



December 12, 2003

[Vendor Contact Name]

[Vendor Name]

1. Andrew Parece (Analysis Group/Economics)
2. Michael E. Burton (Cornerstone Research)
3. Geoffrey Underwood (Interdisciplinary Center for Economic Sciences - George Mason University)
4. Andrew Hartshorn (LECG, LLC.)
5. Timothy Mount (Power Systems Engineering Research Center - Cornell University)
6. Seth Parker (Levitan & Associates)
7. Eugene T. Meehan (National Economic Research Associates, Inc.)
8. Prof. Peter Cramton (Market Design Inc. - University of Maryland)
9. Frank A. Felder (Independent Consultants)
10. Bill Hieronymous (Charles River Associates)
11. Victor Niemeyer (EPRI, Power Delivery and Markets)
12. Benjamin Hobbs (The Johns Hopkins University)
13. Paul Jocko (MIT Department of Economics)
14. John P.W. Brown VI (NewEnergy Associates)
15. Frank A. Wolak (Stanford Institute for Economic Policy Research)
16. Chris Neil (Summit Blue Consulting)
17. Steve Stoft (University of California Energy Institute)
18. Tim Bush (Navigant Consulting, Inc.)
19. Paul R. Carpenter (The Brattle Group)
20. (Energy Initiatives Group)
21. (e-Acumen, Inc.)

[Consultant Address 1]

[Consultant Address 2]

[City, State, Zip Code]

RE: REQUEST FOR PROPOSAL FOR INSTALLED CAPACITY DEMAND CURVE REVIEW

The New York Independent System Operator (“NYISO”) is issuing this Request for Proposal to select a consultant to conduct an independent review of the parameters of the NYISO’s installed capacity demand curves.

Company Background

The New York Independent System Operator (www.nyiso.com) is a not-for-profit corporation established in 1999 to facilitate the restructuring of New York State’s electric industry. Based in New York’s Capital Region, in addition to administering the State’s wholesale energy markets, the NYISO operates the State’s high voltage electric transmission system. Last year, the NYISO’s market volume exceeded \$5.2 billion.

Purpose for Proposal

The objective of this Request for Proposal is to select a consultant to conduct a review of the parameters of the NYISO's installed capacity ("ICAP") demand curves described in Attachment A. The consultant will recommend parameter values for the ICAP demand curves for the 2005/2006 capability year (defined as a May-April period) as well as the subsequent two (2) capability years. The consultant will determine the localized levelized embedded cost of gas turbines in each New York Control Area ("NYCA") locality and the rest of state and associated energy and ancillary services revenues that said generator could anticipate in each locality and in the rest of state for those periods. The items required for submittal are listed in Appendix B. The information provided by each consultant will be used by the NYISO to gain a comfort level with each consultant's approach and to determine which consultants the NYISO will invite to Albany, New York to provide a presentation and participate in a question/answer session.

This RFP should not be interpreted as a contract (implicit, explicit, or implied) nor does it imply any form of an agreement to candidate vendors. Additionally, the costs of bid preparation are not considered an allowable reimbursable expense under the terms of this RFP.

Scope of Work

The Consultant is required to recommend parameter values for the ICAP demand curves. The consultant is required to determine the localized levelized embedded cost of gas turbines in each NYCA locality and the rest of state and associated energy and ancillary services revenues. The representatives identified in the RFP cover letter are the contact persons at the NYISO and shall be responsible for providing data as required for the review and validating assumptions.

The Consultant will be required to deliver the following to the NYISO:

- 1) Localized levelized embedded cost of gas turbines in each NYCA locality and the rest of state and associated energy and ancillary services revenues at the equilibrium, or reference, point (currently at 118 percent), and given applicable installed reserve margins and market rules, for the 2005/2006 capability year and for the subsequent two (2) capability years;
- 2) Recommended "length" or the "zero-crossing point" where the demand curves cross \$0 (the point beyond which Unforced Capacity has no value) for the 2006/2007 and 2007/2008 capability years (the length of the demand curve cannot be changed for the 2005/2006 capability year);

- 3) Written report documenting study methodology, calculations, and results that may be used as part of regulatory filings as needed;
 - Preliminary Report: Due May 7, 2004
 - Final Report: Due May 21, 2004
- 4) Weekly status reports to NYISO representative;
- 5) Presentation of study methodology and results to NYISO stakeholders.
 - Status Report: Week of April 19, 2004
 - Final Presentation following acceptance of Final Report.

RFP Schedule

1. Send out Request for Proposals to qualified vendors on **Friday, December 19, 2003**.
2. Vendors are required to notify NYISO of their intent to bid by **5:00 PM on Wednesday, January 14, 2004**.
3. NYISO representatives will be available to answer vendor's questions regarding the RFP during a Pre-bid Question & Answer Conference Call during the week of **January 19, 2004**.
4. Vendors are required to respond with bids by **5:00 PM on Tuesday, February 10, 2004**. Three bound written proposals (1 original, 2 copies) must comprise your sealed bid package.
5. A formalized scope of work (SOW) will be negotiated and signed. A formal awarding purchase order is anticipated to be issued during the week of March 1, 2004.

Intent to Bid

All recipients of this RFP shall return the enclosed "**Intent to Bid**" form stating their intentions with regards to the RFP. This document must be completed and faxed back to the NYISO Contact, John Charlton **at 518-356-6208** no later than **Wednesday, January 14, 2004 by 5:00 PM**. Should your company decide against responding to this RFP, please return all enclosed materials to the NYISO Contact at the address listed for all correspondence by **January 14, 2004**.

Contact Information

All correspondence, as well as your proposal package, should be addressed to:

John Charlton
New York Independent System Operator
290 Washington Avenue Ext.
Albany, NY 12203

All general questions regarding the RFP, such as scope of work and specifications, should be directed to:

John Charlton, NYISO
Phone: (518) 356-6047
Fax: (518) 356-6208
Email: jcharlton@nyiso.com

Also enclosed are the NYISO Master Consulting Agreement, along with the Confidentiality and Nondisclosure Agreement (Vendor Packet). Bidders should be prepared to sign the required documents contained in the Vendor Packet upon award of a contract with the NYISO. Any Bidder exceptions to the language of these documents should be identified as such at the time of the Bidder's proposal. Any questions, specifically concerning the General terms and Conditions, should be directed to:

Alan Holmes
Contract Manager
New York Independent System Operator
Phone: (518) 356-8808
Fax: (518) 356-7505
Email: Aholmes@nyiso.com

Please note that the Confidentiality and Nondisclosure Agreement must be signed and returned to NYISO before any questions regarding the RFP will be entertained.

We are assuming that we will be contracting with the company or institution of the individuals this RFP is being sent to. If this is false, and we will be contracting with you as an individual, you will need to contact Alan Holmes, who will draw up a new Confidentiality and Nondisclosure Agreement for your signature.

We look forward to receiving your bid.

Sincerely,

John Charlton
Senior Engineer, Resource Reliability
New York Independent System Operator

Attachment A

Background

The NYISO will administer installed capacity (“ICAP”) auctions to accommodate load serving entities’ (“LSEs”) and installed capacity suppliers’ efforts to enter into unforced capacity (“UCAP”) transactions and to allow LSEs to satisfy their respective LSE UCAP obligations. In the various NYISO-administered auctions (i.e. capability period or monthly auctions), LSEs will have the opportunity to purchase the UCAP necessary to meet the LSE UCAP obligations established by the ISO Services Tariff¹, and to purchase or sell excess UCAP. ICAP suppliers will have the opportunity to sell UCAP.

LSEs and ICAP suppliers may also purchase or sell UCAP through bilateral transactions. LSEs holding UCAP which they want credited against their LSE UCAP obligations must certify such UCAP when submitting their ICAP certifications.

The NYISO shall conduct an ICAP spot market auction (“SMA”) to purchase UCAP which shall be used by an LSE toward all components of its LSE UCAP obligation for each obligation procurement period immediately preceding the start of each obligation procurement period. All LSEs shall participate in the ICAP SMA. In the ICAP SMA, the NYISO shall submit monthly bids on behalf of all LSEs at a level per megawatt (“MW”) determined by the applicable ICAP demand curve. The ICAP SMA will set the LSE UCAP obligation for each NYCA LSE. LSEs that are awarded UCAP in the ICAP SMA shall pay to the NYISO the applicable market-clearing price (“MCP”) of UCAP determined in the ICAP SMA times the amount of UCAP purchased on behalf of the LSE. The NYISO shall pay ICAP suppliers that are selected to provide UCAP the applicable MCP determined in the ICAP SMA, except in the case of UCAP associated with in-city generation that is subject to capacity market mitigation measures, which shall receive the lesser of the applicable MCP or the supplier's mitigated price cap².

Prior to the ICAP SMA, LSEs shall certify all UCAP that will be counted toward their respective minimum UCAP requirement (through bilateral transactions, self-supply or NYISO-administered auctions). Each entity that has previously committed to supply UCAP for the obligation procurement period will also certify to the NYISO the amount of UCAP it is using to meet those requirements. The NYISO shall receive offers from qualified ICAP suppliers for the ICAP spot market auction for any amount of qualified UCAP that they have not previously certified. The NYISO shall also receive offers for the ICAP SMA of UCAP from any LSE for any amount of qualified UCAP such LSE has in excess of its NYCA

¹ ISO Market Administration and Control Area Services Tariff: <http://www.nyiso.com/services/oatt.html>.

² Refer to the Section 5 of the NYISO Installed Capacity Manual (<http://www.nyiso.com/markets/icapinfo.html#manual>) for more details on mitigated price caps.

minimum UCAP requirement or locational minimum UCAP requirement, as applicable.

Three (3) ICAP demand curves will be established: one to determine the locational component of LSE UCAP obligations for the New York City locality, one to determine the locational component of LSE UCAP obligations for the Long Island locality and one to determine the total LSE UCAP obligations for all LSEs. Each ICAP demand curve is established by setting the reference price at the locational minimum ICAP requirement or the NYCA minimum ICAP requirement, as applicable, as the localized, levelized cost of new entry in the New York City locality, the Long Island locality, or the rest of state (equal to the localized, levelized cost of a gas turbine less the associated energy and ancillary services revenues for each locality and the rest of state). The ICAP demand curves are being phased in over three (3) capability years beginning in 2003. The ICAP demand curves for capability years 1 and 2 have been established within the following fixed, annual ICAP parameters which were then translated to a dollars per kilowatt-year of UCAP basis.

	Year 1 <i>(May 1, 2003 – April 30, 2004)</i>	Year 2 <i>(May 1, 2004 – April 30, 2005)</i>
	\$/kilowatt-year of ICAP	
Total NYCA	\$56.24/kW-year at 100% \$0.00/kW-year at 112%	\$67.49/kW-year at 100% \$0.00/kW-year at 112%
Long Island	\$104.37/kW-year at 100% \$0.00/kW-year at 118%	\$123.94/kW-year at 100% \$0.00/kW-year at 118%
New York City	\$127.89/kW-year at 100% \$0.00/kW-year at 118%	\$151.14/kW-year at 100% \$0.00/kW-year at 118%
 <u>NOTE 1:</u> All percentages are in terms of the applicable NYCA minimum ICAP requirement and locational minimum ICAP requirement.		
 <u>NOTE 2:</u> All annual dollar values will be translated into monthly values by dividing by twelve (12) and rounding to the nearest cent.		
 <u>NOTE 3:</u> The Year 1 and Year 2 references prices are based upon the following levelized cost of gas turbines:		
	Total NYCA:	\$85/kW-year of ICAP
	Long Island:	\$139/kW-year of ICAP
	New York City:	\$159/kW-year of ICAP

Review Objective

For the third and final capability year during which the ICAP demand curves are being phased in (i.e. May 1, 2005 through April 30, 2006) as well as the

subsequent two (2) capability years, the costs assigned by the ICAP demand curves to the NYCA minimum ICAP requirement and each of the locational minimum ICAP requirements (reference prices) will be defined by the results of the independent review conducted pursuant to this RFP. The respective point at which each demand curve crosses zero, expressed in terms of a percentage of the NYCA minimum ICAP requirement or each of the locational minimum ICAP requirements, as applicable, will be fixed through the 2005/2006 capability year.

In other words, the consultant must determine the localized, levelized cost of new entry in the New York City locality, the Long Island locality, and the rest of state (the localized, levelized cost of a gas turbine at both locational minimum ICAP requirements and at the NYCA minimum ICAP requirement less the associated energy and ancillary services revenues) for the 2005/2006 capability year and the subsequent two (2) capability years. The point at which the total NYCA, Long Island, and New York City demand curves cross at zero dollars ("zero-crossing point") shall remain the same as in Years 1 and 2 (112%, 118%, and 118%, respectively) for the 2005/2006 capability year. However, the consultant will recommend the zero-crossing point for the two (2) subsequent capability years for each locality and the NYCA.

Attachment B

Nature

The request for proposal is for a service contract to conduct a comprehensive analysis of the parameters of the NYISO's ICAP demand curves described in Attachment A to recommend the appropriate parameter values for the 2005/2006 capability year and the subsequent two (2) capability periods.

Required items of submission

Contractor shall provide the following information in his proposal:

1. All professional fees and estimated expenses
 - All responses are required to submit a fixed price proposal for the performance of the required analysis and preparation of the final report.
 - Fixed price proposal shall be broken down to indicate the hours and cost anticipated for each principal investigator proposed for this project
 - Other pricing structures may be submitted in addition to the fixed price bid
 - Time and material rates must be submitted for all personnel proposed for the project
2. Organization Chart
3. A list of related services rendered by the Proposer in the past five (5) years with the following information included: nature of work, calendar year(s) of involvement; client; and client reference, name and phone number.
4. Organizational structure and list identifying the Project Manager and other Key Personnel. Key Personnel shall be considered to include all who may be involved with assignments issued.
5. Resumes' of the Project Manager and key Personnel providing the following information:
 - a) Name and current title;
 - b) Formal education;
 - c) Professional engineering registration;
 - d) Professional and industry organization membership;
 - e) Experience during current and prior employment. A detailed level of experience relating to prior work in (full or part-time) must be provided. Detailed information shall include nature of work and responsibilities on a project and/or time basis;
 - f) Other qualifications that the individual possesses which demonstrate his/her knowledge or value in rendering related services.

6. The Proposer's technical approach in providing related services.
7. The Proposer's interpretation of the objective and scope of services required.
8. A listing and description of all computer programs used by the Proposer in providing related services.
9. A preliminary listing and description of all data inputs required from the NYISO to complete the study within the contracted time frame.
10. Any additional information which the Proposer deems pertinent to his total presentation for the requested service.
11. Any additional information requested by NYISO to assist with the evaluation of the proposal.
12. Conflict of interest disclosure.

Performance Period

The period of performance shall originate on or about March 1, 2004 and extend to June 18, 2004.

Evaluation Criteria

Consultants will be evaluated based on their professional experience, qualifications, study approach, pricing, and the quality of their proposal.

Acceptance of Proposal

Consultant will be notified in writing of the acceptance or rejection of the proposal.

NYISO reserves the right to reject any or all proposals. NYISO also reserves the right to provide split or multiple awards in the event that NYISO deems it commercially advantageous.