacity Credit provided for the month.

5.11.5.8.1.4 Shortfall for Responsible Enrolling Party Portfolio Performance

In addition to the shortfall evaluations based on individual Capacity Offset Demand Resources, a Responsible Enrolling Party is subject to a shortfall evaluation for each Load Serving Entity by Load Zone, for its entire Capacity Offset Demand Resource portfolio. In this evaluation the shortfall shall be determined for each Load Serving Entity by Responsible Enrolling Party and Load Zone for which the Responsible Enrolling Party has enrolled Capacity Offset Demand Resources. A shortfall will occur if the total of the amount of UCAP Credit provided by the Responsible Enrolling Party as a Capacity Requirement Offset to the Load Serving Entity for a month in a Capability Period is greater than the greatest Unforced Capacity Credit equivalent MW reduction achieved during a single hour in a test or event called by the ISO in the Capability Period as confirmed by data by the ISO in accordance with ISO Procedures (or the value of zero if data is not received by the ISO in accordance with such procedures).

5.11.5.8.2 Applicable Sanctions

Pursuant to this section, the ISO may impose financial sanctions on Load Serving Entities that fail to comply with certain provisions of this Tariff. The ISO shall notify Load Serving Entities prior to imposing any sanction and shall afford them a reasonable opportunity to demonstrate that they should not be sanctioned and/or to offer mitigating reasons why they

should be subject to a lesser sanction. The ISO may impose a sanction lower than the maximum amounts allowed by this section at its sole discretion. Load Serving Entities may challenge any sanction imposed by the ISO pursuant to the ISO Dispute Resolution Procedures.

Any sanctions collected by the ISO pursuant to this section will be applied to reduce the Rate Schedule 1 charge under this Tariff.

If a Responsible Enrolling Party enrolled a Capacity Offset Demand Resource with an Incremental ACL in accordance with this Services Tariff, and also reported an increase to the Installed Capacity Credit the Capacity Offset Demand Resource is eligible to provide after the first performance test in the Capability Period, the ISO may impose an additional financial sanction on the Load Serving Entity that received the Capacity Requirement Offset due to the failure of the Responsible Enrolling Party to report the required performance of the Capacity Offset Demand Resource against the Net ACL value in the second performance test in the Capability Period. This sanction shall be the value of the reported increase in the eligible Installed Capacity Credit associated with the Capacity Offset Demand Resource that was enrolled by the Responsible Enrolling Party in each month of the Capability Period, during which the reported increase was in effect, multiplied by up to one and one-half times the applicable Market-Clearing Price of Unforced Capacity determined in the ICAP Spot Market Auction for each such month.

If the Average Coincident Load of the Capacity Offset Demand Resource has been decreased after the first performance test in the Capability Period, due to a Demand Side Resource Change of Status in accordance with this Services Tariff and ISO Procedures, the ISO may impose an additional financial sanction on the Load Serving Entity that received the Capacity Requirement Offset resulting from the failure of the Responsible Enrolling Party to

report the required performance of the Capacity Offset Demand Resource against the Net ACL value of the Capacity Offset Demand Resource when the Capacity Offset Demand Resource was required to perform in the second performance test in the Capability Period in accordance with Section 5.11.5.5.2 of this Services Tariff. This sanction shall be the value of the Unforced Capacity Credit equivalent of the Demand Side Resource Change of Status MW reported for the Capacity Offset Demand Resource during the months for which the Capacity Offset Demand Resource was enrolled with a Demand Side Resource Change of Status and was required to demonstrate in the second performance test as specified in Section 5.11.5.5.2 of this Services Tariff, multiplied by up to one and one-half times the applicable Market-Clearing Price of Unforced Capacity determined in the ICAP Spot Market Auction for each such month.

If a Responsible Enrolling Party fails to provide the information required by Section 5.11.5.5.2 of this Services Tariff in accordance with the ISO Procedures for reporting a Qualified Change of Status Condition, and the ISO determines that a Demand Side Resource Change of Status occurred within a Capability Period, the ISO may impose a financial sanction on the Load Serving Entity that received the Capacity Requirement Offset equal to the difference, if positive, between the enrolled ACL and the maximum one hour metered Load for the month multiplied by up to one-half times the applicable Market-Clearing Price of Unforced Capacity determined in the ICAP Spot Market Auction for each month the Capacity Offset Demand Resource is deemed to have a shortfall in addition to the corresponding shortfall penalty as provided in Section 5.11.5.8.1 of this Services Tariff.