

Reference Level Manual

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Revision History

Version	Date	Revisions
<u>2.0</u>	<u>mm/dd/2014</u>	<u>Section</u> ➤
1.1	07/05/2013	Section 10 Ancillary Services ➤ New section. Created in response to FERC Order 755
1.0	06/26/2012	Initial Release

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1. INTRODUCTION

1.1 Purpose for Manual

This Manual provides an overview of the NYISO's Reference Level Processes and details the various timelines that apply to the submission, review, approval, and update of cost-based data and to mitigation consultations. It defines the categories of costs that can be included within cost-based references and also describes the processes used by the NYISO and its MMU to evaluate submitted cost data and the considerations bearing on the NYISO's decision to approve or reject that data.

1.2 Audience for Manual

This Manual is primarily intended to be used by those submitting cost data or seeking consultation on a generator's reference level. It is intended to provide transparency to the consultation processes and guidance to Suppliers preparing to submit revisions to a generator's data or a consultation request in response to the occurrence of mitigation.

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2. REFERENCE LEVEL CONSULTATIONS

2.1 Description

Suppliers may submit for approval through the Reference Level Software (RLS) updates to cost data for generating facilities that are currently available in the RLS. Suppliers should refer to the Reference Level User's Guide (http://www.nyiso.com/public/markets_operations/documents/manuals_guides/index.jsp) for instructions on how to make RLS submissions.

2.2 Process and Timelines

Upon being noticed of a RLS submittal, NYISO will initiate its review in consultation with its external Market Monitoring Unit ("MMU"). NYISO staff and the MMU are alerted simultaneously when a new submittal is received. The review will occur as follows:

1. The NYISO will establish the urgency and level of effort associated with the submission to determine the appropriate response standard.
 - a. Extremely time-sensitive (Urgent)
 - Fuel price or availability-related
 - b. Incremental updates to static data (Normal-Low)
 - Low level of effort required for approvers
 - Updates to individual cost families (e.g., change in RS1 rate for Suppliers)
 - Fully documented
 - c. Major changes to static data (Normal-High)
 - High level of effort required for approvers
 - Complex updates to multiple cost-families
2. For "Urgent" submittals, the NYISO will promptly contact the MMU to review the request and, following the discussion with the MMU, promptly contact the Supplier by phone (conducting a conference call, if necessary). The discussions will identify the nature of the submittal and the basis for an immediate update. The NYISO will also communicate any concerns with the submittal and identify additional documentation required for approval. Any additional details discussed verbally will be documented in an e-mail from the NYISO and confirmed by the Supplier. If necessary, the Supplier will have the opportunity to provide additional information/detail by adding an attachment to its original RLS submittal. Based on the data documented in the RLS and/or e-mail exchange, the NYISO and its MMU will approve or deny the urgent request within 16 hours of the submittal. The NYISO will provide the basis for any denial in its comments in the RLS (viewable by the Supplier).
3. For "Normal-Low" submittals, the NYISO will contact the MMU within one business day to review the request and, following that discussion, contact the Supplier by phone within one additional business day. The intent of this call would

be to discuss the nature of the RLS submittal and to identify any initial concerns. Any specific comments or questions would be documented in the RLS and routed automatically to the Supplier for review and response. There may be a need for subsequent conversations to resolve open issues with the submittal. To the extent not documented in RLS, substantive discussions would be documented by the NYISO in an e-mail to the Supplier with a reply confirmation from the Supplier. Based on the data documented in the RLS or subsequent e-mails, the NYISO and its MMU will approve or deny the update within 5 business days of the submittal. The NYISO will provide the basis for any denial in its comments in the RLS (viewable by the Supplier).

4. For “Normal-High” submittals, the NYISO will contact the MMU within two business days to review the request, and following that discussion schedule a conference call with the Supplier and the MMU, to occur no later than five business days following receipt of the submittal. As part of the initial discussion, the NYISO and the Supplier will discuss and agree upon a communication plan, specifying the nature and timing of regularly scheduled touch-points. Within ten business days following receipt of the request, the NYISO will insert comments into the RLS indicating either that a determination has been made that all necessary supporting documentation has been provided or that additional data is required, including a detailed description of the additional data. The NYISO anticipates that such requests for additional data would be the focus of the regular touch points or ad hoc discussions. To the extent not documented in RLS, substantive discussions would be documented by the NYISO in an e-mail to the Supplier with a reply confirmation from the Supplier. The NYISO will regularly communicate with the MMU on pending reference consultations to review open issues and to identify additional concerns. The NYISO and the MMU will log the status of internal discussions using the Comments functionality within the RLS. Based on the data documented in the RLS and/or in e-mail correspondence, the NYISO and its MMU will approve or deny the update within 3 months of the submittal. The NYISO will provide the basis for any denial in its comments in the RLS (viewable by the Supplier). Comments associated with a denial of a submission will identify any elements of the submittal that would be approved, if submitted independently. Should the Supplier submit these identified "approvable" elements within ten business days of the denial being issued, the NYISO and its MMU will conduct an abbreviated review of the revised submittal and issue a determination within three business days. The intent of the abbreviated review would be to verify that the revised submittal includes only those items from the initial submittal identified as "approvable". The NYISO will work with the Supplier to identify "approvable" elements of the submittal throughout the course of the consultation (even prior to a formal denial) and provide the Supplier the opportunity to have these elements approved while the consultation process continues on the remaining items.
5. The Supplier will be notified immediately upon approval of the submission. Changes in reference levels will be implemented prospectively. To the extent that a reference level change will be implemented on a temporary basis (e.g., for a season), the NYISO will communicate to the Supplier the expiration date.

6. The NYISO, in consultation with the MMU and the Supplier, will determine the appropriate period for which the approved updates should remain in effect.
7. A Supplier may request that its units be exempted from LBMP- or bid-based references because such references do not accurately reflect a generator's marginal costs. These requests need to be submitted through NYISO Customer Relations Department with a specific justification. . These requests will be processed in accordance with the procedures and timelines outlined for "Normal-Low" reference-level consultations. The NYISO in consultation with its MMU and the Supplier will determine an appropriate period for which the approved exemptions will remain effect.
8. Each Supplier remains responsible for maintaining accurate cost information in the RLS, including timely reflecting cost decreases. Suppliers are expected to submit updated cost data in the event of material changes.
9. A Supplier should consider the above time-lines when determining when to submit consultation requests in order to ensure that time-sensitive cost-function changes (e.g., costs that are seasonal) can be processed and approved consistent with the changes to a generator's costs. For example, updates such as the inclusion of a seasonal NOx adder would be treated as a "Normal-Low" submission whereas other, more complex, changes may require a "Normal-High" treatment. Given the range of circumstances, a Supplier should contact the NYISO through Customer Relations to discuss the specifics of the desired reference level changes.

2.3 Review Guidelines

In reference level consultations the NYISO and its MMU will focus on changes from current cost-based data in RLS, will require documentation for all requested updates and may request additional documentation to support maintaining values currently in RLS.

2.4 Operational Metrics

The response standards indicate the time within which the NYISO will approve or reject a submission within the RLS (resulting in an automated e-mail to the Supplier). The targets for the three categories of submittals are as follows:

1. Urgent : 16 hours
2. Normal-Low: 2-5 business days
3. Normal High: 1-3 months

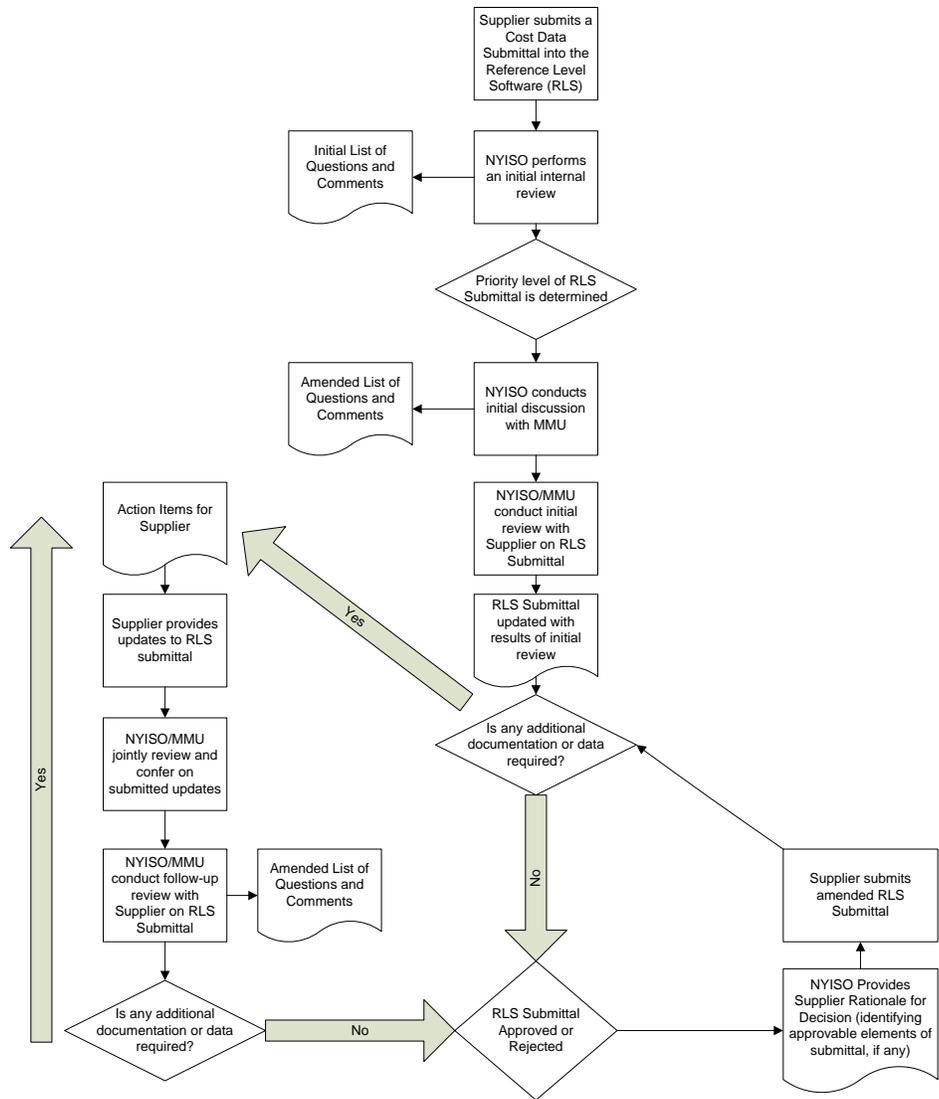


Figure 2-1 Reference Level Consultation Process

3. NYISO-INITIATED REFERENCE LEVEL CONSULTATIONS

3.1 Description

The NYISO, in consultation with its MMU, performs periodic reviews of RLS cost data in order to ensure its completeness and accuracy. This may result in the need to re-verify or revise previously-approved RLS data.

3.2 Process and Timelines

Reviews of existing reference level information will be implemented as follows:

1. Upon determining that an update may be required, the NYISO will provide the Supplier with notice of:
 - a. the revision that the NYISO is considering;
 - b. the amounts and or categories that the NYISO proposes to revise;
 - c. the specific reason(s) for revision, including any documentation, justification or other detailed information that supports the need for a revision;
 - d. the date on which ~~the NYISO proposes to implement the revision~~notice is being provided; and
 - e. the last date on which a Supplier may submit explanatory information.
2. A Supplier will have no less than ten business days after the day on which it receives notice to provide the NYISO with any documents, justifications, and other information that supports inclusion of the cost in question. Dependent upon the complexity of the information requested, the NYISO may provide additional time for the Supplier to respond. Additionally, to the extent that the NYISO materially alters the nature of its inquiry or makes additional data requests beyond the scope of the original request, the NYISO would provide a Supplier additional time to reply.
3. After the last day a Supplier can submit explanatory information, the NYISO will ordinarily require 5 business days to determine whether to proceed with the revision.
4. The NYISO will inform the Supplier whether or not it will be implementing the revised cost data at least three business days prior to implementing the change, unless the NYISO, in consultation with the MMU, determines that the inaccurate reference level is having a significant impact on market clearing prices or guarantee payments and needs to be modified sooner.

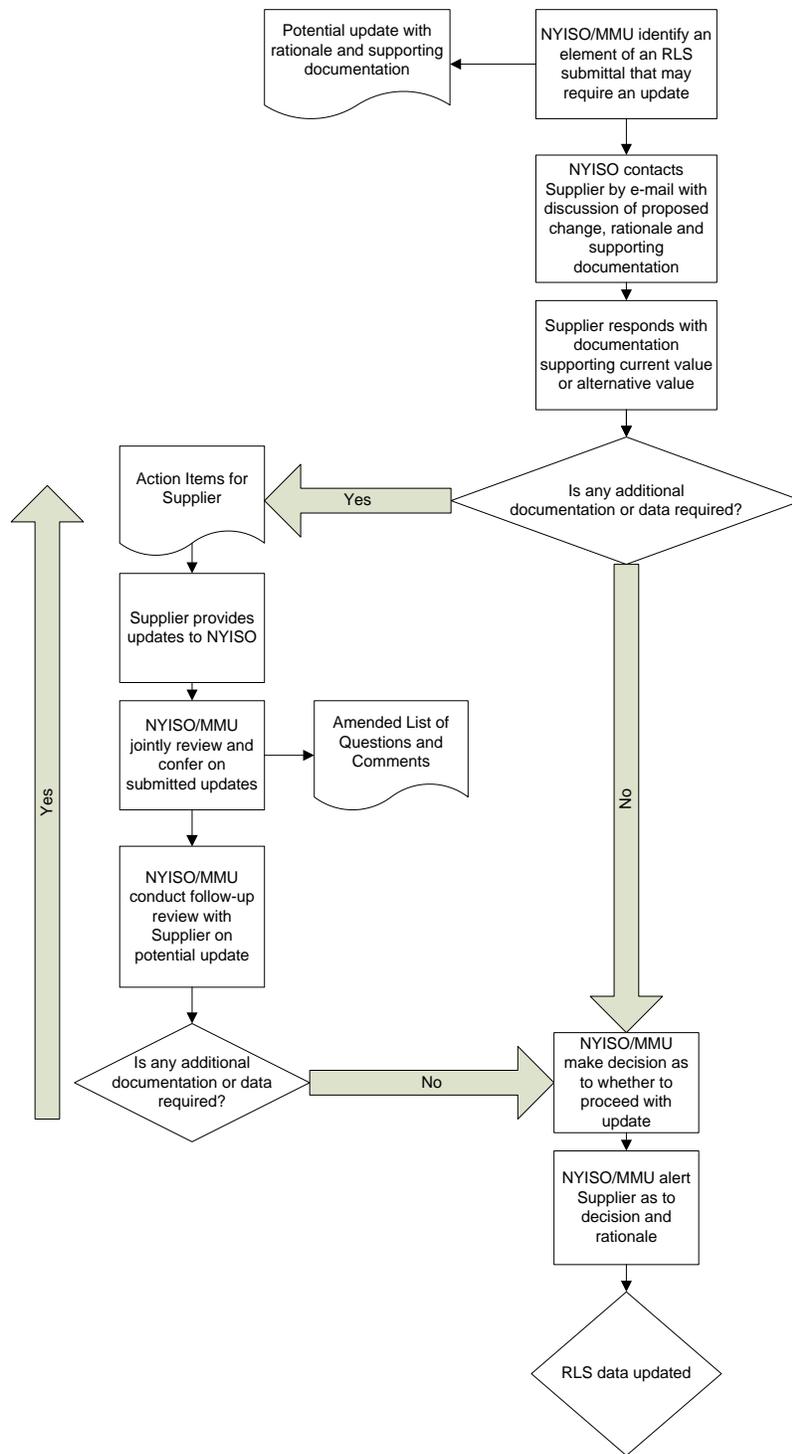


Figure 3-1 NYISO-Initiated Consultation Process

4. MITIGATION CONSULTATIONS

4.1 Description

Suppliers whose bids are mitigated may seek to consult on their generators' reference levels after the mitigation has occurred. These requests need to be submitted and documented by opening a Service Center ticket. The Supplier is required to attach a Consultation Request form. An electronic version of the form is posted on the NYISO's website at http://www.nyiso.com/public/markets_operations/services/market_monitoring/index.jsp.

4.2 Process and Timelines

Upon being notified of the consultation request, NYISO will initiate its review jointly with its MMU. The review will occur as follows:

1. The NYISO will contact the Supplier within five business days to review consultations opened within the preceding five business days. This initial review will be to:
 - a. confirm receipt of request;
 - b. review Consultation Request Form and data submittal;
 - c. ask any clarifying questions;
 - d. identify any documentation concerns; and/or
 - e. discuss root causes of mitigation and resolutions.
2. At the time of the initial review, the NYISO and the Supplier will also determine whether and when subsequent touchpoints may be required to address the consultations. Such touchpoints would be to:
 - a. discuss status of open consultation tickets and tickets ready for closure;
 - b. alert Supplier as to expected resolution and resettlement date (if any); and/or
 - c. resolve open questions (if any).
3. The NYISO will review each mitigation consultation to identify a root cause and collaborate with the Supplier and the MMU to design and implement a plan to reduce future occurrences.
4. The resolution of a mitigation consultation is strictly limited to the dates, hours and units that are the subject of the consultation and to the specific mitigation measure and bid component in question. A Supplier may opt to request a revision to a unit's reference levels based on the results of a mitigation consultation by making an RLS submission that would be processed in accordance with Section 2 of this manual.

4.3 Review Guidelines

The NYISO and its MMU will review, as appropriate, fuel invoices and other documentation of acceptable costs not reflected in the reference level upon which the

NYISO's application of mitigation was based, to the extent that such costs are documented appropriately and provided to the NYISO in a timely manner.

4.4 Operational Metrics

The NYISO will monitor the timeliness of mitigation consultations against the following targets ~~and report to MIWG on a quarterly basis~~. Targets will be reviewed annually as part of the goal setting process.

1. 75% of fully documented, consultation requests resolved within 20 business days
2. 100% within 50 business days

For the purpose of this section, consultation requests will be considered “fully documented” when the Supplier has submitted a fully-completed Consultation Request form and provided all the data that the NYISO and the MMU have requested to evaluate the Consultation request.

~~The NYISO will monitor and report on the results of its root cause analyses to MIWG on a quarterly basis.~~

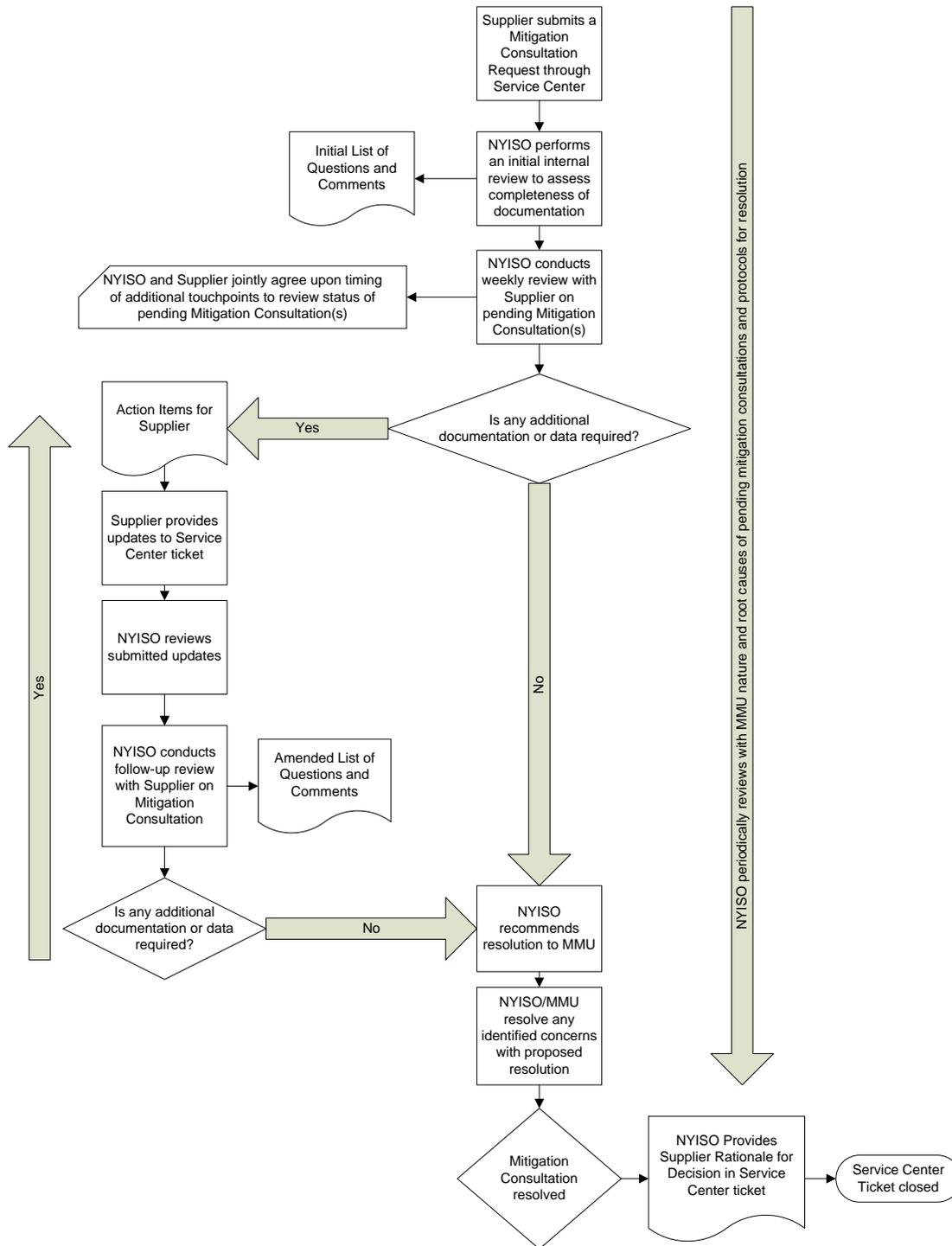


Figure 4-1 Mitigation Consultation Process

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6.5. HEAT RATE DATA

6.15.1 General Description

Heat rate curve data is utilized within the Reference Level Software (RLS) to determine a generator's fuel consumption at its Minimum Generation level and the incremental fuel requirements at each point on its output curve.

Suppliers are required to submit two types of generator-specific heat rate data: Heat Input at Minimum Generation (mmBTU/hour) and an Incremental Heat Rate Curve. The first, Heat Input at Minimum Generation, provides the total amount of thermal energy (i.e., mmBTUs) used by the generator to produce its minimum generation level for a single hour, including auxiliary equipment fuel or electrical power requirements but excluding normal plant heating. The second, the Incremental Heat Rate curve, provides the amount of thermal energy used by a generator to achieve an incremental change in electrical energy output (i.e., the amount of thermal energy used to produce an additional unit of output) at each designated point on the generator's output curve.

6.25.2 RLS Data Requirements

Suppliers must provide as part of its heat rate submission the generator's minimum generation level, the Heat Input at Minimum Generation, the generator's maximum capacity, and an Incremental Heat Rate Curve for the generator that encompasses the complete range of the unit's output for which the incremental fuel requirement is a monotonically, increasing function of the generator's output.

6.35.3 Required Documentation

6.3.15.3.1 Incremental Heat Rate Curves and Heat Input Data

All [submittals of Incremental Heat Rate Curves and Heat Input at Minimum Generation data](#) must be submitted in terms of net output. Suppliers may submit heat rate curves and heat input data using the results of tests actually performed on the generator or submit the manufacturer suggested heat rate curves and heat input values.

In addition, if available, historical usage data should be submitted which includes fuel consumption rates for the last 25 periods a generator operated at its minimum generation level. If a unit does not have the requisite 25 periods of historical fuel consumption rate data, the Supplier must submit the fuel consumption data that it does possess and may also include a fuel consumption rate at the generator's minimum generation level (mmBTU/hour) based on manufacturer suggested values.

6.3.25.3.2 Input-Output Curves

Suppliers must develop and submit generator-specific heat-input versus power-output curves ("I/O Curves"). These curves are utilized to validate the accuracy of the submitted heat rate curves. The generator's total heat (or fuel) I/O Curves must be based on the

generator's design or data from comparable generators, modified by available actual generator test data. The actual data for the total heat (or fuel) I/O Curve must include minimum and maximum output levels and at least two intermediate output levels.

7.6. FUEL & EMISSION COST DATA

7.16.1 General Description

The NYISO's tariffs allow the inclusion in cost-based references of fully-burdened fuel costs, ~~which,~~ These could include, in addition to the raw fuel cost, ~~could include applicable~~ taxes, ~~transportation costs,~~ incremental payments to fuel procurement agents, and emission allowance costs.

At the end of each commodities trading day, the NYISO obtains from its data provider fuel and emissions costs derived from that day's trading (calendar day t). The NYISO currently employs the services of Argus Media, Ltd as its data provider and retrieves data from Argus's website at approximately 9:30 p.m. ~~;~~ The cost data obtained is then incorporated into the reference levels utilized in the next day's Real-Time Market (day t + 1) and the following day's Day-Ahead Market (day t + 2). This data represents the "opportunity cost" of fuel or emissions for a Supplier and is presently viewed to be the best data available to the NYISO in its development of cost-based reference levels. In the rare event that the NYISO, or ~~the its Reference Level Software (RLS), are is~~ unable to obtain updated fuel cost information, the RLS instead uses the most recent data available to the RLS in its development of cost-based reference levels.

Note that on a daily basis, the NYISO only updates fuel indexes ~~only for~~ certain fuel types ~~on a daily basis~~ (i.e., natural gas, ~~oil #6 fuel oil, oil #2 fuel oil,~~ kerosene, oil/gas blends). Fuel Types whose indexes that are not ~~indexed updated~~ daily (e.g., coal), will have the fuel price entered ~~into the (RLS)~~ as a static value. Suppliers should periodically review this data and update as necessary with a cost data submission.

The ~~NYISO's~~ Reference Level Software (~~RLS~~) provides to a limited extent the capability for generators to have multiple fuel pricing points (i.e., commonly quoted major pipeline delivery points) and fuel blends (e.g., oil/gas). Generators are initially associated ~~with a~~ default fuel type/source but requests to be moved to the alternate fuel type can be made through an RLS submittal. Such ~~change~~ requests may reflect a change in fuel availability for a specific period of time, e.g., due to a pipeline operational flow order (OFO).

In addition, to the extent that a precise fuel blend is unavailable, Suppliers may request the temporary incorporation into the RLS use of a larger fuel "adder" to reflect the additional costs associated with burning a higher percentage of the more expensive fuel. For example, a generator whose default fuel is natural gas but due to pipeline maintenance is required to burn 50% natural gas / 50% fuel oil can request a temporary increase in its fuel adder to reflect the need to burn a gas/oil blend if a 50/50 gas/oil blend is not available ~~in to the~~ generator in RLS. Whenever possible, requested changes in fuel adders should reflect the historical fuel usage patterns during periods when similar circumstances existed. ~~;~~ In the example, the adder would need to reflect the fuel-related marginal costs (\$/MWh) of each fuel-type weighted by the projected burn %-percentage of each fuel. This type of temporary fuel adders should reflect historical fuel prices-costs over the preceding two-week period and should be updated bi-weekly at minimum, until the end of the temporary supply limitation.

Suppliers may submit fuel cost updates on their Hour-Ahead Market (HAM) bids. These fuel costs should not reflect speculative changes in fuel prices, but must be supported by documented quotations and may later be compared to the actual cost of fuel consumed.

7.26.2 Fuel Cost Adders and Multipliers RLS Data Requirements

Suppliers ~~can~~ may submit into RLS for inclusion in their cost-based references (a) applicable percentage local tax rates multipliers, and (b) (%) and other adders (\$/~~mm~~mmBTU~~mm~~mmBtu). Multipliers and adders may be used to capture additional costs incurred in the delivery of the fuel to the generator, beyond those captured in the raw fuel cost. Separate Different \$/~~mm~~mmBTU~~mm~~mmBtu adders can be submitted for the Day-Ahead and the Real-Time markets.

Suppliers may also submit for inclusion in their cost-based reference levels the costs associated with securing emission allowances to offset SO_x, CO₂, and NO_x emissions (annual and seasonal). Suppliers are required to submit for each emission type (e.g. CO₂), an emissions rate (lb/mmBTU) and any requested emissions adder (\$/MWh).

7.36.3 Required Documentation

Suppliers must provide all documentation necessary to substantiate any fuel-related or emissions-related costs submitted for approval, including invoices identifying local tax and transportation rates and annual generator-specific emission rates reported to EPA.

6.3.1 Documentation Needed to Assert Higher Fuel Commodity Cost

When a Supplier submits to MMA a temporary change in fuel type or price because the RT commodity fuel cost exceeds its Generator's burdened reference price index, MMA will require evidence of the increased fuel cost. If the change in fuel cost is submitted by:

- (1) Using an Emergency Reference Level Submittal, the supporting documentation must be *timely* provided by the Generator. (That is to say, enough in advance of the close of bidding to allow MMA to review and process the submittal, as explained in the Services Tariff 23.3.1.4.7.7.)
- (2) Using the Generator Bid Screen ("Fuel Cost Update"), supporting documentation must be available for MMA's review *after the fact*.

Absent evidence of temporarily increased fuel costs, MMA's best estimate of a generator's fuel Reference Level is the generator's burdened RLS fuel price index.

For MMA to consider evidence of temporarily increased RT *gas* costs, MMA requires documentation such as:

- Invoices for gas purchased in RT at a price above the DA index
- Quotes from a gas supplier for RT gas at a price above the DA index
- Evidence of other deals transacted in RT at a price above the DA index
- An offer to buy gas in RT on a trading platform at the DA index price or a higher price, that was posted for a reasonable period of time, but was not accepted. The documentation required would include the name of the trading platform, the price offered to buy the gas, the time the offer was placed and the time the offer was removed or rescinded.

Other evidence of RT gas costs above the DA gas reference index will be considered. Generators may propose other methods of demonstrating increased gas costs in advance to MMA. However, unsupported assertions of RT gas costs above the DA index will not be accepted.

6.3.2 Documentation Required for Asserted Gas Balancing Charge Exposure

General guidelines:

- (1) Suppliers are expected to **timely** procure **sufficient** gas to meet their total Day-Ahead and Real-Time **commitments**, whenever possible.
- (2) The NYISO expects suppliers to procure fuel DA to meet their generators' DAM commitments.
- (3) The NYISO expects **competitive suppliers to comply with federal and state laws, rules, regulations and orders, and to comply with valid rules and orders that are issued by the NYISO to ensure the reliable operation of the electric system, or by gas Local Distribution Companies (LDC) or pipelines to ensure the reliable delivery of natural gas.**
- (4) For SRE and Out-of-Merit commitments in the Real-Time Market, Generators may request that the reference levels used to perform ex-post mitigation tests include **permitted**, verified gas balancing charges.
- (5) NYISO will not permit inclusion in reference levels of gas balancing charges to meet generator fuel needs that are recurring, or that can reasonably be anticipated.
- (6) Absent evidence to the contrary, the NYISO will assume that the Supplier has taken all actions required to use any gas balancing service that is reflected in a Generator's reference levels.

- (7) Unlimited use of balancing gas by generators could in some circumstances endanger gas system reliability. On days when gas system reliability could be at risk, the LDC, interstate or intrastate gas pipeline may invoke an Operational Flow Order (OFO) or issue other instructions restricting use of gas imbalance service.
- (8) When the Generator’s LDC or pipeline has issued an OFO, or instructions restricting imbalance usage, the Generator may be subject to charges for incurring gas imbalances that exceed certain limited tolerances specified in the OFO or instruction. NYISO will not permit inclusion in generator reference levels of charges for violating Operational Flow Orders or for violating LDC/Pipeline instructions restricting gas usage. See Attachment 1, below.
- (9) During declared OFOs, unless the Supplier provides documentation indicating that overrun imbalance use associated with a charge was authorized, the NYISO will refuse to include the imbalance charge for the overrun when developing appropriate reference levels for the Generator. See Attachment 1, below.
- (10) Very infrequently, a gas-fired Generator may be called to ensure electric reliability at a time when it faces an Operational Flow Order. In this case, the NYS Gas-Electric Coordination Protocol set forth in Attachment BB to the NYISO’s Open Access Transmission Tariff will be implemented. If the LDC or Pipeline that issued the OFO permits an upward adjustment to the Generator’s gas schedule, the generator will be allowed to reflect in its RT offers the additional incremental fuel costs it expects to incur. If time permits, MMA will also adjust the Generator’s Fuel Entry Threshold, so that Generators subject to AMP can submit an appropriate Fuel Cost Update in order to prevent automatic mitigation and a subsequent need for consultation.
- (11) If gas can be procured, but at a price higher than overburn/balancing cost, the NYISO may not necessarily agree that the decision to overburn rather than procure additional gas at a higher price should be based on a simple comparison of the cost of overburning relative to the cost of procuring additional gas.

In the limited instances where exposure to gas balancing costs requires the Generator to use the Real-Time Bid screen to submit increased RT reference gas cost (hereafter a “Fuel Cost Update”), the Generator’s Real-Time Bids and gas cost submittals will be reviewed ex post by MMA. Tariff-mandated tests will be carried out to verify accuracy of Fuel Cost Updates and competitiveness of the associated Real-Time Bids. For purposes of these tests, MMA will often ask for documentation from the Generator. The Generator must be able to produce upon request the following types of documentation, depending on the hour of day:

- For HB 10-17, upon request from MMA, the Generator will be expected to provide evidence of increased RT gas costs¹ due to lack of liquidity. MMA may ask the Generator to demonstrate that gas was not available for purchase in RT.
- For HB 18-9, upon request from MMA, the Generator will be expected to provide the final volume of gas nominations for the relevant gas-day, and the cumulative gas burn at the time the RT bid was submitted for the relevant market hour. Both of these volumes would be required for the relevant gas balancing *portfolio*, not simply the unit(s) for which Fuel Cost Adjustments were made.

Ideally, information on cumulative gas burn (from the start of the gas flow day through the time the RT energy bid is submitted) will be obtained by the Generator from the gas Local Distribution Company (“LDC”) or Pipeline that distributes gas to the Generator. If the gas LDC/Pipeline cannot provide such information in real-time, the Generator that asserts exposure to gas balancing charges would be expected to estimate cumulative gas-burn using RT unit generation and applicable heat rates.

If a Generator submits a Fuel Cost Update based on its expectation of **incurring authorized**, incremental gas balancing charges, the Generator’s competitive incremental fuel cost should be calculated based on a *portfolio* incremental cost curve that reflects expected incremental balancing charges for each unit in the portfolio. The order of the units’ priority in the gas cost curve would ordinarily be based on units’ heat rates, but if a Generator presents other relevant economic criteria, MMA will consider these criteria. If the Generator proposes an alternative basis for ordering its units’ priority on its overall gas cost curve, MMA will determine whether to accept the proposed alternative as consistent with competitive behavior and/or marginal cost bidding.

6.3.3 MMA Evaluation of Gas-fired Generators’ Fuel Cost Updates

- a. If the gas cost is documented by gas invoices, MMA will typically evaluate the asserted burdened cost by
 - i. taking a weighted average of the intraday gas invoice prices (after adjusting for any applicable non-invoiced burden components), and then
 - ii. comparing the result with the burdened fuel cost submittal.
- b. If a gas-burning Generator placed a Real-Time bid expecting that low liquidity would require it to pay a premium for commodity gas (relative to the day-ahead gas price index), but does not provide invoices that substantiate its claim, the

¹ Categories of documentation MMA will consider as evidence of RT gas costs that exceed the Day-Ahead index are identified in subsection 6.3.1.

Generator would be required to provide other evidence as outlined in subsection 6.3.1, above.

6.3.4 Note on Gas Procurement Costs for Generators Committed to Meet Reliability Needs

1. Day-ahead reliability commitments where the Generator is notified before the close of DAM bidding

The NYISO does not expect that a Generator with prior knowledge of a Day-Ahead Reliability Commitment will treat gas procurement and expected gas cost any differently than it would for a normal competitive Bid in the Day-Ahead Market.

2. Day-ahead reliability commitments where the Generator is notified **after** the close of DAM bidding

The NYISO does not expect that a Generator, when notified that its Day-Ahead Bid has been accepted to meet a reliability need, will treat gas procurement any differently than it would when its Day-Ahead Bid is scheduled economically.

3. Supplemental Resource Evaluation

Generators' gas procurement procedures and gas costs for SRE commitments (or RT out-of-merit commitments) might differ from procurement procedures and costs for economic commitments. However, this difference should reflect the different timing of notification that the unit will likely be dispatched. The difference in procurement procedure and cost should not reflect simply the nature of the commitment—being scheduled for reliability rather than economically.

8.7. START-UP COST DATA

8.17.1 General Description

Start-up costs for a generator represent all of the costs incurred in order to bring the generator online and to make it available to produce power. Only the costs incurred from start-up through minimum generation output and from breaker open to shutdown are permissible start-up costs. Such costs would include fuel costs and start-up adders (\$/start) which may include start-related operation and maintenance costs and additional non-fuel costs incurred during start-up (e.g., water, consumables, labor). Revenues paid to the generator during its start-up/shutdown cycle, if any, should offset any costs incurred. It is expected that the amount of fuel consumed to start a generator will be an increasing function of the hours the generator is off-line. Suppliers should submit separate start-up data, including fuel requirements, for each fuel type.

8.27.2 RLS Data Requirements

Suppliers need to provide separately for the Day-Ahead Market and the Real-Time Market a start-up curve (i.e., hours off-line with the associated fuel requirement (mmBTU)) with a minimum of three points, corresponding to a hot, warm and cold start, e.g., 8, 24 and 72 hours offline. Gas turbines should submit a single fuel requirement associated with a one hour down-time (i.e., time off-line). Suppliers may also provide a start-up adder corresponding to each of the time off-line levels.

8.37.3 Required Documentation

Suppliers should provide the methodology, supporting data and calculations utilized in developing the start-up curves and the start-up adders. If available, historical data must be used to determine the typical amount of fuel consumed per start for each point on the start-up curve.

Suppliers should submit, for each point on the start-up curve, fuel consumption rates for the lesser of the last 10 starts or every start within the past three (3) years. For each start type, Supplier should submit the historical fuel consumption data, an average amount of historical fuel consumption, and the requested fuel requirement.

Suppliers should include in its submittal data on fuel consumption, fuel consumption rates during the shutdown of the unit, if applicable, and revenues earned during start-up/shutdown to the extent that the generator participates in the NYISO's Start-up/Shutdown program².

If a Supplier does not have the historical fuel consumption rates for each start described above, the Supplier must submit the aforementioned data that it does possess and may also include per-start fuel consumption rates based on manufacturer suggested values.

² Approved Generators may designate Start-Up/Shut Down (SU/SD) waiver periods during which they will not be subject to performance penalties and will be paid LBMP for all.

If a Supplier submits as supporting documentation historical start-up fuel consumption data on a per hour basis (mmBtu/hour), it must also provide documentation of the average number of hours it requires to reach the generator's minimum generation level for each start-up type (i.e., cold, warm or hot).

9.8. VARIABLE COST DATA

9.18.1 General Description

9.1.18.1.1 Operating Costs

Operating costs are the non-fuel costs incurred while a generator is operated, whether incurred during start-up or at different output levels. These costs may include, for example, labor costs, the cost of consumables and non-durable goods and water costs.

NYISO will only approve operating costs that are incremental costs; fixed operating costs will be rejected. Additionally, NYISO will only approve submitted operating costs to the extent that they reasonably represent the incremental operating costs at the stage of the power generation cycle for which they are submitted (start-up, operation at Minimum Generation output, or operation above Minimum Generation output). For example, NYISO might approve the wages paid to on-call, hourly employees that are needed to help start a generator. Conversely, NYISO would not approve labor costs that are incurred regardless of an incremental commitment (such as those associated with salaried, on-call employees). The reasonableness of an allocation is highly dependent on individual circumstances; thus, NYISO will make this determination on a case-by-case basis. In making this determination, NYISO will consider factors such as whether a generator's operating costs relate to starting the generator or running at different operating levels, follow industry standards, and coincide with manufacturer expectations.

9.1.28.1.2 Maintenance Costs

Maintenance costs are costs associated with the maintenance, repair, inspection, and upkeep of generation resources, as well as their parts and equipment. Maintenance costs will only be approved to the extent that they represent the maintenance costs resulting from an incremental period of usage. Maintenance costs are a proportionate share of future maintenance costs and may generally be allocated using hours-based, starts-based, or equivalent-operating-hours criteria. They should reflect projected costs to be incurred. The allocation of maintenance costs not yet borne to starts or run-hours must be based upon generator usage that is reasonably anticipated to occur during the interim; that is, prior to the maintenance cost being incurred. Suppliers should provide manufacturer recommendations as to maintenance periodicity and, as appropriate, factors associated with the calculation of equivalent-operating hours.

In considering whether or not to approve submitted maintenance costs, NYISO will consider factors such as whether the costs and frequency of maintenance anticipated by a Supplier coincides with manufacturer expectations; whether the starts and usage anticipated for the generator is practical, or is likely given the type of generator and general market conditions, or coincides with historical data.

9.1.38.1.3 Regulatory Costs

Cost-based reference levels may include documented regulatory costs, which could include costs assessed by NYISO.

9.28.2 RLS Data Requirements

Suppliers may submit a Variable O & M cost at each output level as well as an Other Variable Cost (\$/MWh) at each output level. For each value submitted, Suppliers should include a description of the requested costs. Suppliers may also separately submit for inclusion in the cost-based references regulatory and related costs, e.g., the NYISO's Rate Schedule 1 charge for injections.

9.38.3 Required Documentation

Suppliers must provide the methodology, supporting data and calculations supporting the variable cost data submitted. The data must be generator-specific and must clearly describe how the costs submitted relate to the incremental operation of the generator, i.e., number of starts, run-hours or volume of MWhs generated. Variable O & M costs may be substantiated by costs incurred in historic periods for maintenance associated with the generator's operation (not upgrades) provided that the length of the historic data series is equal to or longer than the periodicity of the scheduled maintenance claimed as costs. For example, a Supplier that claims a cost is incurred every 3 years should submit a minimum of three years of supporting cost data. All maintenance costs submitted should fall within the established variable maintenance categories. (See [Appendix A](#))

In developing cost submittals for operating and maintenance costs, Suppliers may opt to index the historic time-series of actual costs (e.g., using a Handy-Whitman index). In such cases Suppliers should provide the historic data series, raw and indexed; as well as a description of the index used and a rationale for its use.

Unplanned maintenance costs should reflect a projection of expected costs. This may be based on public information on the risks of equipment failure, historic information on unplanned maintenance costs of the unit, or similar units, adjusted for changes in circumstances going forward. Historic costs submitted should typically be for a seven year period, Suppliers should derive a per-start or per-MWh value for unplanned maintenance costs using historic operational data (i.e., aggregated starts, output).

Suppliers may submit Long-Term Service Agreements (LTSAs) to support requested maintenance costs to the extent that the maintenance costs covered by the LTSA are consistent with the set of costs approved as variable; the dollar value of each component of the long-term maintenance is defined specifically in the LTSA; and the LTSA clearly defines the frequency of each maintenance activity (i.e., number of starts, run-hours, volume of output). Suppliers may reflect cost escalators in their submissions to the extent that these escalators are included in the LTSA.

Supplier should furnish the NYISO with copies of any contracts necessary to document the requested costs and to demonstrate the variable nature of the costs. As with all data submitted in support of a cost-based reference level, contract-related costs are subject to

review by the NYISO and its MMU to determine the reasonableness and appropriateness for inclusion in energy reference levels. NYISO has approved for inclusion in cost-based references such items as fuel management fees when presented on a per mMBTU basis.

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10.9. RISK & OPPORTUNITY COST DATA

10.19.1 General Description

The NYISO's tariffs permit the inclusion of risk and opportunity costs within a generator's cost-based reference level. These costs are broadly segmented into emergency output costs, opportunity costs, and risk premium costs.

Emergency output adders should reflect costs incurred for a generator to reach UOLe that are not captured in a change in the incremental heat rate or additional operating or maintenance costs; for example, costs associated with the removal of a piece of equipment.

Opportunity cost adders are limited to generators with regulatory, environmental, technical, or other restrictions that limit their ~~run-times~~ availability, and reflect the cost associated with running in lower-priced hours, e.g., hydroelectric generators with pondage. If such generators produce MWh at times when LBMPs are low, they may lose the opportunity to produce MWh at times when LBMPs are higher, and their output is more valuable to the system.

Two examples:

Example 1. Hydroelectric generators with pondage can sometimes boost generation beyond their norm by drawing down their reservoir(s). However, absent favorable rainfall or snowmelt runoff, such ponding hydro generators will later have to act to refill their reservoir; that is, they may have to forego generation later on. These hydro units' "opportunity cost" of producing additional MWs that use water reserves is then related to the LBMP expected for the future hour in which they anticipate foregoing generation and restoring the water level of their reservoir.³ Usually, competitive generators in such a situation would choose to forego generation and refill reservoirs at a time when LBMPs are relatively low.

In this first example, the ponding hydro unit's estimate of prospective LBMP foregone must be documented, taking into account the likely amount of time that will be required to refill the reservoir. If average LBMPs have not shifted much recently, relative to the corresponding past experience, relevant documentation might include the generator's "price duration curve". Graphs of such a curve show on the horizontal axis the number of hours in the relevant historical time interval(s) for which generator LBMP was greater

³ In exceptional cases, if reservoir water levels are already unusually low, then the ponding hydro unit's opportunity cost might have another (possibly seasonal) component. That is, incremental generation might lower water levels enough to reduce generating capacity/efficiency in subsequent hours of generation prior to refill of the water used for the incremental generation. The rule-of-thumb explanation: hydroelectric generation is proportional to rate of water flow through turbines times the "head", or height of water level above the turbine. In such cases, refill would be necessary more promptly than in the text example, and the opportunity-cost documentation would be more complex.

than the level shown on the vertical axis. The length of the historical time interval(s) should be chosen to match the likely amount of time available to refill the reservoir. Then, given the number of hours in which the unit is likely to be scheduled in the refill "window", one can read off from the graph the corresponding generator LBMP--which is related to the energy "opportunity cost" for the ponding hydro unit.

Example 2. Fossil units occasionally face constraints on generation resulting from annual emissions limits built into their operating permit from the Department of Environmental Conservation (DEC). Suppose:

- a. A cumulative emissions limit exists in the DEC permit, and
- b. Historical or other evidence (and not simply speculation) suggests that the annual emissions limit is likely to bind later in the year.

If the generating unit in Example 2 generates more now, its permit may require the unit to forego generation later in the year. Presumably, in competitive markets such a generator should choose to forego output during the least profitable hours when it would have been scheduled.

The unit's present incremental cost of energy generation may be related to current production cost, plus an "opportunity cost" adder. In this example, the opportunity cost adder is defined as

- a. the expected difference between LBMP and incremental physical production cost in the future hour when the generator is forced to reduce its output to ensure compliance with emissions limits, minus
- b. the expected difference between LBMP and incremental physical production cost in the near-future hour for which the bid is being placed.

Risk premium adders might include the costs associated with a generator tripping in real-time and incurring costs to buy-back the MWhs sold into the DAM.

The reference cost subcategory called "Risk Premium" is **not** a measure of the cost to generators of volatility in incremental costs. Rather, it reflects the NYISO's expectation of the average level of an incremental net cost (other than variable operating and maintenance costs) that occurs infrequently, at irregular intervals, and whose extent may vary, on the occasions when the cost does occur.

For many generators, no such reference risk premium is applicable. However, a risk premium might be appropriate to reflect infrequent situations like the following "trip-repurchase cost":

- A generator has a DAM schedule to provide energy and that schedule is not curtailed in real time; and
- The generator experiences a forced outage during these scheduled hours.

For the outage period that corresponds to the generator's DAM schedule, the generator must buy back its DAM schedule at the Real-Time LBMP. The Real-Time LBMP might be less than the DAM LBMP, in which case the generator experiences a gain in this respect, not a loss. Still, a risk premium might be justifiable if historical or other evidence (not speculation) shows that the generator's net "repurchase" losses are likely to systematically exceed its gains. If so, the premium would reflect expected net repurchase

losses over a year divided by expected total DAM-scheduled MWhs over the same year. The premium would also need to consider the likelihood that a forced outage will occur.

40.29.2 Reference Level Software (RLS) Data Requirements

For each of the three categories of risk and opportunity costs, Supplier needs to submit into the RLS the requested costs for each MW segment with a description of the requested costs.

40.39.3 Documentation Requirements

Suppliers need to provide through attachments to its RLS submittal all methodologies, data and calculations necessary for the NYISO to understand the Supplier's rationale for the costs and process for developing the costs.

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11.10. ANCILLARY SERVICES

11.110.1 Regulation Movement

11.1.110.1.1 Regulation Movement Cost Overview

The NYISO will develop cost-based reference levels for Regulation Movement for all units expected to offer Regulation Capacity and Regulation Movement. These reference levels will be calculated pursuant to the NYISO's proposed revisions to its Market Administration and Control Area Services Tariff ("Services Tariff"), which were filed with the Federal Energy Regulatory Commission on January 22, 2013 and remain pending. See ER12-1653. The proposed Services Tariff revisions require the NYISO to determine a Regulation Movement reference level using the best information available, taking into account such data as may be furnished by the Market Party.

11.1.210.1.2 Regulation Movement Cost Components

Consistent with the NYISO's proposed Services Tariff revisions, the NYISO will establish a reference level for Regulation Movement, for each regulation provider, that reflects the unit's marginal costs of responding to regulation-related changes in 6 second dispatch basepoints. The reference level for Regulation Movement will be calculated by the NYISO using the best information available, taking into account such data as may be furnished by the Market Party. The NYISO welcomes any Regulation Movement cost information or documentation that a Market Party may provide, whether qualitative or quantitative. However, numerical data and calculations will be the most helpful. If the Market Party does not provide Regulation Movement cost information or documentation to the NYISO, the NYISO will determine a reference level on the basis of the NYISO's estimate of the costs or physical parameters of the relevant Electric Facility, taking into account available operating costs data and the best information available to the NYISO.

Some units may incur costs of the following type as a result of providing Regulation Movement:

- Additional thermal losses (beyond the energy used to generate the same number of MWs at a constant rate), and
- Additional maintenance costs from Regulation Movement (beyond the wear and tear from generating the same number of MWs at a constant rate).

If a Market Participant believes that its unit's Regulation Movement results in incremental costs that are not related to the categories above, they may claim such costs (for example, a Market Participant might also claim costs associated with increased trip risk due to Regulation Movement, or financial risk of failing to accurately follow regulation basepoints). However, as with any reference level submittal, the NYISO may follow up by asking a Market Participant to substantiate asserted Regulation Movement costs with data or supporting documentation.

11.1.310.1.3 Form of Movement Cost Component Submissions

The NYISO welcomes both quantitative and qualitative information from Market Participants about the costs of providing Regulation Movement. However, quantitative estimates will be most helpful if they are provided within the following framework:

For thermal losses associated with providing Regulation Movement, either:

- The number of additional mmBTUs consumed while providing regulation for one hour.
- The percentage increase in fuel consumption associated with providing regulation service for one hour. This is calculated using the ratio of the following numbers.
 - The numerator: additional mmBTUs consumed while on regulation at an assumed energy basepoint.
 - The denominator: total mmBTUs consumed while not on regulation, at the same assumed energy basepoint.
 - If providing thermal losses as a percentage, please assume a typical energy basepoint for providing Regulation Movement, and please specify the energy basepoint assumed.

For maintenance costs associated with providing Regulation Movement, either:

- The amount, in dollars, of additional maintenance costs incurred per hour of providing Regulation Movement; or
- The percentage increase in maintenance costs associated with providing Regulation Movement. This is the ratio of the additional maintenance cost incurred per hour of providing Regulation Movement divided by the maintenance cost per hour of operating at the same assumed basepoint while not on regulation.

11.1.410.1.4 Translation of Cost Components into Costs per MW-Hr

The NYISO will calculate Regulation Movement costs per MW-hr by incorporating the cost submissions from Market Participants described above with:

- Burdened fuel cost information from RLS (for thermal losses).
- Heat rate data from RLS (for thermal losses).
- Maintenance/VOM costs from RLS (for maintenance costs).
- Data on average MWs of movement incurred per hour of Regulation Movement.

Appendix A. Variable Cost Categories⁴

O&M for All Generating Plants

- Water consumption in plant operations
- Emission credits
- Incremental operating labor
- Auxiliary equipment repair
- Replacement of consumables and normal wear-and-tear items (e.g., seals, lockplates, nuts, bolts, gaskets, etc.)
- Mechanical parts replacement
- On-line running maintenance
- Performance testing (oxygen boiler test, on-line testing, pre-air heater test)
- Vibration analysis monitoring
- Waste water treatment
- Auxiliary equipment maintenance
- Filter changes
- Oil changes
- Oil and water level checks
- Condensate Pump inspection and overhaul
- Circulation Pump inspection and overhaul
- Steam Turbine Generator inspection/repair/overhaul
- Preventive/predictive maintenance tests
- Auxiliary power consumption
- Auxiliary fuels/lubricants
- Compressor and turbine rotors inspection
- Feedwater pump inspection and overhaul
- Cooling tower equipment inspection and overhaul
- Fuel metering equipment replacement
- Gas turbine auxiliaries
- Transformer maintenance and testing
- Relay cleaning
- Battery system service
- Oxygen boiler test
- Condenser inspections and cleaning
- Water demineralization and treatment
- Boiler tube repair
- Generator field rewinds
- Stop valve inspection
- Control valve inspection
- Boiler casing leak repair (where applicable)
- Relay & interlock testing
- Water box cleaning
- Chemical waste disposal fees
- Non-destructive testing
- Hotwell cleaning
- Turning and ratchet gear maintenance
- Instrumentation and controls replacement
- Emissions monitoring tests
- Emissions control equipment repairs
- High energy piping inspections

⁴ Appendix A contains listings of potential cost categories which are non-exhaustive and may not be appropriate for all units. See section [8.1.1](#) of this manual for a description of approvable operating and maintenance costs.

O&M for Coal-Fired Plants

- Boiler safety valve testing
- Steam drum repairs
- Water wall repairs
- Seals replacement
- Coal bunker repair
- Coal crusher repair
- Coal freeze proofing
- Chemical cleaning of internal heating surfaces
- Burner repairs
- Feedwater heater repairs
- Deaerator repairs
- Air heater repairs
- Ash hopper repairs
- Precipitator/bag house repairs
- Ash handling equipment repairs
- Evaporator tubing repairs
- Superheater/reheater/economizer tubing and headers repairs
- Heat exchanger cleaning
- Coal drying
- Coal-handling and distribution equipment repair
- Stack, fans and draft repair
- Coal feeder pulverizing equipment repair
- Boiler condition assessment

O&M for CT/CC Plants

- Alignment check of the gas turbine to the generator, as well as of the gas turbine to the accessory gear
- Boroscope inspections of compressor casings and turbine shells
- Casings, shells, and frames/diffusers inspected for cracks and erosion
- Checks of alignment between gas turbine and generator; gas turbine and accessory gear.
- Radial and axial clearances check
- Seals for rubs and deterioration of clearance checks
- Device calibrations check
- Chemical Cleaning or Hydro-Blasting of Heat Transfer Surfaces
- Fluorescent penetrant inspection of bucket vane sections
- Combustion Turbine Generator Evaporative cooling system media replacement
- Combustion Turbine Generator Inspections
- Compressor inlet and flow-path inspection for fouling, erosion, corrosion, and leakage
- Compressor wash systems repair
- Distillate Fuel Pumps Inspection and Overhaul
- Electric generator inspection and overhaul
- Environmental: SCR /CO replacement
- Inlet Air Filter Replacement /maintenance
- Inspection of bearing liners and seals for clearance and wear
- Buckets inspection
- Fuel Gas Compressors Inspection and Overhaul
- Fuel System replacement
- Heat Transfer Surface Replacements
- Inspection of compressor blades for rubs
- Hydrogen embrittlement testing
- Inspection of flow sleeve welds for cracking
- Inspection of fuel nozzles for plugging and erosion of tip holes
- HRSG inspections/condition assessments
- Detectors, combustor flow sleeves, flow sleeve welds, combustion system and discharge casing
- Maintenance of fuel treatment system
- Mechanical inlet air cooling chiller and pump inspection and overhaul
- Sampling of turbine lube oil for viscosity, chemical composition, contamination, particulate, and water-contamination
- Impact damage, corrosion, and buildup of deposits
- Inspection of cross-fire tube, retainer, and combustion liner for cracking, oxidation, corrosion, and erosion
- Inspection of fluid, air, and gas passages in the nozzle assembly for plugging, erosion, corrosion, etc
- Inspection of fuel nozzles, liners, transition pieces, crossfire tubes and retainers, spark plug assemblies, flame
- Inspection of inlet systems for corrosion, cracked silencers, and loose parts
- Refurbishing bucket coatings
- Inspection of combustion chamber interior
- Inspection of later-stage diaphragm packing
- Inspection of bucket seals for clearances, rubs, and deterioration
- Inspection of turbine stationary shrouds
- Inspection of wheelspace instrumentation
- Inspection of variable inlet guide vanes (VIGVs)
- Repair and refurbishment of second and third-stage nozzles
- Recoating of turbine buckets
- Replacement or refurbishment of hot gas parts
- Gas turbine combustion and hot gas path inspections
- Compressor and turbine rotors inspection

Attachment 1: Unauthorized Gas Usage

The actions listed below constitute unauthorized gas usage, as explained in the Tariffs of various New York gas LDCs. The NYISO will not permit inclusion of charges for unauthorized gas usage to be included as a component in the determination of generator reference levels (See Section 6.3.2 above).

1. Violation of the terms of an Operational Flow Order announced by a gas LDC or pipeline, without obtaining specific authorization from the gas LDC or Pipeline to do so.
2. Violation of instructions from the gas LDC or pipeline restricting use of gas imbalance service.
3. Consumption of gas during a period of authorized interruption of service by the gas LDC or pipeline, determined in accordance with the terms of the tariff, rate schedule, contract or agreement under which the Generator takes service from the LDC or pipeline.
4. Refusal by a Generator to comply with direction by the gas LDC or pipeline (by telephone, broadcast media, written facsimile or otherwise) to curtail consumption.

If a New York gas LDC or pipeline believes that an additional category of unauthorized generator gas usage should be added to this list, it should describe that additional category in an e-mail to NYISO's MMA at MMA-MitigationReferences@nyiso.com.