ATTACHMENT M

SALE AND AWARD OF TRANSMISSION

CONGESTION CONTRACTS ("TCCs")

1.0 Overview of the Sales of TCCs

TCCs will be made available through: (i) the Centralized TCC Auction ("Auction") and Reconfiguration Auction, which will be conducted by the ISO; (ii) Direct Sales by the Transmission Owners, which will be non-discriminatory, auditable sales conducted solely on the OASIS in compliance with the applicable requirements and restrictions set forth in Order No. 889 et seq.; and (iii) the conversion of transmission capacity associated with certain Existing Transmission Agreements ("ETAs") pursuant to Section 2A of this Attachment M; and (iv) the award of Incremental TCCs pursuant to Section 2C of this Attachment M.

Before each Auction, the ISO shall ensure that all of the following correspond to a simultaneously feasible security constrained Power Flow: (i) existing TCCs that are valid for any portion of the duration of any TCCs to be sold in the Auction, including TCCs that were created pursuant to Sections 2A and 2C of this Attachment M; (ii) Grandfathered Rights; (iii) Original Residual TCCs; and (iv) ETCNL, not previously sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction. Should infeasibility

occur, the TCC Reservations shown in Table 1 to this Attachment M will be reduced until feasibility is assured, as described in Section 3.0 of this Attachment M.

Before each Centralized TCC Auction, the ISO shall also: (i) convert ETCNL into ETCNL TCCs pursuant to Section 5.0 of this Attachment M (including the Capacity Reservation Cap provision of Section 5.3); and (ii) allocate RCRRs to Transmission Owners and convert RCRRs into RCRR TCCs pursuant to Section 6.0 of this Attachment M.

Prior to the first Centralized TCC Auction, the NYISO distributed to Transmission Owners Original Residual TCCs, the NYISO designated certain transmission Capacity as ETCNL, and some Transmission Owners converted their Grandfathered Rights into Grandfathered TCCs. Transmission Owners with ETCNL will release that transmission Capacity for sale in each Centralized TCC Auction, unless the Transmission Owner has converted the ETCNL into ETCNL TCCs pursuant to Section 5.0 of this Attachment M.

Transmission Owners will be required to either sell their Original Residual TCCs through a Direct Sale on the OASIS prior to each Centralized TCC Auction, or to sell them through each Centralized TCC Auction. Each Transmission Owner may retain its Grandfathered TCCs. If it sells Grandfathered TCCs, a Transmission Owner shall do so either through Direct Sales or through Centralized TCC Auctions or Reconfiguration Auctions.

When selling TCCs, Transmission Owners are considered Primary Owners of those TCCs. Purchasers of TCCs, other than in a secondary market, are considered Primary Holders of those TCCs if they meet certain criterion outlined in Sections 7.0 and 9.4 of this Attachment M.

2.0 General Description of the Auction Process

Until the ISO develops the Auction software necessary to perform an End-State Auction, the ISO shall conduct Initial Auctions, in which TCCs will be available. The proportion of system transmission

capacity that will be set aside to support TCCs of varying durations will be determined before each Initial Auction is conducted.

Upon the completion of more sophisticated Auction software, the ISO will perform an End-State Auction, which will permit the Bids submitted by Auction participants to determine the lengths of the TCCs sold in the Auction. Each of these types of Auctions is described in additional detail later in this Attachment. All bidders in the Auction must meet certain criteria outlined in Section 9.0 of this Attachment M, and if they are awarded TCCs they will be considered Primary Holders of those TCCs.

Each Initial Auction will consist of one or more sub-auctions. These sub-auctions and the End-State Auction will normally be conducted in two stages, described later in this Attachment M. The transmission capacity that

has been offered for sale in Stage 1 will be auctioned in not less than four (4) rounds, unless the Transmission Owners unanimously consent to fewer rounds. A portion of that transmission capacity offered for sale in Stage 1 will be auctioned in each of its rounds.

In Stage 1, the transmission capacity available for sale as TCCs in the Auction will include (i) the transmission capacity associated with Original Residual TCCs allocated to the Transmission Owners, but not (a) sold through a Direct Sale, (b) sold as existing TCCs that are valid for any part of the duration of any TCCs sold in the Centralized TCC Auction, (c) converted into RCRR TCCs, or (d) converted to existing and valid Fixed Price TCCs before the current or immediately preceding Centralized TCC Auction pursuant to Section 2A of this Attachment M; (ii) the transmission capacity associated with ETCNL initially allocated to the Transmission Owners, but not (a) sold through a Direct Sale, (b) sold as existing TCCs that are valid for any part of the

duration of any TCCs sold in the Centralized TCC Auction, (c) converted into ETCNL TCCs, or (d) converted to valid and existing Fixed Price TCCs at any time before the current Centralized TCC Auction pursuant to Section 2A of this Attachment M; (iii) Residual Transmission Capacity not (a) converted to RCRR TCCs, (b) sold as existing TCCs that are valid for any part of the duration of any TCCs sold in the Centralized TCC Auction, or (c) converted to valid and existing Fixed Price TCCs at any time before the current Centralized TCC Auction pursuant to Section 2A of this Attachment M; and (iv) any TCCs offered for sale by a Primary Holder. In Stage 2, holders of TCCs may indicate whether they wish to sell those TCCs into a given round before that round begins. All of the TCCs that have been offered for sale in each round of Stage 2 will be auctioned in that round. Each Primary Owner, purchaser of

a TCC in a previous round of the Auction, or purchaser of a TCC in a Direct Sale (if it meets the ISO's creditworthiness standards) may offer its TCCs for sale in any round of Stage 2. No one will be required to offer TCCs for sale in Stage 2.

The ISO will run a security constrained Power Flow to determine the simultaneous feasibility of TCCs to be awarded in a round of an Auction. The Power Flow model will treat Grandfathered Rights and TCCs identified in Section 9.7 of this Attachment M, as fixed injections and withdrawals corresponding to the Point of Injection and Point of Withdrawal for each of those Grandfathered Rights or TCCs.

As each ETA in effect on November 19, 1999 that was listed in Table 1A of Attachment L to this OATT (as it may be amended),and that conferred transmission rights on an LSE, expires or terminates, the transmission capacity associated with it may be used to create Fixed Price TCCs, pursuant to Section 2A of this Attachment M. When any other ETA terminates, the Grandfathered Rights or Grandfathered TCCs associated with it shall be converted into Residual Transmission Capacity. The revenues associated with the sale or conversion of TCCs created from capacity associated with expired or terminated ETAs shall be allocated among the Transmission Owners as described in Attachment N. All references to "ETAs listed in

Table 1A of Attachment L" in this Attachment M shall encompass both those agreements that were previously converted into Grandfathered TCCs and those that were not.

In the Auction, bidders will place Bids specifying the maximum amount they are willing to pay for the TCCs they wish to purchase. The objective of the Auction will be to maximize the

value of the TCCs awarded to the bidders, as valued by their Bids, subject to the Constraint that the set of all outstanding TCCs and Grandfathered Rights identified in Section 9.7 of this Attachment M must correspond to a simultaneously feasible security-constrained Power Flow in each time period.

The Auction will determine prices for feasible TCCs. The ISO will conduct Reconfiguration Auctions on a monthly basis. Primary Holders of TCCs that are valid for the next month will be permitted to offer those TCCs for sale in the Reconfiguration Auction (as described in Section 8.5 of this Attachment M). Winning bidders in a Reconfiguration Auction will be awarded TCCs that will be valid for the next month.

2A. Converting Transmission Capacity Associated with Expired, Terminated, or Expiring ETAs Into Fixed Price TCCs

The ISO shall follow the procedures set forth in this Section 2A prior to the implementation of the End-State Auction process. For purposes of this Section 2A, references to "expired" ETAs shall include ETAs that have been terminated. When determining the Points of Injection, Points of Withdrawal, and MW quantities associated with ETAs listed in Table 1A in effect on November 19, 1999, the ISO shall look to Attachment L of this OATT, as it may be amended, at the time of the conversion.

2A.1 Conversion Rules

Any LSE that had transmission rights under an ETA in effect on November 19, 1999 that was listed in Table ~~I~~1A of Attachment L to this OATT ~~on November 18, 1999~~ (as it may be amended), but has since expired, shall have a right to obtain Fixed Price TCCs ~~with a duration of ten years and~~ with the same Point of Injection and Point of Withdrawal associated with th~~at~~e ETA.

An~~y~~ LSE that currently has transmission rights under an ETA in effect on November 19, 1999 that was

listed on Table 1A of Attachment L of the OATT (as it may be amended) but has not yet expired, shall likewise have a right to obtain Fixed Price TCCs with the same Point of Injection and Point of Withdrawal as that ETA after its expiration.

LSEs that are eligible to obtain Fixed Price TCCs shall be able to obtain them for a total duration of up to ten years, except as provided in the following paragraph. The ISO shall offer eligible LSEs Fixed Price TCCs with the same Points of Injection and Points of Withdrawals as shown on Table 1A of Attachment L, as it may be amended, associated with their expired or expiring ETAs and a duration of five or ten years (at the LSE's option) at a price to be determined in accordance with Section 2A.2 below. Prior to the expiration of Fixed Price TCCs with a duration of five years that are created pursuant to the preceding sentence, the ISO shall offer those LSEs that hold such Fixed Price TCCs an option to obtain new Fixed Price TCCs with the same Points of Injection and Points of Withdrawal for one additional five-year term, effective upon the expiration of the original Fixed Price TCCs' five year term, at a new price calculated in accordance with Section 2A.2 below.

LSEs that certify to the ISO that they purchase Energy from the New York Power Authority ("NYPA") under agreements that will expire in 2025 and that have ETAs listed on Table 1A to Attachment L, as it may be amended, that will expire in 2013, which they will use to hedge the congestion costs associated with deliveries under their NYPA agreements, shall have the right to

obtain Fixed Price TCCs with the same Points of Injection and Points of Withdrawal as shown on Table 1A of Attachment L to the OATT, as it may be amended, associated with the expiring ETA for a total duration of twelve years. The ISO shall offer Fixed Price TCCs with a duration of five years to LSEs that make the required certification (provided for in this paragraph) at a price to be determined in accordance with Section 2A.2 below. Prior to, but effective upon, the expiration of those Fixed Price TCCs, the ISO shall offer the LSE an option to obtain new Fixed Price TCCs with the same Points of Injection and Points of Withdrawal for one additional seven-year term, effective upon the expiration of the original Fixed Price TCCs, at a new price calculated in accordance with Section 2A.2 below.

To exercise this conversion right, an LSE must notify the ISO, and the Transmission Owner that was (or is) a party to the ETA, in writing, of its decision to obtain Fixed Price TCCs under this provision. That notice must also specify the ETA's expiration or termination date. The LSE must provide this notice prior to a deadline to be established by the ISO. In the case of an ETA that has already expired or been terminated as of the effective date of this Section 2A, or that will expire or be terminated prior to the end of the Winter 2008 Capability Period, the ISO shall set the deadline on a date prior to the beginning of the Autumn 2008 Centralized TCC Auction. In the case of an ETA that will expire or terminate after the end of the 2008 Winter Capability Period, the ISO shall set the deadline on a date prior to the beginning of the Centralized TCC Auction for the Capability Period in which the ETA expires or terminates. The specific deadlines shall be set forth in the ISO Procedures.

When an LSE elects to convert an ETA that: (i) has expired; (ii) is scheduled to expire, prior to November 1, 2008; or (iii) is scheduled to expire later but that is terminated before November 1, 2008, the term of the Fixed Price TCCs that LSE obtains shall begin on November 1, 2008. When an LSE elects to convert any other ETA it may choose to have the term of the Fixed Price TCCs that it obtains begin either on

the day after the ETA's expiration or termination, or at the start of the Capability Period following its expiration or termination. If the LSE chooses the latter option, the ISO shall make the transmission capacity associated with the expired ETA available to support the sale of TCCs with a duration of one month in any Reconfiguration Auction(s) held between the ETA's expiration and the start of the next Capability Period. Nothing in this Section 2A shall be construed as authorizing the early termination of ETAs before their scheduled expiration dates or as excusing the parties to ETAs of their obligations thereunder.

An LSE that exercises its conversion rights under this Section 2A may elect to receive a number of Fixed Price TCCs up to one hundred percent of the MW quantity specified for the ETA in Table 1A of Attachment L as it may be amended. In the case of ETAs for which more than one MW quantity is listed in Attachment L, the LSE may elect to receive the higher quantity.

The LSE must submit a written certification to the ISO stating that it expects to: (i) be legally obligated to serve the Load that it historically served under the ETA (or a portion of that Load at least equal to the number of Fixed Price TCCs that it plans to obtain under this Section 2A); and (ii) need the transmission capacity between the Point of Injection and Point of Withdrawal specified in the ETA to serve that Load. The LSE will not be allowed to obtain Fixed Price TCCs under this Section to the extent that it cannot satisfy either or both of these requirements. That is, the LSE's conversion rights may be wholly or partially terminated to the extent that it anticipates losing all or part of the historic Load, or no longer needing all or part of the transmission capacity associated with the expired ETA to serve it. Additional information regarding the ISO's certification process shall be set forth in the ISO Procedures.

In addition, if the ISO concludes that an LSE's requested conversion would make existing and valid TCCs infeasible, it will reduce the number of Fixed Price TCCs that the LSE may obtain to the extent necessary to avoid the infeasibility. The reduction procedure will use the same optimization model as the Centralized TCC Auctions, except that the expired or expiring transmission rights subject to conversion will not be represented as fixed injections and withdrawals but will be represented by a bid curve. Additional details shall be specified in the ISO Procedures.

2.A.1.a Special Rules Applicable to LSEs That Were Eligible to Obtain Fixed Price TCCs with a Duration Commencing on November 1, 2008

LSEs that obtained Fixed Price TCCs with a duration of five years commencing on November 1, 2008 shall have a one-time opportunity to elect to replace those Fixed Price TCCs, at no additional cost, with Fixed Price TCCs with a duration of ten years. The ten year duration shall be deemed to have commenced on November 1, 2008. LSEs that elect to replace Fixed Price TCCs under this paragraph shall not be eligible to obtain additional Fixed Price TCCs for an additional five year term at the time that their replacement Fixed Price TCCs expire.

LSEs that were eligible to obtain Fixed Price TCCs with a duration of five years commencing on November 1, 2008, but that opted not to obtain them, shall have a one-time opportunity to obtain Fixed Price TCCs with a duration of ten years. If an LSE makes this election the duration of the Fixed Price TCCs that it obtains will commence at the beginning of a

subsequent Capability Period, as specified in the ISO Procedures. An LSE that elects to obtain Fixed Price TCCs under this paragraph shall pay the same price that the ISO originally offered for the same Fixed Price TCCs with a duration of five years, *i.e.*, the price that the ISO calculated under Section 2A.2 for Fixed Price TCCs commencing on November 1, 2008 (including the original historic inflation adjustment) for the LSE in advance of the Autumn 2008 Centralized TCC Auction.

All elections under this Section 2A.1.a shall be made during an election period specified in the ISO Procedures and shall be subject to all of the notification, certification, feasibility and other requirements established under Section 2A and the ISO Procedures.

2A.2 Calculating Prices for Fixed Price TCCs

Except as is specifically noted below, if an LSE chooses to obtain Fixed Price TCCs pursuant to this Section 2A it shall pay a base price per MW/year equal to the average of:

(i) the average of the inflation-adjusted market-clearing prices calculated for TCCs with a duration of one year and the same POI and POW in the Stage 1 rounds of each of the four previous Centralized TCC Auctions. The average adjusted market-clearing price will be determined by first calculating the average market clearing price in the Stage 1 rounds for each Centralized TCC Auction. The average market-clearing price for the first, second, and third of the four previous Centralized TCC Auctions will then be adjusted for inflation between: (a) the date that TCCs sold in them went into effect, and (b) the start of the Capability Period during which the TCCs sold in the fourth Centralized Auction went into effect; and

(ii) the inflation-adjusted average annual difference between the Day-Ahead Market Congestion Component at the POW and the POI associated with the TCCs, summed over the hours of the four most recently concluded Capability Periods. The inflation-adjusted average annual difference for a given Fixed Price TCC would be calculated by summing the Day-Ahead Market Congestion Component for the POW associated with that Fixed Price TCC minus the Day-Ahead Market Congestion Component for the POI associated with that Fixed Price TCC over the hours of each month of the four most recently concluded Capability Periods; adjusting each monthly total for inflation~~,~~ between the end of the month in question and the start of the most recently concluded Capability Period; summing those inflation-adjusted monthly totals over those four Capability Periods; and dividing by two.

If, however, an LSE chooses to obtain a Fixed Price TCC with a POW at or inside of Load Zone K (Long Island) pursuant to this Section 2A, it shall pay a base price per MW/year equal to the inflation-adjusted average annual difference between the Day-Ahead Market Congestion Component at the POW and the POI associated with the TCCs, summed over the hours of the four most recently concluded Capability Periods. The inflation-adjusted average annual difference for a given Fixed Price TCC would be calculated by summing the Day-Ahead Market Congestion Component for the POW associated with that Fixed Price TCC over the hours of each month of the four most recently concluded Capability Periods, adjusting each monthly total for inflation, between the end of the month in question and the start of the most recently concluded Capability Period; summing those inflation-adjusted monthly totals over those four Capability Periods; and dividing by two.

All inflation calculations referenced in this Section 2A.2 shall be made using the applicable inflation rates specified in the Personal Consumption Expenditures Implicit Price Deflator published by the Bureau of Economic Analysis of the United States Department of Commerce. A Fixed Price TCC shall not have a price of less than zero. To the extent that the formula in this Section 2A.2 produces a price for a Fixed Price TCC of less than zero, the price shall be zero.

2A.3 Miscellaneous

The ISO shall post the following information promptly after transmission capacity associated with expired or terminated ETAs is converted into Fixed Price TCCs: (i) the quantity of TCCs converted (in MW); (ii) the Point of Injection and Point of Withdrawal for each Fixed Price TCC converted; and (iii) the price paid for each Fixed Price TCC.

An LSE that obtains Fixed Price TCCs pursuant to this Section 2A shall be required to pay the ISO the total amount specified in this Section 2A in equal annual payments for each year of the Fixed Price TCC's duration. An LSE that has made the required annual payments may reassign, reconfigure, or sell its Fixed Price TCCs for any period of time for which it had made the required annual payment. Each annual payment shall entitle the LSE to extend the term of the Fixed Price TCC for an additional year, subject to Section 2A.1, above. The ISO shall allocate funds collected pursuant to this provision under the

terms of Attachment N to this Tariff. An LSE that fails to make any required annual payment for its Fixed Price TCCs shall permanently surrender those Fixed Price TCCs for that year and for all subsequent years (and shall not have a right to renew for an additional five or seven year term), provided however that the ISO shall provide a one week cure period to an LSE that has failed to make the required annual payment for its Fixed Price TCCs before the LSE has its Fixed Priced TCCs permanently surrendered, pursuant to ISO Procedures.

If an LSE acquires Load from another LSE that holds Fixed Price TCCs, it may request that the Fixed Price TCCs be reassigned to follow the transferred Load. In such case, the quantity of the Fixed Price TCCs that transfers to the assignee shall be equal to: (i) the amount of transferred Load divided by total Load associated with those Fixed Price TCCs, (ii) multiplied by the quantity of the Fixed Price TCCs held by the LSE losing Load between the same Point of Injection and Point of Withdrawal; provided however, that no Fixed Price TCC will transfer under this paragraph if the calculation above indicates that less than one Fixed Price TCC will transfer. If at least one Fixed Price TCC would transfer pursuant to this paragraph, the quantity of reassigned Fixed Price TCCs shall be rounded to the nearest whole number of Fixed Price TCCs. An LSE that is reassigned Fixed Price TCCs under this paragraph shall hold such Fixed Price TCCs for the remainder of their term, and have rights of renewal as provided in this Section 2A, provided it makes all required payments.

To the extent that Fixed Price TCCs are created pursuant to this Section 2A, the transmission capacity that supports them shall not be available for sale in the Centralized TCC Auctions until those Fixed Price TCCs expire.

All rights and obligations that apply to an LSE in connection with obtaining and holding Fixed Price TCCs as provided for in this Section 2A shall also be applicable to an ETA Agent, except as the context otherwise requires (for example, an ETA Agent cannot obtain Fixed Price TCCs on its own behalf).

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2B. Preservation of Tax-Exempt Financing

Notwithstanding any other provision of Section 2A of this Attachment M, neither the ISO nor the Transmission Owners shall be required to grant, or allow the use of, transmission rights that would jeopardize the tax-exempt status of any Local Furnishing Bond(s), Government Bonds, LIPA Tax-Exempt Bonds or any other tax-exempt debt obligations, or impair the ability of a Transmission Owner to issue future tax-exempt obligations.

2C. Awards of Incremental TCCs

The ISO shall follow the procedures set forth in this Section 2C to determine awards of Incremental TCCs to any person or entity that requests them in connection with the funding or construction of new transmission facilities or transmission facility improvements that increase the Transfer Capability of the New York State Transmission System. These procedures shall only apply to requests for awards that are submitted on or after the effective date of this Section 2C and not to: (i) requests for awards that are pending as of that date; (ii) or to Incremental TCC award determinations that were made by the ISO on or prior to that date; neither shall these procedures interfere with the completion of requests for awards that are pending as of that date or require that award determinations made by the ISO prior to that date be reopened. Throughout this Section 2C: (i) any change to, reconfiguration of, and/or construction of new transmission facilities or other transmission facility improvements that are potentially eligible for an award of Incremental TCCs shall be referred to as an "Expansion;" and (ii) a person or entity that is pursuing an Expansion and requesting Incremental TCCs shall be referred to as an "Expander."

The ISO shall not award Incremental TCCs: (i) when the ISO cannot calculate the effect on Transfer Capability associated with an Expansion in the Day-Ahead Market with reasonable certainty; (ii) for Expansions that involve controllable transmission facilities that are under the operational control of a Control Area operator other than the ISO; or (iii) to the extent that an Expansion's impact on Transfer Capability is solely dependent on a Generator's operating state. Additional information concerning eligibility for Incremental TCC awards shall be set forth in the ISO Procedures.

The ISO shall also follow the procedures in this Section 2C to determine whether "Partial Outage Incremental TCCs" should be created in connection with final awards of Incremental TCCs.

2C.1 Requests for Incremental TCC Awards

An Expander pursuing an Expansion and seeking an Incremental TCC award shall submit a request for an award to the ISO. A request for an Incremental TCC award must be submitted prior to the associated Expansion's expected commercial operation date. A request for an Incremental TCC award shall not be deemed to be complete, and shall not be considered by the ISO, unless it includes all of the information and satisfies all of the technical requirements required by this Section 2C and by the ISO Procedures. Prior to submitting its request for a non-binding estimate, an Expander must have: (i) completed all of the engineering studies that are required under the ISO OATT, including Attachments X, S, and Z; and (ii) obtained all permits and regulatory approvals necessary to commence construction. If an Expansion is

subject to the Class Year study requirements under Attachment S of the ISO OATT then the Expander must have accepted its Class Year cost allocation and posted the security required under Attachment S.

As part of its request for an award, an Expander shall request that the ISO prepare one or more non-binding estimates of an Expansion's impact on Transfer Capability between one or more POI/POW combinations. The ISO shall be required to prepare up to three non-binding estimates with respect to an Expansion. Additional rules governing requests for non-binding estimates shall be set forth in the ISO Procedures.

An Expander that is not subject to Section 2.5 of Attachment N to the ISO OATT that requests an Incremental TCC award associated with an Expansion that will consist of multiple transmission facilities that might separately be taken out of service or derated in connection with the outage of an External transmission facility must provide additional information regarding partial outage states, as specified in the ISO Procedures, as part of its request. The ISO will use this information to analyze the creation of Partial Outage Incremental TCCs.

2C.2 Non-Binding Estimates

The ISO shall provide non-binding estimates of Incremental TCCs that might be awarded between different POI/POW combinations that are identified in a complete request for a non-binding estimate. The ISO shall only prepare non-binding estimates if the associated Expansion is expected to enter commercial operation within the current or next like Capability Period.

The ISO shall estimate whether, and to what extent, Incremental TCCs may be created by analyzing whether an Expansion will actually increase Transfer Capability with respect to the entire set of POI/POW combinations included in a request for a non-binding estimate. Incremental TCCs shall not be created for Transfer Capability that the ISO determines would exist on the system even in the absence of an Expansion. The ISO shall make these determinations using an Optimal Power Flow model that is updated and modified as necessary to represent the state of the New York State Transmission system both with and without the Expansion associated with the request for a non-binding estimate. If an Expansion is intended to increase voltage or transient stability limits the ISO shall conduct transfer limit studies as necessary to confirm the Expansion's impact on interface limits as specified in the ISO Procedures. Additional detail concerning the Optimal Power Flow model to be used by the ISO shall be set forth in the ISO Procedures. The ISO shall not be bound by the findings of previous engineering studies, conducted under the ISO OATT or otherwise, regarding the impact of an Expansion on Transfer Capability when preparing non-binding estimates (or when determining awards under Section 2C.4).

If the ISO estimates that Incremental TCCs would be created by an Expansion it shall separately estimate the quantity of Incremental TCCs that would be created for both the Summer and Winter Capability Periods.

2C.3 Partial Outage Incremental TCCs

The ISO shall use the additional information submitted by certain Expanders regarding partial outage states pursuant to Section 2C.1. to determine whether Partial Outage Incremental TCCs shall be created. Partial Outage Incremental TCCs shall not be awarded. They shall only be used to determine day-ahead outage charges, implemented through settlements for Day-Ahead Market Congestion Rents associated with Expansions that are partially out of service, or that are derated due to the outage of an External transmission facility, in connection with the calculation of outage charges under Section 2C.8.

Partial Outage Incremental TCCs shall be created to the extent that the ISO finds, as part of its determination of final Incremental TCC awards pursuant to Section 2C.4, that a revised set of Incremental TCCs would exist between a given POI/POW combination regardless of whether a portion of the associated Expansion is out of service or derated as a result of the outage of an External transmission facility. Partial Outage Incremental TCCs may be created between POI/POW combinations that differ from those for which the ISO may determine that Incremental TCCs would be available in a non-binding estimate or in any award of Incremental TCCs.

If the ISO determines that Partial Outage Incremental TCCs may be created as the result of an Expansion it shall separately calculate the number that would be created for the Summer and Winter Capability Periods.

2C.4 Incremental TCC Awards

The ISO shall respond to complete requests for Incremental TCC awards by determining: (i) whether, and to what extent, Incremental TCCs should be awarded for the POI/POW combinations selected by the Expander; and (ii) whether, and to what extent, Partial Outage Incremental TCCs should be created. An Expander may select all of the POI/POW combinations that were analyzed in any one of the non-binding estimates prepared by the ISO under Section 2C.2 to be included in the award determination. It may not select the POI/POW combinations from more than one non-binding estimate or select fewer than all of the POI/POW combinations that were analyzed in any one non-binding estimate.

The ISO shall determine both temporary and final awards using an Optimal Power Flow model that is updated and modified as necessary to represent the state of the New York State Transmission system both with and without the Expansion, and to represent any of the Expansion's partial outage states, at the time that an award is determined. The ISO shall determine whether, and to what extent, Incremental TCCs shall be awarded by analyzing whether an Expansion will actually increase Transfer Capability with respect to the entire set of POI/POW combinations included in a request for an award. Incremental TCCs shall not be awarded for Transfer Capability that the ISO determines would exist on the system even in the absence of an Expansion. If an Expansion is intended to increase voltage or transient stability limits the ISO shall conduct transfer limit studies as necessary to confirm the Expansion's impact on interface limits as specified in the ISO Procedures. The ISO shall make separate determinations for temporary and final awards of Incremental TCCs.

The ISO shall only determine or make an Incremental TCC award if the associated Expansion is expected to enter commercial operation within the current or next like Capability Period.

The ISO shall only determine, award, or create Incremental TCCs (including, for purposes of this paragraph, Partial Outage Incremental TCCs) in whole number MW quantities. If the ISO determines that an Expansion will create one or more non-whole number quantity Incremental TCCs, the ISO shall round each non-whole number Incremental TCC to a whole number in a manner that minimizes the risk of infeasibility caused by rounding with respect to the entire Incremental TCC award.

If the ISO determines that Incremental TCCs should be awarded, it shall make separate awards for the Summer and Winter Capability Periods.

a. Temporary Awards

If the ISO determines that Incremental TCCs should be awarded in connection with an Expansion and the Expansion goes into commercial operation during a Capability Period, the ISO shall make a temporary award of Incremental TCCs as soon as reasonably possible after notice that the Expansion has entered commercial operation has been provided in writing to the ISO pursuant to the ISO Procedures. Temporary awards of Incremental TCCs shall terminate at the end of the last day before a final award of Incremental TCCs becomes effective. In the case of an Expansion that enters commercial operation less than 90 days before the beginning of a Capability Period, the temporary award that is effective during the Summer Capability Period (or any portion thereof) may differ from the temporary award that is effective during the Winter

Capability Period (or any portion thereof). The quantity of Incremental TCCs included in a temporary award may differ from the quantity included in any of the non-binding estimate(s) associated with the Expansion and/or in the final award.

b. Final Awards

Final awards of Incremental TCCs shall only be made after: (i) an Expansion has actually entered commercial operation; (ii) written notice has been provided to the ISO pursuant to the ISO Procedures; and (iii) the ISO has determined the final award using an Optimal Power Flow analysis that reflects the results of the most recently completed Centralized TCC Auction. The quantity of Incremental TCCs included in a final award may differ from the quantity included in the temporary award, or in the non-binding estimate(s), associated with the Expansion.

Incremental TCCs included in final awards shall become effective on the first day of the first Capability Period following the date that the associated Expansion enters commercial operation. If, however: (i) the associated Expansion enters commercial operation fewer than ninety days before the end of a Capability Period then the Incremental TCCs included in a final award shall become effective on the first day of the next like Capability Period after the associated Expansion enters commercial operation; or (ii) the associated Expansion results in an increase to a limit that must be approved by the Operating Committee, and the Operating Committee's approval is granted fewer than ninety days before the end of a Capability Period, then the final award shall become effective on the first day of the next like Capability Period following the Operating Committee's approval.

If more than one Expansion enters commercial operation in the same Capability Period, the ISO shall make its final award determinations, and shall make final Incremental TCC awards, in the same order as the Expansions actually enter commercial operation.

2C.5 Acceptance of Incremental TCC Awards

An Expander may elect to accept or reject a temporary or final award of Incremental TCCs in its entirety. Partial acceptances shall not be permitted. Deadlines for confirming the acceptance or rejection of an award shall be specified in the ISO Procedures.

An Expander that elects to accept a final award of Incremental TCCs shall inform the ISO, no later than the time that it accepts its final award, of the awarded Incremental TCCs' duration. Incremental TCCs shall have a duration of no less than twenty and no more than fifty years, starting on the date that the final award becomes effective, provided that their duration may not exceed the expected operating life of the associated Expansion.

If an Expander fails to accept a final award of Incremental TCCs and to specify the award's duration by the deadline established in the ISO Procedures it will forfeit its right to collect Day-Ahead Market Congestion Rent payments in connection with the Incremental TCCs until it confirms its acceptance in the manner specified in the ISO Procedures.

2C.6 Attributes of Incremental TCCs

Incremental TCCs, but not partial outage Incremental TCCs, shall have the same attributes as other TCCs and shall be subject to the same rules under the ISO Tariffs, except as specifically provided in this Section 2C.

2C.7 Restrictions on Transfers of Incremental TCCs

Bilateral transfers of fewer than all of the Incremental TCCs associated with a given Expansion that were included in a final award shall not be allowed, *i.e.,* an Expander may only make bilateral transfers of all of the Incremental TCCs for all of the POI/POW combinations that were included in a final award for a given Expansion. This restriction shall not prohibit the sale of fewer than all of the Incremental TCCs included in a final award through a Centralized TCC Auction or a Reconfiguration Auction. Transferees of Incremental TCCs shall be subject to all existing ISO credit requirements and may be subject to any future credit requirements that may be applied to TCCs with a duration longer than one year.

Incremental TCCs that are awarded pursuant to a temporary award may not be sold or transferred through a bilateral transfer, through a Centralized TCC Auction, through a Reconfiguration Auction, or otherwise.

2C.8 Outage Charges

Any person or entity that is not subject to Section 2.5 of Attachment N to the ISO OATT and that owns an Expansion (or a portion of an Expansion) associated with a temporary or final award of Incremental TCCs shall pay an outage charge to the ISO for any hour in the Day-Ahead Market during which the Expansion associated with the Incremental TCCs is modeled to be wholly or partially out of service. All outage charges shall be implemented through the billing of Day-Ahead Market Congestion Rents to the person or entity responsible for paying the outage charge and, as such, will be credits to Day-Ahead Market Congestion Rents in the ISO settlement system.

Outage charges shall be determined as follows:

- If the entire Expansion is modeled as out of service in the Day-Ahead Market; the outage charge shall be equal to the Day-Ahead Market Congestion Rent payment for all of the Incremental TCCs associated with the entire Expansion.

- If one or more portions of an Expansion are modeled as out of service in the Day-Ahead Market, or derated by the outage of an External Transmission facility, and Partial Outage Incremental TCCs have not been created, the outage charge shall be equal to the Day-Ahead Market Congestion Rent payment for all of the Incremental TCCs associated with the entire Expansion.

- If one or more portions of an Expansion are modeled as out of service in the Day-Ahead Market or are caused to be out of service or derated by the outage of an External transmission facility, and Partial Outage Incremental TCCs have been created for such an out-of-service state or derating, the outage charge shall be calculated as follows:

  Outage charge = A – B

  where:

  - "A" is the sum, over all different POI and POW combinations associated with the Incremental TCCs for an Expansion, of the product of (i) the Congestion Component at the POW minus the Congestion Component at the POI; and (ii) the number of Incremental TCCs between that POI and POW associated with the Expansion, and

    "B" is the sum, over all different POI and POW combinations associated with the Partial Outage Incremental TCCs for that out-of-service state or derating of the Expansion, of the product of: (i) the Congestion Component at the POW minus the Congestion Component at the POI; and (ii) the number of Partial Outage Incremental TCCs between that POI and POW associated with that out-of-service state or derating of the Expansion.

3.0 Description of the Reduction Process

Before each Auction, the ISO shall ensure that all of the following correspond to a simultaneously feasible security constrained Power Flow: (i) existing TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction, including Fixed Price TCCs that were created pursuant to ~~: (A)~~ Section 2A of this Attachment M and Incremental TCCs awarded pursuant to Section 2C of this Attachment M~~; and that have certain characteristics specified in Attachment N to this Tariff; or (B) Section 2B of this Attachment M prior to the previous Centralized TCC Auction;~~ (ii) Grandfathered Rights, and (iii) ETCNL and Original Residual TCCs not previously sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction. In some cases, the total set of these TCCs, Grandfathered Rights, ~~and~~ETCNL and Original Residual TCCs may not correspond to a simultaneously feasible Power Flow in some period of time. In such cases, the ETCNL and

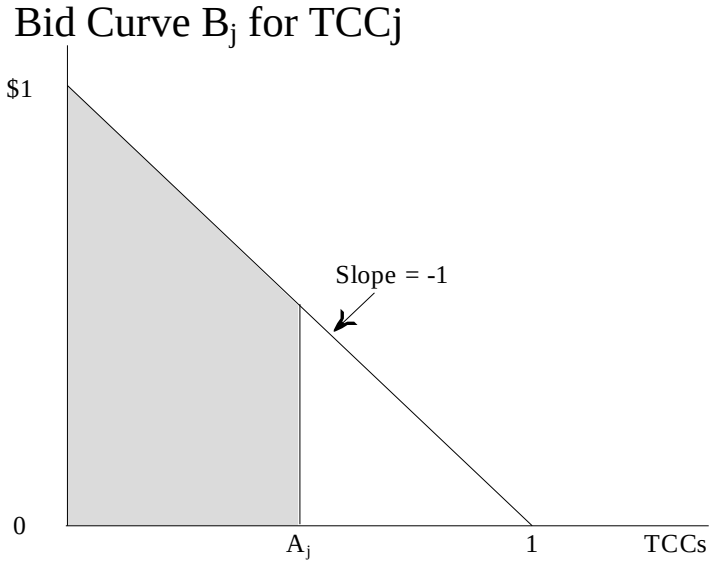
TCCs Subject to Reduction, as listed in Table 1 of this Attachment (henceforth "Table 1 ETCNL/TCCs"), will be reduced for that period in order to make the total set of existing TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction, Grandfathered Rights, and ETCNL not accounted for through existing TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction correspond to a simultaneously feasible Power Flow.

This reduction procedure will use the same optimization model that will be used in the Auction to determine the amount by which Table 1 ETCNL/TCCs will be reduced. Each of the existing TCCs, ETCNL, and Grandfathered Rights that is not included in Table 1 will be represented in the Auction model by a fixed injection of 1 MW at its Point of Injection, and a fixed withdrawal of 1 MW at its Point of Withdrawal. Bids for each Table 1 ETCNL/TCC will consist of a line which intersects the y-axis at $1/TCC (or any other value selected by the ISO, so long as that value is constant for each bid curve for all of these Table 1 ETCNL/TCCs) and which intersects the x-axis at 1 MW. An example of the bid curve B_j for a representative Table 1 ETCNL/TCC is illustrated in the diagram below.

The TCC Auction software will determine the amount of each Table 1 ETCNL/TCC that will remain after reduction, which is designated as A_j in the diagram. The objective function that the TCC Auction software will use to determine these coefficients A_j will be to maximize:

$$\sum_{j=0}^{A_j} \boldsymbol{B}_j$$

where N is the set of Table 1 ETCNL/TCCs, and all other variables are as defined above, subject to the Constraint that injections and withdrawals corresponding to each of the following must be simultaneously feasible in a Power Flow: (i) existing TCCs that are valid for any portion of the duration of any TCCs to be sold in the Centralized TCC Auction, including Fixed Price TCCs that were created pursuant to Section 2A of this Attachment M and that have certain characteristics specified in Attachment N to this Tariff; and Incremental TCCs awarded pursuant to Section 2C of this Attachment M; (ii) Grandfathered Rights; and (iii) ETCNL not previously sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction. As a result, the objective function will maximize the area under the bid curve for each Table 1 ETCNL/TCC that remains after reduction, summed over all Table 1 ETCNL/TCCs, subject to the simultaneous feasibility Constraint. This area for one Table 1 ETCNL/TCC is illustrated in the following diagram:



Reserved for future use.

4.0 Calculation of Residual Transmission Capacity to Establish Original Residual TCCs

Before the first Auction, the ISO calculated the Residual Transmission Capacity across each transmission Interface in both the Summer and Winter Capability Periods from the Operating Study Power Flow dispatch and allocated the Residual Transmission Capacity across Interfaces to individual Transmission Owners in the form of Original Residual TCCs in accordance with the Interface MW-Mile Methodology. The ISO's allocation of Original Residual TCCs to Transmission Owners shall remain the same

for at least the duration of the LBMP Transition Period. At the conclusion of the LBMP Transition Period, the Transmission Owners will review this methodology and shall have the sole discretion to modify by unanimous vote, the procedure to be used to allocate Residual Transmission Capacity across Interfaces in the form of Original Residual TCCs, and to determine the duration of all such Original Residual TCCs allocated.

Original Residual TCCs for each Interface will constitute point-to-point TCCs, each from a Point of Injection in one Load Zone to a Point of Withdrawal in another Load Zone.

5.0 Reservation of Transmission Capacity in an Auction through ETCNL TCCs

5.1 Subject to the limitations set forth in Section 5.2 of this Attachment M, a Transmission Owner with a set of ETCNL designated from a Point of Injection to a Point of Withdrawal, as detailed in Table 2 of this Attachment M, shall have a right prior to each Centralized TCC Auction to convert into an ETCNL TCC each megawatt of transmission capacity of that set of ETCNL that has not previously been sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction and that remains after any reduction pursuant to Section 3.0 of this Attachment M. Each ETCNL TCC will have a duration of 6 months and will have the same POI and POW as the original set of ETCNL converted into ETCNL TCCs. If a Transmission Owner fails to exercise its right to convert a megawatt of ETCNL into an ETCNL TCC in the manner and by the date specified in this Section 5.0, the Transmission Owner shall forfeit its right to convert ETCNL into ETCNL TCCs for the Centralized TCC Auction. Any ETCNL not converted to ETCNL TCCs shall remain valid as ETCNL, and shall be released for the Centralized TCC Auction pursuant to the provisions of this Attachment M.

5.2 Notwithstanding any other provisions of this Section 5.0, a Transmission Owner shall not convert into ETCNL TCCs an amount greater than the Capacity Reservation Cap of the transmission capacity of each set of the Transmission Owner's ETCNL; *provided, however*, that if (i) a Transmission Owner has a set of ETCNL from one POI and one or more sets of ETCNL from another POI, each of which are in the same Load Zone, and (ii) each of these sets of ETCNL has the same POW, then there shall be no maximum amount of transmission capacity from a single set of ETCNL that a Transmission Owner shall have a right to convert into ETCNL TCCs, but a Transmission Owner shall not convert into ETCNL TCCs an amount greater than the Capacity Reservation Cap of the total transmission capacity of all of the Transmission Owner's sets of ETCNL.

ETCNL may be converted only into whole ETCNL TCCs. If the Capacity Reservation Cap multiplied by the transmission capacity of a set of ETCNL or by the total transmission capacity of multiple sets of ETCNL, as the case may be pursuant to this Section 5.2, does not yield a whole number, then the number of ETCNL TCCs that a Transmission Owner may convert from ETCNL will be reduced to the nearest integer and the number of megawatts of ETCNL that a Transmission Owner may not convert to ETCNL TCCs will be increased to the nearest integer.

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5.3 The ISO shall determine the Capacity Reservation Cap prior to each Centralized TCC Auction, and shall post the Capacity Reservation Cap on its website. The Capacity Reservation Cap shall be any amount less than or equal to five percent (5%).

5.4 Before each Centralized TCC Auction, the ISO shall, subsequent to performing the reduction process pursuant to Section 3.0 of this Attachment M, determine the number of megawatts of transmission capacity from each of the Transmission Owner's sets of ETCNL that the Transmission Owner shall have a right to convert into ETCNL TCCs. The ISO shall notify each Transmission Owner of the ISO's determination with regard to its ETCNL in a written notice to be received by the Transmission Owner on or before the date specified in the timeline for the relevant Centralized TCC Auction posted on the ISO's website, as that timeline may be revised from time to time.

5.5 A Transmission Owner may exercise its right to convert its ETCNL into ETCNL TCCs by notifying the ISO of the number of megawatts of transmission capacity from each of the Transmission Owner's sets of ETCNL that the Transmission Owner elects to convert to ETCNL TCCs. The Transmission Owner shall make the notification

in a written notice to be received by the ISO on or before the date specified in the timeline for the relevant Centralized TCC Auction posted on the ISO's website, as that timeline may be revised from time to time. After receipt by the ISO, the Transmission Owner's notification shall not be modified or revoked, except by permission of the ISO.

6.0 Reservation of Transmission Capacity in an Auction through RCRR TCCs

6.1 Before each Centralized TCC Auction, the ISO shall, subsequent to performing the reduction process pursuant to Section 3.0 of this Attachment M, determine the number of RCRRs between each of the following contiguous pairs of Load Zones within the NYCA that the ISO shall allocate to Transmission Owners: West – Genesee; Genesee – Central; North – Mohawk Valley; Central - Mohawk Valley; Mohawk Valley – Capital; Capital - Hudson Valley; Hudson Valley – Millwood; Millwood – Dunwoodie; Dunwoodie - New York City; Dunwoodie - Long Island.

The ISO shall determine the number of RCRRs that the ISO shall allocate for each of these Load Zone pairs by maximizing the number of RCRRs between each Load Zone pair that are simultaneously feasible with all (i) existing TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction, (ii) Grandfathered Rights, and (iii) ETCNL not previously sold as TCCs that are valid for any part of the duration of any TCCs to be sold in the Centralized TCC Auction and that remains after any reduction pursuant to Section 3.0 of this Attachment M. To do so, the ISO will use the same optimization model that is used in determining the award of TCCs in a Centralized TCC Auction, and will represent each existing TCC, including TCCs that were created pursuant to Section 2A or awarded pursuant to Section 2C, each Grandfathered Right, each ETCNL, and a large number of RCRRs in the model as a fixed injection of 1 MW at the POI of the existing TCC, Grandfathered Right, ETCNL, or potential RCRR, and a fixed withdrawal of 1 MW at the POW of the existing TCC, Grandfathered Right, ETCNL, or potential RCRR. The Centralized TCC Auction software will determine the maximum number of RCRRs for each Load Zone pair by maximizing the area under the bid curve $Bids_j$ in the following formula, subject to the Constraint that the injections and

withdrawals corresponding to the existing TCC, Grandfathered Right, ETCNL, and potential RCRR must correspond to a simultaneously feasible Power Flow:

$$\sum_{j \in N} \int_{0}^{Aj} \text{Bidsj}$$

Where,

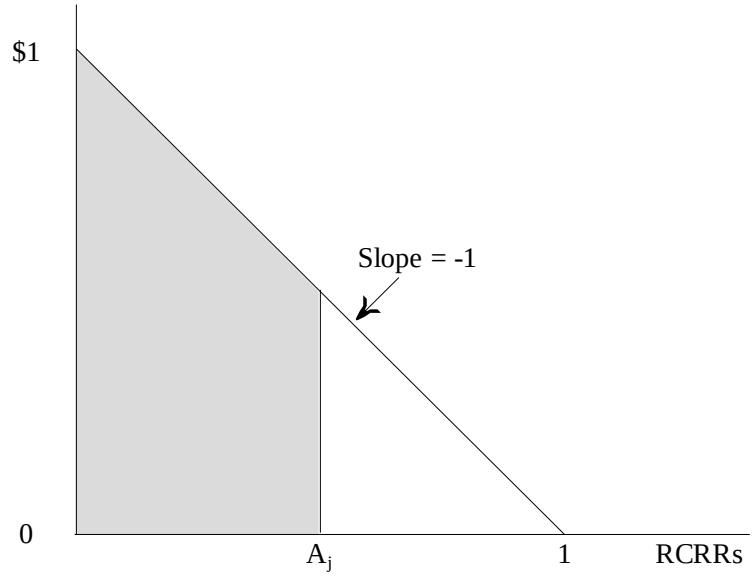
j = A Load Zone pair

N = The set of all Load Zone pairs for which the ISO shall calculate RCRRs

A_j = The number of RCRRs defined between Load Zone pair *j*

$Bids_j$ = The line that intersects the y-axis at $1/TCC and which intersects the x-axis at 1 MW, as illustrated in the bid curve illustrated below.

Bid Curve $Bids_j$ for $RCRR_j$



The ISO shall determine the POI and POW of each RCRR by assigning the POI and POW that the ISO expects, based on the ISO's review of historical and other information available to the ISO, to produce positive Congestion payments to a Transmission Owner that converts the RCRR into an RCRR TCC for the majority of the duration, in hours, of the longest duration TCCs to be sold in the relevant Centralized TCC Auction.

6.2 The ISO shall allocate RCRRs between each Load Zone pair to each Transmission Owner in an amount equal to the product of (i) the number of RCRRs between the Load Zone pair for the Centralized TCC Auction as calculated pursuant to Section 6.1 of this Attachment M, and (ii) the Transmission Owner's allocation factor for that Load Zone pair, which shall be calculated pursuant to the following formula:

$$\text{Allocation Factor}_{t,j} = \frac{\sum_{a \in A} \left(\text{Interface Revenue}_{t,j,a}\right)}{\sum_{\substack{t \in T \\ a \in A}} \left(\text{Interface Revenue}_{t,j,a}\right)}$$

Where,

Allocation Factor$_{t,j}$	=	The allocation factor used by the ISO to allocate a share of RCRRs between Load Zone pair *j* to Transmission Owner *t* for a Centralized TCC Auction
Interface Revenue$_{t,j,a}$	=	The revenue from the sale of TCCs (excluding those TCCs for which revenue is allocated to a Transmission Owner pursuant to Sections 3.3 through 3.5 of Attachment N) associated with the Interface between Load Zone pair *j* in Centralized TCC Auction *a* assigned to Transmission Owner *t*

t	=	A Transmission Owner
T	=	The set of all Transmission Owners
a	=	A Centralized TCC Auction
A	=	The set of Centralized TCC Auctions beginning with the Centralized TCC Auction held for the 2000 Summer Capability Period and ending with the Centralized TCC Auction held for the 2003-2004 Winter Capability Period
j	=	A Load Zone pair.

6.3 Subject to the limitations set forth in Section 6.4 of this Attachment M, a Transmission Owner allocated an RCRR pursuant to Section 6.2 of this Attachment M shall have a right prior to each Centralized TCC Auction to convert each RCRR into an RCRR TCC. Each RCRR TCC will have a duration of 6 months and will have the same POW and POI as the RCRR from which it was converted. If a Transmission Owner fails to exercise its right to convert an RCRR into an RCRR TCC in the manner and by the date specified in this Section 6.0, the Transmission Owner shall forfeit the RCRR. Each RCRR shall be valid only for the Centralized TCC Auction for which it was allocated.

6.4 Notwithstanding any other provisions of this Section 6.0, a Transmission Owner shall not convert an amount greater than the Capacity Reservation Cap of the Transmission Owner's RCRRs into RCRR TCCs.

RCRRs may be converted only into whole RCRR TCCs. If the Capacity Reservation Cap multiplied by the number of RCRR does not yield a whole number, then the number of RCRR TCCs that a Transmission Owner shall have a right to convert from RCRRs will be reduced to the nearest integer and the number of RCRRs that a Transmission Owner shall not have a right to convert to RCRR TCCs will be increased to the nearest integer.

6.5 Before each Centralized TCC Auction, the ISO shall, subsequent to performing the reduction process pursuant to Section 3.0 of this Attachment M, determine the number of RCRRs that each Transmission Owner shall have a right to convert to RCRR TCCs. The ISO shall notify each Transmission Owner of the ISO's determination with regard to its RCRRs in a written notice to be received by the Transmission Owner on or before the date specified in the timeline for the relevant Centralized TCC Auction posted on the ISO's website, as that timeline may be revised from time to time.

6.6 A Transmission Owner may exercise its right to convert its RCRRs into RCRR TCCs by notifying the ISO of the number of the Transmission Owner's RCRRs that the Transmission Owner elects to convert to RCRR TCCs. The Transmission Owner shall make the notification in a written notice to be received by the ISO on or before the date specified in the timeline for the relevant Centralized TCC Auction posted on the

ISO's website, as that timeline may be revised from time to time. After receipt by the ISO, the Transmission Owner's notification shall not be modified or revoked, except by permission of the ISO.

6.7 A Transmission Owner shall not sell its RCRR TCC except through a Centralized TCC Auction or Reconfiguration Auction, and shall not sell its RCRR TCC through Direct Sales or through Secondary Markets.

7.0 Sale of TCCs by Transmission Owners directly over the OASIS ("Direct Sale")

Transmission Owners may sell their Original Residual TCCs, ETCNL, and Grandfathered TCCs directly to buyers through a Direct Sale. Sellers and potential buyers shall communicate all offers to sell and buy TCCs, through a Direct Sale, solely over the ISO's OASIS. Buyers and Sellers of TCCs in the Secondary Market or by Direct Sale will have the responsibility to report their TCC transactions to the ISO, whereupon the ISO will post them on the OASIS.

Buyers in a Direct Sale that elect to become Primary Holders must meet the eligibility criteria in Section 9.0 of this Attachment M. In addition, each potential buyer that elects to

become a Primary Holder shall submit information to the ISO regarding the buyer's creditworthiness, as the ISO may require, along with a statement signed by the buyer, representing that the buyer is financially able and willing to pay for the TCCs it proposes to purchase as well as all other obligations associated with the purchase of such TCCs, including without limitation, Congestion payments due pursuant to Section 2.3 of Attachment N of this Tariff. The aggregate value of the buyer's offers to purchase TCCs (either in Direct

Sales or in the Auction) and a reasonable estimate of the buyer's obligations associated with the purchase of such TCCs shall not exceed the buyer's ability to pay, as determined by the ISO (based upon an analysis of the buyer's creditworthiness).

Where a buyer electing to become a Primary Holder fails to meet the eligibility criteria or the above financial criteria (as determined by the ISO), or fails to provide information required by the ISO, the seller of the TCCs in the Direct Sale shall be the Primary Holder with respect to those TCCs. The ISO shall make all Settlements with Primary Holders.

During the Direct Sale process, the Transmission Owner shall have the sole discretion to accept or reject an offer to purchase TCCs. Each Transmission Owner shall develop and apply a non-discriminatory method for choosing the winning offers consistent with FERC Order No. 889, et seq., and may establish eligibility requirements that shall be no more stringent than those set forth in Section 11.0 of this Tariff. The Transmission Owner shall post information regarding the results of the Direct Sale on the ISO's OASIS promptly after the Direct Sale is completed. The information shall include: (i) the amount of TCCs sold (in MW); (ii) the Point of Injection and Point of Withdrawal for each TCC sold; and (iii) the price paid for each TCC.

Primary Owners of Original Residual TCCs shall inform the ISO of all sales of those TCCs, including the identity of the buyers. Transmission Owners may offer to sell Original Residual TCCs for a

period not extending beyond the end of the LBMP Transition Period, and Grandfathered TCCs for periods not extending beyond the termination date of those TCCs; however, these TCCs shall not be valid (i.e., the Congestion payment rights and obligations of the Primary Holders of those TCCs shall not commence) until TCCs sold in the first Auction became valid. Payment for TCCs purchased in a Direct Sale shall be in accordance with the terms and conditions of the agreement between the buyer and seller.

8.0 Auctions for TCCs

8.1 Transmission Capacity Sold in Centralized Auctions for TCCs

In each Centralized TCC Auction, the following transmission capacity shall be available for purchase in the form of TCCs: (1) following any reduction pursuant to Section 3.0 of this Attachment M, all of the transmission capacity associated with ETCNL, that the Transmission Owners do not sell through a Direct Sale in advance of the Auction, that the Transmission Owners do not convert to ETCNL TCCs (2) all of the transmission capacity associated with Original Residual TCCs, that the Transmission Owners do not sell through a Direct Sale in advance of the Auction, that the Transmission Owners do not convert to RCRR TCCs; (3) all of the transmission capacity associated with TCCs offered for sale by TCC Primary Holders; and (4) any other transmission capacity in excess of that claimed by ETAs and Original Residual TCCs that the Transmission Owners do not convert to RCRR TCCs.

8.2 Phases of Centralized TCC Auctions

The ISO will make Transmission Service available at a fixed price through the sale of TCCs in an Auction which will be accomplished in two phases.

Phase 1: "Initial Auction" for TCCs - The TCCs purchased in this Auction shall have varying durations. TCCs available for each of these durations will be sold in a separate "sub-auction."

Phase 2: "End-State Auction" for TCCs - When the End--State

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Auction software is ready, TCCs of different durations will be sold in a single End-State Auction.

8.4 Phase 1: Initial Auctions for TCCs

TCCs with durations of 6 months and 1 year shall be available in each Centralized TCC Auction. TCCs with durations of 2 years, 3 years, 4 years, or 5 years may also be available in this Auction, at the ISO's discretion.

The percentage of the transmission capacity that is sold in an Auction as TCCs of each of these different durations will be determined by the ISO, subject to the requirement specified below.

The final decision concerning the percentage of the transmission capacity that will be sold in the Auction as TCCs of different durations will be made by the ISO. The ISO will conduct a polling process to assess the market demand for TCCs with different durations, which it will take into consideration when making this determination. The ISO may elect not to sell any TCCs with one or more of the above durations. However, all transmission capacity not associated with ETAs or outstanding TCCs or not reserved through conversion of ETCNL to ETCNL TCCs or RCRRs to RCRR TCCs must be available to support TCCs of some duration sold in the Auction.

The Initial Auction will consist of a series of sub-auctions, which will be conducted consecutively. In each sub-auction, TCCs of a single duration will be available (e.g., only TCCs with a five-year duration might be available in one sub-auction). Sub-auctions will be conducted in decreasing order of the length of the period for which TCCs sold in the sub-auction are valid. Therefore, if the ISO were to determine that five years would be the maximum length of TCCs available in the Initial Auction, then the sub-auction for TCCs with a duration of five years would be held first. All TCCs sold in the 5-year TCC sub-auction (other than those offered for sale in the next sub-auction, as described below) would then be modeled as fixed injections and withdrawals in the next sub-auction, in which TCCs of the next longest duration, as determined by the ISO (e.g., four years), would be available for purchase. Following that sub-auction, TCCs sold in either of the first two sub-auctions (other than those offered for sale in the next sub-auction) would then be modeled as fixed injections and withdrawals in the third sub-auction (e.g., a sub-auction for TCCs with a duration of three years), etc.

TCCs purchased in any sub-auction may be resold in a subsequent sub-auction. For example, the purchaser of a 5-year TCC purchased in the 5 year sub-auction may

release a 4-year TCC with the same Point of Injection and Point of Withdrawal for sale in the 4-year sub-auction. Similarly, that purchaser could instead release a corresponding 3-year TCC for sale in the 3-year sub-auction. Any TCC that was outstanding before the Initial Auction may be released for sale in any sub-auction.

Each sub-auction shall normally consist of two stages. Stage 1 of each sub-auction shall consist of at least four rounds. The ISO shall have the authority to determine the percentage of the available transmission capacity that will be sold in each round of each sub-auction. The ISO shall announce these percentages before the sub-auctions. The ISO shall also determine the maximum duration of TCCs sold in the Initial Auction, subject to the limitations above, and whether the TCCs sold in an Initial Auction shall be separately available for purchase as on-peak and off-peak TCCs. (For purposes of this Attachment, the on-peak period will include the hours from 7 a.m. to 11 p.m. Prevailing Eastern Time Monday through Friday. The remaining hours in each week will be included in the off-peak period.)

All available transmission capacity will be sold in Initial Auctions, including transmission capacity that would have been required to support Original Residual TCCs that the Transmission Owners do not sell directly in advance of the Auction, any other transmission capacity in excess of that claimed by grandfathered transmission agreements, Original Residual TCCs, TCCs sold in previous auctions whose Primary Holders offer those TCCs into the Auction, and ETCNL; *provided, however,* that transmission capacity converted into ETCNL TCCs, RCRR TCCs, and Fixed Price TCCs created pursuant to Section 2A above will not be available for sale in Centralized TCC Auctions.

8.4 Phase 2: End-State Auctions for TCCs

The End-State Auction will be held annually. The date for the first End-State Auction shall be determined by the ISO. The period during which each TCC sold in an End-State Auction is valid shall begin on the beginning date of a Capability Period, and shall conclude on the ending date of a Capability Period.

The ISO will determine the maximum duration and minimum duration of the TCCs available in the End-State Auctions. The ISO shall have the authority to determine the percentage of the available transmission capacity that will be sold in each round of the Auction. The ISO shall announce these percentages before the Auction. The ISO shall also determine the periods for which TCCs will be sold in End-State Auctions (e.g., TCCs valid during on-peak and off-peak periods, or TCCs valid during Winter and Summer Capability Periods). The ISO may elect to vary the duration or the periods for which TCCs will be available from one End-State Auction to the next End-State Auction.

The End-State Auction will not include separate sub-auctions for TCCs of different durations. Instead, TCCs of each permitted duration will be allocated as the result of the operation of a single Auction. If a Market Participant wishes to purchase a

TCC beginning in the Summer Capability Period of 2003, and ending in the Winter Capability Period of 2004-2005, it would submit a single Bid for this TCC. If that Bid is a winning Bid, the bidder would be awarded a TCC valid for the entire two year-long period; if the Bid is a losing Bid, the bidder would not receive the TCC for any portion of this period. The ISO will not specify in advance the portion of system transmission capacity that will be used to create TCCs of differing durations. Rather, the durations of TCCs awarded will be determined as part of the objective of the Auction, and will depend on the Bids submitted by participants in the Auction.

In a given round of the End-State Auction, the Market-Clearing Price determined for a TCC that is valid for multiple Capability Periods will equal the sum of the Market-Clearing Prices for shorter-term TCCs with the same Point of Injection and Point of Withdrawal, which in aggregate cover the same period for which the longer-term TCC is valid. (For example, the price of a TCC that is valid from May 2001 through April 2003 would equal the sum of the prices in that round for (1) TCCs valid from May 2001 through April 2002 and (2) TCCs valid from May 2002 through April 2003.)

The End-State Auction will include two stages, with each stage including multiple rounds of bidding, as described elsewhere in this Attachment.

Transmission capacity that can be used to support TCCs sold in End-State Auctions shall include all transmission capacity except that necessary to support the following: Original Residual TCCs that the Transmission Owners sell directly in advance of the Auction; any TCCs previously allocated (either in an Auction or through other means) that have not been offered for sale in this Auction; and transmission capacity needed to support Grandfathered Rights.

The End-State Auction will allow reconfiguration of the TCCs sold in the previous Auctions. An entity holding a five-year TCC, for example, may release a TCC for some or all of the period for which that TCC is valid for sale in the End-State Auction.

If necessary, the ISO may elect to conduct a semi-annual Auction to sell six-month TCCs between annual End-State Auctions. The transmission capacity that can be used to support TCCs purchased in this Auction shall include the portion of the transmission capacity sold in the previous End-State Auction as six-month TCCs, as well as any other outstanding TCC whose Primary Holder elects to release it for sale in this Auction.

8.5 Reconfiguration Auctions

A Reconfiguration Auction is an auction in which monthly TCCs may be offered and purchased. This will allow Market Participants to purchase and sell short-term

TCCs. Reconfiguration Auctions will also capture short-term changes in transmission capacity. Following each Initial or End-State Auction, the ISO will conduct Reconfiguration Auctions monthly and TCCs purchased in Reconfiguration Auctions will be valid for the month following the Reconfiguration Auction. A Reconfiguration Auction will consist of a single round. Any Primary Holder of a TCC, including a purchaser of a TCC in an Auction that has not sold that TCC and a Transmission Owner that is the Primary Owner of an ETCNL TCC or RCRR TCC, may offer that TCC for sale in a Reconfiguration Auction. The transmission capacity used to support these TCCs, as well as any other transmission capacity not required to support already-outstanding TCCs, will be available to support TCCs purchased in the Reconfiguration Auction.

9.0 Procedures for Sales of TCCs in Each Auction

9.1 Auction Structure

Eligibility to Bid in Stage 1 and Stage 2 - TCCs may be offered for sale in each stage of the Auction. Primary Owners (who have not sold their TCCs in a Direct Sale), purchasers of TCCs in Direct Sales (who qualify as Primary Holders), and purchasers of TCCs in previous Auctions (who have not subsequently sold their TCCs) may offer

TCCs for sale in Stage 1. If they do so, they must specify all of the TCCs they wish to offer in Stage 1 before Stage 1 begins. The following holders of TCCs may offer to sell TCCs in each round of Stage 2: (i) Primary Owners who did not sell those TCCs in a Direct Sale or in a previous round of the Auction (in either Stage 1 or Stage 2); (ii) purchasers of TCCs in previous rounds of that Auction or in previous Auctions who have not subsequently sold those TCCs through an Auction; and (iii) purchasers of TCCs through a Direct Sale who qualify to become Primary Holders and have not already sold those TCCs through an Auction or through a Direct Sale.

Bid Requirements - Bidders shall submit Bids into the Auction in accordance with this Attachment. Bidders shall submit Bids such that the sum of the value of its Bids (excluding Bids for TCCs already held by that bidder) shall not exceed that bidder's ability to pay for TCCs.

Bidding Rounds - Bidders shall be awarded TCCs in each round of the Auction and shall be charged the market clearing price for that round, as defined in this Attachment, for all TCCs they purchase. For purposes of determining payments to Primary Holders who release TCCs into the Auction, each Primary Holder that offers TCCs for sale in Stage 1 of the Auction shall be deemed to have offered a portion of

those TCCs for sale in each round of Stage 1 based on the scaling factors defined by the ISO for each round of the Auction (as further defined below). Prior to each Auction, the ISO shall determine the percentage of TCCs to be offered for sale in each round of Stage 1 of the Auction, such that all of the TCCs offered for sale in Stage 1 shall be offered by the last round of Stage 1. The percentages may be different in each round. The "scaling factor" for each round in Stage 1 shall equal the percentage of TCCs to be sold in Stage 1 that have not already been sold in a previous round of Stage 1, divided by the percentage of TCCs to be sold in that round of Stage 1. TCCs that may be sold in each round shall be determined by dividing the TCCs offered for sale in Stage 1 by the scaling factor applicable to that round (See examples in Section 9.9 of this Attachment M).

Stage 2 of the Auction shall terminate: (i) if no Primary Owner of a Grandfathered TCC, Original Residual TCC, ETCNL TCC, or RCRR TCC, and no purchaser of TCCs in an earlier round of the Auction offers to sell any TCCs in a round; (ii) if no TCCs are purchased or sold in two (2) consecutive rounds; or (iii) upon the satisfaction of other criteria defined by the ISO.

Primary Holders - The ISO shall make all Day-Ahead Congestion Rent Settlements with Primary Holders.

Reconfiguration Auctions - All rules stated in this Section 9.0 for Stage 1 of an Initial or an End-State Auction shall also apply to Reconfiguration Auctions. The scaling factor for the single round of a Reconfiguration Auction shall be one, since all transmission capacity other than that needed to support already-outstanding TCCs and Grandfathered Rights will be available to support TCCs sold in the Auction.

9.2 Responsibilities of the ISO

The ISO shall establish the Auction rules and procedures consistent with this Tariff. The ISO shall conduct the Optimal Power Flows in each round of the Auction. The ISO will verify that the Optimal Power Flows calculated in each round of the Auction corresponds to a simultaneously feasible Power Flow as described in Section 9.7 of this Attachment M. The ISO shall

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notify the Transmission Owners if: (1) the Optimal Power Flow results calculated are inaccurate; or (2) the Optimal Power Flow is not calculated in accordance with the correct procedure.

Additionally, the ISO will determine the information pertaining to the Auction to be made available to Auction participants over the OASIS and publish information on its OASIS accordingly. The ISO will identify the details to be included in development of the Auction software and arrange for development of the software.

The ISO will evaluate each bidder's ability to pay for TCCs. As a result of this evaluation, the ISO will state a limit before the Auction on the value of the TCCs that the entity may be awarded in Direct Sales or in the Auction, and collect signed statements from each entity bidding into the Auction committing that entity to pay for any TCCs that it is awarded in the Auction. Bidders will not be permitted to submit

bids that exceed this allowable limit. The ISO shall not reveal the Bid Prices submitted by any bidder in the Auction until six months following the date of the Auction. When these Bid Prices are posted, the names of the bidders shall not be publicly revealed, but the data shall be posted in a way that permits third parties to track each individual bidder's bids over time.

The ISO will settle all Centralized TCC Auctions and Reconfiguration Auctions, and will settle all Congestion settlements related to the Day-Ahead Market, pursuant to Attachment N.

9.3 Additional Responsibilities of the ISO

The ISO shall be capable of completing the Auction within the time frame specified in this Attachment.

The ISO will establish an auditable information

system to facilitate analysis and acceptance or rejection of Bids, and to provide a record of all Bids and the conversion of ETAs into Fixed Price TCCs. The ISO shall also provide all necessary assistance in the resolution of disputes that arise from questions regarding the acceptance, rejection, award and recording of Bids, or ETAs into Fixed Price TCCs, pursuant to Section 2A above. The ISO will establish a system to communicate Auction-related information to all Auction participants between rounds of the Auction. (This last requirement will not apply to single-round Auctions.)

The ISO will receive Bids to buy TCCs from any entity that meets the eligibility criteria established in Section 11.0 of this Tariff and will implement the Auction bidding rules previously established by the ISO.

The ISO will be required to solve Optimum Power Flows for the NYS Transmission System; properly utilize an Optimum Power Flow program to determine the set of winning Bids for each round of the Auction; and calculate the market clearing price of all TCCs at the conclusion of each round of the Auction, in the manner described in this Attachment.

9.4 Responsibilities of each Bidder

Each bidder shall submit the following information with its Bids: (i) the number of TCCs for which an offer to purchase is made, (ii) the Bid Price (in $/TCC) which represents the maximum amount the bidder is willing to pay for the TCC (Bid Prices may be negative, indicating that a bidder would have to be paid in order to accept a TCC); (iii) the location of the Point of Injection and the Point of Withdrawal for the TCC to which the Bid applies (these locations may be any locations for which the ISO calculates an LBMP); (iv) if the Auction is an Initial Auction, the duration in multiples of Capability Periods of the TCC for which the bidder is bidding; and (v) if the Auction is an End-State Auction, the points in time at which the TCC bid upon begins to be valid (which must be the beginning of a Capability Period) and at which the TCC bid upon ceases to be valid (which must be the end of a Capability Period, and which may not extend beyond the last point in time for which TCCs will be available in that Auction). Additionally, if the ISO offers TCCs for sale that are valid in sub-periods (e.g., on-peak or off-peak TCCs), this information must also be provided by the Bidder.

Each bidder must submit such information to the ISO regarding the bidder's or LSE's creditworthiness as the ISO may require, along with a statement signed by the bidder, or LSE

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representing that the bidder or LSE is financially able and willing to pay for the TCCs for which it is bidding or converting. The aggregate value of the Bids submitted by any bidder into the Auction shall not exceed that bidder's ability to pay or the maximum value of Bids that bidder is permitted to place, as determined by the ISO (based on an analysis of that bidder's creditworthiness).

Each bidder must pay the market clearing price for each TCC it is awarded in the Auction.

9.4a Responsibilities of LSEs that Obtain Fixed Price TCCs Under Section 2A

Each LSE that obtains a Fixed Price TCC under Section 2A of this Attachment M must submit such information to the ISO regarding its creditworthiness as the ISO may require. Each such LSE must also: (i) comply with the applicable TCC conversion deadlines established by the ISO under Section 2A; and (ii) pay the price determined pursuant to Section 2A.

9.5 Selection of Winning Bids and Determination of the Market Clearing Price

The ISO shall determine the winning set of Bids in each round of the Auction as follows: (i) the ISO shall use an Optimal Power Flow program with the initial assumptions identified by the ISO; (ii) the Optimal Power Flow shall use the same

Reference Bus and system security Constraints assumptions as used by the ISO; (iii) the ISO shall select the set of Bids that maximizes the value of the TCCs awarded to the winning bidders; (iv) the aggregate market value of the TCCs awarded to each bidder shall not exceed that bidder's ability to pay, since each bidder is not allowed to Bid more than its ability to pay as determined by the ISO; and (v) the selected set of Bids must be simultaneously feasible as described in this Attachment.

In the Initial Auction, if the ISO elects to perform separate Auctions for on-peak and off-peak TCCs, the procedure used to select winning Bids in an on-peak Auction will not depend on winning Bids selected in an off-peak Auction; nor shall the procedure used to select winning Bids in an off-peak Auction depend on winning Bids selected in an on-peak Auction.

The market clearing price for each TCC in each round of Stages 1 and 2 of an Auction shall be determined using a similar algorithm to that used to determine LBMPs (refer to Attachment J). The market clearing price for each TCC shall be based on the lowest winning Bid made in that round for that TCC (or for other TCCs if injections and withdrawals corresponding to those TCCs would have the same impact on flows over congested Interfaces as injections and withdrawals corresponding to that TCC).

9.6 Billing

Charges for TCCs awarded in the Auction, shall be billed upon completion of the Auction process. Charges for Fixed Price TCCs shall be billed in accordance with ISO Procedures.

9.7 Simultaneous Feasibility

The set of winning Bids selected in each round of Stage 1 shall correspond to a simultaneously feasible Power Flow, with the exception of the End-State Auction. In the

End-State Auction, multiple Power Flows will be conducted in each round. One Power Flow will correspond to each of the Capability Periods for which TCCs are offered for Sale in that Auction. The set of winning Bids for any given round of an End-State Auction shall correspond to a simultaneously feasible Power Flow in each of the Capability Periods for which TCCs are available in the Auction. References in the remainder of this Section 9.7 to "Power Flow" shall, in the case of the End-State Auction, be understood as referring to the "Power Flow for each of the Capability Periods for which TCCs are available in the Auction."

The Power Flow must be able to accommodate in each Stage 1 round injections and withdrawals corresponding to each of the following TCCs and Grandfathered Rights: (i) TCCs not offered for sale in Stage 1, including Grandfathered TCCs, Original Residual TCCs, or any other existing TCCs whether purchased in a previous Auction or otherwise acquired that are valid for any part of the duration of any TCCs to be sold in Stage 1; (ii) Grandfathered Rights; (iii) TCCs awarded in earlier rounds of Stage 1 (if applicable); and (iv) TCCs awarded in the current round of Stage 1. Each injection and withdrawal associated with TCCs and Grandfathered Rights will be multiplied by a scaling factor which apportions

the transmission capacity available in Stage 1 among each of the rounds in Stage 1. The use of this scaling factor is illustrated in the example in Section 9.9 of this Attachment M.

The set of winning Bids selected in each round of Stage 2 shall correspond to a simultaneously feasible Power Flow that can accommodate injections and withdrawals corresponding to the following: (i) TCCs not offered for sale in the current round of Stage 2 of the Auction which include Grandfathered TCCs, Original Residual TCCs, or any other existing TCCs whether purchased in a previous round or Auction or otherwise acquired that are valid for any part of the duration of any TCCs to be sold in Stage 2; (ii) Grandfathered Rights; and (iii) TCCs awarded in the current round of Stage 2.

A set of injections and withdrawals shall be judged simultaneously feasible if it would not cause any thermal, voltage, or stability violations within the NYCA for base case conditions or any monitored contingencies.

When performing Power Flows for the purpose of determining simultaneous feasibility, injections for TCCs that specify a Load Zone as the Point of Injection will be modeled as a set of injections at each Load bus in the

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Load Zone containing the Point of Injection (Generator buses will be used until the ISO's software can accommodate Load buses) equal to the product of the number of TCCs and the ratio of Load served at each bus to Load served in the Load Zone, based on the bus Loads used in calculating zonal LBMPs.

When performing the above Power Flows, withdrawals for TCCs that specify a Load Zone as the Point of Withdrawal will be modeled as a set of withdrawals at each Load bus in the Load Zone containing the Point of Withdrawal (Generator buses will be used until the ISO's software can accommodate Load buses) equal to the product of the number of TCCs and the ratio of the Load served at each bus to the total Load served in the Load Zone based on the ISO's estimate of the bus Loads used in calculating the Zonal LBMPs.

The Power Flow simulations shall take into consideration the effects of parallel flows on the transmission capacity of the NYS Transmission System when determining which sets of injections and withdrawals are simultaneously feasible.

9.8 Information to be Made Available to Bidders

The ISO shall provide over the ISO's OASIS the expected non-simultaneous Total

Transfer Capability for each Interface (as displayed on the OASIS).

The ISO shall make the following information available before each Initial, End-State, or Reconfiguration Auction:

(i) for each Generator bus, external bus and Load Zone for the previous ten (10) Capability Periods, if available, (a) the average Congestion Component of the LBMP, relative to the Reference Bus, and (b) the average Marginal Losses Component of the LBMP, relative to the Reference Bus;

(ii) for the previous two Capability Periods, (a) historical flow histograms for each of the closed Interfaces, and (b) historically, the number of hours that the most limiting facilities were physically constrained;

(iii) (a) Power Flow data to be used as the starting point for the Auction, including all assumptions, (b) assumptions made by the ISO relating to transmission maintenance outage schedules, (c) all limits associated with transmission facilities, contingencies, thermal, voltage and stability to be

monitored as Constraints in the Optimum Power Flow determination, and (d) the ISO summer and winter operating study results (non-simultaneous Interface Transfer Capabilities);

(iv) on its website no fewer than five (5) business days prior to the date on which a Centralized TCC Auction will begin, the number of megawatts of each set of ETCNL that each Transmission Owner has elected to convert to ETCNL TCCs for the Centralized TCC Auction and the RCRRs that each Transmission Owner has elected to convert to RCRR TCCs for the Centralized TCC Auction.

(v) between each round of bidding during the Auction, for all bidders bidding in subsequent rounds, the Market-Clearing Price, stated relative to the Reference Bus for each Generator bus, External bus and Load Zone; and

(vi) for each TCC awarded in each round, (a) the number of TCCs awarded, (b) the Point of Injection and Point of Withdrawal for that TCC, (c) the market clearing price for the TCC, and (d) the Auction participant awarded the TCC.

Items (i), (ii), (iii), and (v) above shall be made available separately for on-peak and off-peak periods, if on-peak and off-peak TCCs will be separately available for purchase in the upcoming Auction.

9.9 Auction Example

The following example is for purposes of illustration. For the purposes of this example, assume that the ISO has determined that one-fourth of the transmission capacity

that has been offered for sale in Stage 1 will be available to support TCCs purchased in each of four Stage 1 rounds.

The example illustrates a sub-auction of an Initial Auction. It can also be used to illustrate the operation of the End-State Auction, if one makes the additional assumption that all bidders have offered to purchase TCCs of the same length, and that all sellers have released TCCs of that same length.

Round 1a

In the first round of Stage 1 (round 1a), suppose that 100 TCCs from location X to location Y are offered for sale into Stage 1 of the Auction, and four (4) Bids have been received by the auctioneer for TCCs from location X to location Y, as follows:

Company A Bids for 50 TCCs @ $5.00/TCC

Company B Bids for 50 TCCs @ $4.00/TCC

Company C Bids for 20 TCCs @ $2.00/TCC

Company D Bids for 10 TCCs @ $1.00/TCC

For the sake of simplicity, assume in this example that 100 TCCs from location X to location Y will actually be allocated in Stage 1 of the Auction, although in practice, the number of TCCs that would be available between those locations in Stage 1 would

depend on the number of TCCs that were allocated between other locations on the transmission system, and could actually change from round to round within Stage 1.

Since one-fourth of the transmission capacity that has been offered for sale in Stage 1 is to be sold in round 1a, the number of TCCs specified in each of the Bids above is multiplied by a scaling factor of four:

Company	Scaled Number of TCCs Company Offers to Purchase	Bid Price
A	200	$5/TCC
B	200	$4/TCC
C	80	$2/TCC
D	40	$1/TCC

Since 100 TCCs are available from location X to location Y, Company A would be the only company that would receive TCCs in the current round, because its Bid is the highest Bid, in $/TCC terms, and its scaled Bid for 200 TCCs exceeds the 100 TCCs available. Company A would be the winning bidder, and the market clearing price for TCCs in this round would be Company A's Bid of $5/TCC.

However, Company A would not actually be awarded 100 TCCs. Each winning Bid in each Stage 1 round will be divided by the scaling factor used for that round to

determine the number of TCCs that would be awarded to each winning bidder. Thus, Company A's winning Bid for 100 scaled TCCs would be converted into an actual award of 100 TCCs / 4 = 25 TCCs. Company A would be awarded 25 TCCs at the conclusion of round 1a, at a price of $5/TCC.

Round 1b

Three-fourths of the TCCs that have been offered for sale in Stage 1 remain available after round 1a, so if one-fourth of all the TCCs that have been offered for sale in Stage 1 and to be sold in the second round of Stage 1 (round 1b), then one-third of the TCCs that have been offered for sale in Stage 1 remaining after round 1a must be sold in round 1b (since 1/3 x 3/4 = 1/4). Consequently, the scaling factor for round 1b would be three. We have assumed that 75 TCCs will now be available from location X to location Y in round 1b, once the 25 TCCs awarded to Company A in round 1a have been taken into account. Bids (including scaled Bids) into round 1b for TCCs between these locations are given below.

Company	Number of TCCs Company Offers to Purchase	Scaled Number of TCCs Company Offers to Purchase	Bid Price
A	30	90	$6/TCC
B	50	150	$5/TCC
C	20	60	$3/TCC
D	10	30	$2/TCC

Since 75 TCCs are available from location X to location Y, Company A would again be the only company that would receive TCCs in this round, because its Bid is the highest Bid, in $/TCC terms, and its scaled Bid for 90 TCCs exceeds the 75 TCCs available. Company A would be the winning bidder, and the market clearing price for TCCs in this round would be Company A's Bid, which has increased to $6/TCC in this round.

However, Company A's winning Bid for 75 scaled TCCs would be converted into an actual award of 75 TCCs / 3 = 25 TCCs. Company A would be awarded 25 TCCs at the conclusion of round 1b, at a price of $6/TCC.

Round 1c

Half of the TCCs that have been offered for sale in Stage 1 remain available after rounds 1a and 1b, so half of the remaining TCCs that have been offered for sale in

Stage 1 must be sold in the third round of Stage 1 (round 1c), making the scaling factor for round 1c equal to two. We have assumed that 50 TCCs will now be available from location X to location Y in round 1c, once the 50 TCCs awarded to Company A in rounds 1a and 1b have been taken into account. Bids (including scaled bids) into round 1c for TCCs between these locations are given below.

Company	Number of TCCs Company Offers to Purchase	Scaled Number of TCCs Company Offers to Purchase	Bid Price
A	10	20	$5/TCC
B	40	80	$6/TCC
C	10	40	$2/TCC
D	10	20	$7/TCC

Since 50 TCCs are available between these locations, Company D, which now has the highest Bid, would be awarded 20 scaled TCCs, and Company B, which now has the second-highest Bid, would receive the next 30 scaled TCCs. The market clearing price for TCCs in this round would be $6/TCC, Company B's Bid.

However, the winning Bids would be converted into actual awards of 20 TCCs / 2

= 10 TCCs to Company D, and 30 TCCs / 2 = 15 TCCs to Company B, each at a price of $6/TCC.

Round 1d

All of the TCCs that have been offered for sale in Stage 1 that remain available after rounds 1a, 1b and 1c will be sold in the fourth round of Stage 1 (round 1d), so the scaling factor for round 1d would be one. In other words, there would be no scaling in round 1d. We have assumed that 25 TCCs will now be available from location X to location Y in round 1b, once the 75 TCCs awarded in rounds 1a, 1b and 1c have been taken into account. Bids into round 1d for TCCs between these locations are given below. (Note that Companies A and D have dropped out of the Auction at this point and Company E has entered the Auction, illustrating that there is no requirement for bidders in earlier rounds to Bid into later rounds or for bidders in later rounds to Bid into earlier rounds.)

Company	Number of TCCs Company Offers to Purchase	Bid Price
B	15	$5/TCC
C	20	$2/TCC
E	20	$10/TCC

Since 25 TCCs are available between these locations, Company E, which now has the highest Bid, would be awarded 20 TCCs, and Company B, which has the second-highest Bid, would receive the last 5 TCCs. The market clearing price for TCCs in this round would be $5/TCC, Company B's Bid.

Stage 1 Summary

TCCs awarded from location X to location Y in Stage 1, and the prices paid for those TCCs, are as follows:

Company	Round	TCCs Awarded	Price
A	1a	25	$5/TCC
A	1b	25	$6/TCC
B	1c	15	$6/TCC
B	1d	5	$5/TCC
D	1c	10	$6/TCC
E	1d	20	$5/TCC

In this example, all revenues from this Auction would be paid to the holders of the 100 Original Residual TCCs from location X to location Y that released those TCCs for sale into Stage 1 of the Auction.

Stage 2

In the first round of Stage 2 (round 2a), assume that Company F, which holds 50 TCCs from location X to location Y (that it received as a result of a grandfathered transmission agreement) releases those TCCs for sale into the Auction. In addition, suppose that Company E releases the 20 TCCs from location X to location Y that it purchased in Stage 1 for sale into round 2a of the Auction, so that a total of 70 TCCs from location X to location Y have been released for sale into round 2a. Although it is possible that more or fewer than 70 TCCs from location X to location Y will actually be sold, depending on Bids made for TCCs between other locations, assume for purposes of the example that only 70 TCCs between these two locations are actually sold in round 2a. Bids into round 2a are as follows:

Company	Number of TCCs Company Offers to Purchase	Bid Price
B	40	$5/TCC
C	40	$4/TCC
D	40	$9/TCC

Company G, the highest bidder, would be awarded 40 TCCs, and Company B, the second highest bidder, would be awarded the remaining 30 TCCs. The Market Clearing

Price in round 2a would be Company B's Bid, $5/TCC, so the winning bidders in round 2a would pay $5/TCC for the TCCs they are awarded in round 2a. Companies E and F would be paid $5/TCC for each TCC from location X to location Y that they released for sale into the Auction.

Subsequent rounds in Stage 2 would proceed in the same manner as round 2a.

10.0 Secondary Market for TCCs

After the conclusion of each Auction, all Primary Holders may sell their TCCs in the Secondary Markets, unless otherwise provided in this Attachment M. However, the ISO shall make all Settlements with Primary Holders. Buyers in a Secondary Market that elect to become Primary Holders must meet the eligibility criteria in Section 9.0 of this Attachment M.

11.0 Emergency TCC Auction Remedial Authority for the 2004 Summer Capability Period

During the 2004 Summer Capability Period only, the ISO may take the following actions to remedy its oversale in TCC auctions, during the period between the Spring 2004 Centralized TCC Auction and the end of the 2004 Summer Capability Period, of 912 MW of transmission capacity between the Indian Point 3 bus and Load Zone J (New York City) ("Oversales"):

Filed to comply with Order No. 681 of the Federal Energy Regulatory Commission, Docket No. RM06-8-000, issued July 20, 2006, 116 FERC ¶ 61,077 (2006) and Order No. 681-A, Docket No. RM06-8-001, issued November 16, 2006, 117 FERC ¶ 61,201 (2006).

(i) solicit voluntary offers to sell TCCs to the ISO solely for immediate retirement, and voluntary offers to purchase counterflow TCCs, which the ISO may create and sell pursuant to this Section 11.0 only, from Market Participants, and to accept those offers that it determines, on an optimized, least-cost basis, will extinguish as much of the infeasibility attributable to the Oversales as is economically practicable;

(ii) use net excess TCC auction revenues, *i.e.* TCC auction revenues currently held by Transmission Owners that are attributable to the Oversales, minus Congestion Rent Shortfalls assigned to those Transmission Owners through July 11, 2004, to fund the extinguishments described in (i) above;

(iii) use remaining net excess TCC auction revenues to the extent that any remain after their use in (ii) above, to compensate remaining Transmission Owners for the amount by which Congestion Rent Shortfalls attributable

to the Oversales that they have funded from the start of the 2004 Summer Capability Period through and including July 11, 2004 exceed revenues paid to a Transmission Owner as a result of the Oversale in the Spring 2004 Centralized TCC Auction;

(iv) use net excess TCC auction revenues, to the extent that any remain after their use in (iii) above, to fund any remaining Congestion Rent Shortfalls that are attributable to the Oversales and that occur in the Summer 2004 Capability period; and

(v) to the extent that net excess TCC auction revenues are insufficient to make the payments described in (ii), (iii), and (iv) above, to draw on up to $ 27 million from the ISO's Working Capital Fund, which is described in Attachment V to the ISO OATT, to make such payments.

The ISO shall not be required to purchase TCCs in the Reconfiguration Auctions conducted for the remaining months in the Summer 2004 Capability Period.

12.0 Historic Period Refunds and Payments for Current Shortfalls Under the July 13, 2004 TCC Settlement Agreement

The ISO shall calculate "Historic Shortfalls" in the manner described in Article III of the Settlement Agreement in Docket Nos. EL04-110, EL04-113, EL04-115 and ER04-983 that was approved by the Commission on July 13, 2004. It shall refund these Historic Shortfalls to the

Transmission Owners using the procedures and funding mechanisms, including the rules governing the replenishment of the ISO Working Capital Fund, that are set forth in the Settlement Agreement. The Shortfall Reimbursement Surcharge referenced in the Settlement Agreement is established in Section 2.3 of Part IV of Attachment B to the Services Tariff and Section 2.3 of Attachment N to the OATT.

To the extent necessary, the ISO may also use funds collected through the Shortfall Reimbursement Surcharge to make payments for "Current Shortfalls" pursuant to Article II.B of the Settlement Agreement.

Attachment M
Table 1

Table 1 - TCC Reservations Subject to MW Reduction

					Sum	Win	Interface Allocations Summer Period									
	Reservation	Name	From	To	MW	MW	DE	WC	VE	MoS	TE	US	UC	MS	DS	CE LI
1	Con Edison	Bowline	Bowline	Con Edison	801	801							801	768	584	
2	Con Edison	ST4 HQ	Con Ed - North	Con Edison	400	208							400	384	292	
3	Con Edison	Gilboa	Con Ed - North	Con Edison	125	125							125	120	91	
4	Con Edison	Roseton	Roseton GN1	Con Edison	480	480							480	461	351	
5	Con Edison	Corinth	Con Ed - North	Con Edison	134	134							134	129	98	
6	Con Edison	Sithe	Con Ed - North	Con Edison	837	837							837	803	611	
7	Con Edison	Selkirk	Selkirk	Con Edison	265	265							265	254	193	
8	Con Edison	IP2	Indian Pt 2	Con Edison	893	893								893	679	
9	Con Edison	IP3	Indian Pt 3	Con Edison	108	108								108	82	
10	Con Edison	IP Gas Turbine	IP GT Buchanan	Con Edison	48	48								48	36	
11	NMPC	NMP1	NMP1	NMPC East	610	610			610		610					
12	NMPC	NMP2	NMP2	NMPC East	460	460			460		460					
13	NMPC	Hydro North	Colton	NMPC East	110	110					110					
14	NYSEG	Homer City	Homer City	NYSEG Cent.	863	863	863	863								
15	NYSEG	Homer City	Homer City	NYSEG West	100	100										
16	NYSEG	Allegheny 8&9	Pierce Rd 230kV	NYSEG Cent.	37	37	37	37								
17	NYSEG	BCLP	Homer City	NYSEG Cent.	80	80	80	80								
18	NYSEG	LEA (Lockport)	NYSEG West	NYSEG Cent.	100	100	100	100								
19	NYSEG	Gilboa	Gilboa	NYSEG Mech	99	99										
20	SENY (2) (4)	Niagara OATT Reservation	Niagara	Con Edison	422	422	422 [3]	422 [3]	422 [3]		422 [3]	422 [3]	422 [3]	422 [3]	422 [3]	
21	SENY (2) (4)	St. Lawrence OATT Reserv.	St. Lawrence	Con Edison	178	178				178 [3]	178 [3]	178 [3]	178 [3]	178 [3]	178 [3]	

Notes: 1. Interface Designations:
DE - Dysinger East
WC - West Central
VE - Volney East
MoS - Moses South
TE - Total East
US - UPNY/SENY
UC - UPNY/Con Ed
MS - Millwood South
DS - Dunwoodie South
CE-LI - Con Ed/LILCO

2. Subject to NYPA's obtaining non-discriminatory long term firm reservation through 2017 under their OATT.
3. NYPA's TCCs allocated to their SENY Governmental Load Customers, across UPNY/Con Ed, Millwood South and Dunwoodie South will be up to 600 MW, or amounts otherwise available to NYPA pursuant to the grandfathered rights applicable under the Planning & Supply and Delivery Services Agreement between NYPA and Con Edison dated March 1989.
4. NYPA's TCCs allocated to their SENY Governmental Load Customers will terminate on the earlier of December 31, 2017 or when NYPA no longer has an obligation to serve any SENY Loads or the retirement or sale of both IP#3 and Poletti.

Attachment M
Table 2

TABLE 2- ETCNL Data for Converting ETCNL to ETCNL TCCs					
	Holder of ETCNL	**Name of Set of ETCNL**	**Point of Injection**	**Point of Withdrawal**	**Transmission Capacity (MW)**
1.	Con Edison	Native Load-Bowline	Bowline	Millwood Zone	33
2.	Con Edison	Native Load-Bowline	Bowline	Dunwoodie Zone	184
3.	Con Edison	Native Load-Bowline	Bowline	NYC Zone	584
4.	Con Edison	Native Load- HQ Capacity Purchase	Pleasant Valley 345kV	Millwood Zone	16/8
5.	Con Edison	Native Load- HQ Capacity Purchase	Pleasant Valley 345kV	Dunwoodie Zone	92/48
6.	Con Edison	Native Load- HQ Capacity Purchase	Pleasant Valley 345kV	NYCZone	292/152
7.	Con Edison	Native Load - Gilboa	Pleasant Valley 345kV	Millwood Zone	5
8.	Con Edison	Native Load - Gilboa	Pleasant Valley 345kV	Dunwoodie Zone	29
9.	Con Edison	Native Load - Gilboa	Pleasant Valley 345kV	NYC Zone	91
10.	Con Edison	Native Load - Roseton	Roseton-#1	Millwood Zone	19
11.	Con Edison	Native Load - Roseton	Roseton-#1	Dunwoodie Zone	110
12.	Con Edison	Native Load - Roseton	Roseton-#1	NYC Zone	351
13.	Con Edison	Native Load - Corinth	Pleasant Valley 345kV	Millwood Zone	5
14.	Con Edison	Native Load - Corinth	Pleasant Valley 345kV	Dunwoodie Zone	31
15.	Con Edison	Native Load - Corinth	Pleasant Valley 345kV	NYC Zone	98
16.	Con Edison	Native Load - Sithe	Pleasant Valley 345kV	Millwood Zone	34
17.	Con Edison	Native Load - Sithe	Pleasant Valley 345kV	Dunwoodie Zone	192
18.	Con Edison	Native Load - Sithe	Pleasant Valley 345kV	NYC Zone	611
19.	Con Edison	Native Load - Selkirk	Pleasant Valley 345kV	Millwood Zone	11
20.	Con Edison	Native Load - Selkirk	Pleasant Valley 345kV	Dunwoodie Zone	61

Attachment M
Table 2 (continued)

TABLE 2- ETCNL Data for Converting ETCNL to ETCNL TCCs

	Holder of ETCNL	Name of Set of ETCNL	Point of Injection	Point of Withdrawal	Transmission Capacity (MW)[1]
21.	Con Edison	Native Load - Selkirk	Pleasant Valley 345kV	NYC Zone	193
22.	Con Edison	Native Load - IP2	Indian Pt 2	Dunwoodie Zone	214
23.	Con Edison	Native Load - IP2	Indian Pt 2	NYC Zone	679
24.	Con Edison	Native Load - IP3	Indian Pt 3	Dunwoodie Zone	26
25.	Con Edison	Native Load - IP3	Indian Pt 3	NYC Zone	82
26.	Con Edison	Native Load - IP Gas Turbine	Indian Pt.-GT Buchanan	Dunwoodie Zone	12
27.	Con Edison	Native Load - IP Gas Turbine	Indian Pt.-GT Buchanan	NYC Zone	36
28.	NMPC	Native Load - NMP1	Nine Mile Pt. #1	Capital Zone	610
29.	NMPC	Native Load - NMP2	Nine Mile Pt. #2	Capital Zone	460
30.	NMPC	Native Load - Hydro North	Colton Hydro	Capital Zone	110
31.	NYSEG	Native Load - Homer City	PJM Proxy Bus	Central Zone	863
32.	NYSEG	Native Load - Homer City	PJM Proxy Bus	West Zone	100
33.	NYSEG	Native Load - Allegheny 8&9	PJM Proxy Bus	Central Zone	37
34.	NYSEG	Native Load - BCLP	PJM Proxy Bus	Central Zone	80
35.	NYSEG	Native Load - LEA (Lockport)	Gardenville 115kV	Central Zone	100
36.	NYSEG	Native Load - Gilboa	Gilboa	Capital Zone	99

Notes: 1. Where two different amounts of transmission Capacity are separated by a "/", the first number shall indicate the transmission Capacity available for conversion to ETCNL TCCs in a Centralized TCC Auction held for a Summer Capability Period, and the second number shall indicate the transmission Capacity available for conversion to ETCNL TCCs in a Centralized TCC Auction held for a Winter Capability Period.

Reserved for future use.