

**DRAFT ICAP Manual Revisions for the
2005-2008 ICAP Demand Curve Adjustments**

2/15 Base Revision for Comment by 2/18

5.5. Demand Curve and Adjustments

Three (3) ICAP Demand Curves ~~will behave been~~ established: one to determine the locational component of LSE Unforced Capacity Obligations for the New York City Locality, one to determine the locational component of LSE Unforced Capacity Obligations for the Long Island Locality and one to determine the total LSE Unforced Capacity Obligations for all LSEs. The ICAP Demand Curves were implemented in June, 2003 ~~and were subject to a one-time, phase-in process that continued~~ for the 2003/2004 and 2004/2005 Capability Years. ~~Pursuant to the re-set process set forth in the ISO Services Tariff, t~~The Installed Capacity Demand Curves ~~are to behave been~~ determined for the 2005/2006, 2006/2007 and 2007/2008 ~~Capability Years~~ and ~~will be~~ adjusted in subsequent three year periods in accordance with Section 5.6, below.

Each ICAP Demand Curve is composed of 3 straight line segments;

- (1) a horizontal segment which is set at a value of ~~1.5 times the estimated localized levelized cost of a new gas turbine (the "GT Cost"), thus establishing the maximum clearing prices for LSEs and suppliers, and~~ intersected by
- (2) a ~~negatively-sloped~~downward-sloping straight line passing through two points;
(a) one point (the annual Reference Value) which is based on the GT Cost less estimated net revenue offsets, and set at the NYCA Minimum Installed Capacity Requirement or the Locational Minimum Installed Capacity Requirement, as applicable and (b) the second point at the Installed Capacity requirement level where the Installed Capacity price declines to zero (Zero Crossing Point), and
- (3) another horizontal segment which is set at a price of zero for all requirements which are more than the Zero Crossing Point.

The sloped portion of the Demand Curve, so defined, reflects the value of capacity as a function of the Installed Capacity requirement level.

The NYCA Minimum Installed Capacity Requirement is determined by the NYISO after the New York State Reliability Council sets the NYCA Installed Reserve Margin and the NYISO determines the Locational Minimum Installed Capacity Requirement. ~~The Demand Curve figures are subject to three adjustments. First, because the Annual Reference Value is based on generator ratings using an average annual temperature, the monthly Reference Point price calculation is adjusted to reflect Summer DMNC conditions. Second, t~~The annual Reference Value ~~then~~ is translated to a monthly ICAP Reference Point price for each Demand Curve by using the most recent ratio of winter-to-summer capacity that is available from the NYCA market as reported in the annual Load and Capacity Data and posted in the Planning

section of the NYISO website (<http://www.nyiso.com/services/planning.html>). ~~Since the Annual Reference Value is based on generator ratings using an average annual temperature, the monthly Reference Point price calculation shall reflect an adjustment to take into effect Summer DMNC conditions.~~ The monthly ICAP Reference Point is set to the price at which the annual reference value can be achieved for a GT, assuming each summer month's revenue to be the Summer DMNC of a GT times the monthly ICAP Reference Point, and each winter month's revenue to be the Winter DMNC of a GT times the assumed Winter Market Clearing Price (calculated as the monthly ICAP Reference Point times $\{1 - [(the\ winter\ to\ summer\ capacity\ ratio\ for\ the\ applicable\ location - 1)/(Zero\ Crossing\ requirement\ percentage\ for\ the\ applicable\ location - 1)]\}$)

[Formula can be added here if warranted]

Each ICAP Demand Curve is established with the following fixed, monthly ICAP parameters, that will be translated into Unforced Capacity terms in accordance with the following paragraph.

	Capability Year 5/1/2004 to 4/30/2005	Capability Year 5/1/2005 to 4/30/2006	Capability Year 5/1/2006 to 4/30/2007	Capability Year 5/1/2007 to 4/30/2008
\$/kW-month of ICAP				
NYCA	\$5.62 @ 100%	\$6.78 @ 100%	\$6.98 @ 100%	\$7.19 @ 100%
	\$0.00 @ 112%	\$0.00 @ 112%	\$0.00 @ 112%	\$0.00 @ 112%
NYC	\$12.60 @ 100%	\$13.70 @ 100%	\$14.11 @ 100%	\$14.54 @ 100%

	\$0.00 @ 118%	\$0.00 @ 118%	\$0.00 @ 118%	\$0.00 @ 118%
LI	\$10.33 @ 100%	\$12.52 @ 100%	\$12.90 @ 100%	\$13.28 @ 100%
	\$0.00 @ 118%	\$0.00 @ 118%	\$0.00 @ 118%	\$0.00 @ 118%
NOTE: All percentages are in terms of the applicable NYCA Minimum Installed Capacity Requirement and Locational Minimum Installed Capacity Requirement.				

Third, as these figures are on an ICAP basis but suppliers are required to make sales on a UCAP basis, these figures are translated into UCAP terms. The monthly ICAP based Reference Points shown in the table above are converted to UCAP based Reference Points using a Capability Period specific ICAP to UCAP translation factor. The UCAP based Reference Point (\$/kW-Month) equals the ICAP based Reference Point (\$/kW-Month) divided by one minus the ICAP/UCAP translation factor. The ICAP/UCAP translation factor equals one minus the EFORD for the appropriate location (i.e. NYCA, New York City or Long Island). The EFORD used is the average value of the six (6) most recent 12-month rolling average EFORDs of all resources in the NYCA or respective location.

In subsequent three-year periods, the costs assigned by the ICAP Demand Curves to the NYCA Minimum Installed Capacity Requirement and each of the Locational Minimum Installed Capacity Requirements will be defined by the results of the independent review conducted pursuant to Section 5.14.1(b) of the NYISO Services Tariff.

5.6. Periodic Independent Review

An independent review of the ICAP Demand Curves will be performed every three (3) years to determine whether the parameters of the ICAP Demand Curves should be adjusted. Among other criteria, the review will determine the current localized levelized embedded cost of gas turbines in each NYCA Locality and the Rest of State and associated Energy and Ancillary Services revenues.

Each periodic independent review, which will include stakeholder input, will be completed by September [July?] 1 in time to determine the ICAP Demand Curves to be applied for the three subsequent Capability Years.

Once the independent review is received, it shall be provided to stakeholders and the New York State Public Service Commission (“PSC”), who shall be given an opportunity to provide input to the NYISO concerning the review. Upon consideration of each review and input thereon from stakeholders and the PSC, but prior to NYISO Board approval, the NYISO shall issue three (3) proposed ICAP Demand Curves.

Any stakeholder, including the PSC, shall have thirty (30) days within which to request an opportunity to provide the NYISO Board with supplemental information

for its consideration when acting on the proposed ICAP Demand Curves. Upon receipt of such a request, a NYISO Board subcommittee shall be convened, upon notice to all parties, to review filed information and to hear oral arguments on the issues that have been raised.

After considering the proposed ICAP Demand Curves and any comments related thereto, the NYISO Board shall issue three (3) final ICAP Demand Curves and shall file them for approval at FERC. Once the ICAP Demand Curves have been approved by FERC, they shall remain binding for the 3-year period until the next review, absent exigent circumstances.