

Filed Reserve Self-Supply Concept Description

8/04/04

This memo presents a method for an LSE to self-supply reserve. The method can be used with any reserve category; and has both physical and financial components. The method is restricted to the day-ahead market. No change to the real-time market is needed.

The physical component of the self-supply method consists of:

- The LSE notifying the ISO of the supplier (generator or demand-side resource) that will be providing reserve
- The Supplier verifying that it has agreed to be used as reserve self-supply for the LSE
- The ISO modifying the day-ahead market to recognize the reserve that has been designated as self-supply so that the market:
 - Will acquire only the additional reserve needed to satisfy the NYCA locational reserve requirements
 - Will not use the self-supply resource for energy

The financial component of the method consists of determining the value of the self-supplied reserve and crediting that value toward the LSE's day-ahead financial obligation for reserve. The LSE has no real-time exposure to reserve prices.

LSE Requirements

By close of the day-ahead market the LSE must specify (i) the resource that will be for self-supply, (ii) the reserve category, (iii) the amount of reserve to be self-supplied, and (iv) the hours to be self-supplied. It will probably be necessary to require that no less than the entire capacity of block-loaded generators be designated for self-supply.

Supplier Requirements

The supplier must be qualified to supply the category of reserve specified by the LSE. By close of the day-ahead market the supplier must verify that it has agreed to be used for self-supply. The supplier will not receive payments from the day-ahead market for reserve that is being used for self-supply.

ISO Scheduling & Pricing

In the day-ahead market the ISO must recognize that reserve designated for self-supply is not available for energy and must be used for reserve. In all but the most extreme cases these requirements are equivalent to (i) a day-ahead reserve availability offer price of \$-1000, and (ii) an energy offer price of \$+1000. The ISO must modify the supplier's day-ahead offer to make reserve attractive (\$-1000) and energy unattractive (\$+1000) for the appropriate hours and amounts.

Price corrections will be required in the unlikely event that self-supplied reserves set a day-ahead reserve clearing price.

ISO Settlements

An LSE’s day-ahead obligation to pay for reserve will be calculated without change. The value of its self-supplied reserve will be deducted from that amount.

The supplier’s day-ahead payment for reserve will also be calculated without change. The value of its self-supplied reserve will be deducted from that amount.

Market Monitoring

The self-supply method described in this memo can be used to physically withhold resources from the day-ahead markets. MMP will have to develop tests to verify that such physical withholding has not adversely affected prices.

Timetable Setting Forth a Schedule for Full Implementation of a Method for Allowing Customers to Self-Supply Their Own Operating Reserves.

| DATE | Activity |
|-------------------|--|
| May, 2004 | Discussions began on providing an option allowing LSEs to self-supply reserves without being required to offer the resource in the NYISO markets. |
| September, 2004 | Further Market Participant discussions and initial development of a Concept of Operations |
| March, 2005 | Finalize the self-supply Concept of Operations with Market Participants and begin development of the Functional Requirements Specification (“FRS”) |
| April, 2005 | Submit self-scheduling tariff changes to FERC |
| June, 2005 | IT Software development resources available to begin implementation. |
| August, 2005 | Software development and testing complete, begin final Quality Assurance testing. |
| September 1, 2005 | Production Software Deployment |