



Month xx, 2006

DRAFT 6/8/06

«Title» «FirstName» «LastName»

«Company»

Potential Bidders (Prefer to pare this down to 6 or less)

(Levitan & Associates)
(National Economic Research Associates, Inc.)
Energy Initiatives Group
Sargent and Lundy
Black and Veatch/RJRudden
PA Consulting
)

«Address1»

«Address2»

«City», «State» «PostalCode»

**RE: REQUEST FOR PROPOSAL FOR INSTALLED CAPACITY DEMAND
CURVE REVIEW**

The New York Independent System Operator (“NYISO”) is issuing this Request for Proposal (“RFP”) to select a consultant to conduct an independent study to establish the parameters of the NYISO’s Installed Capacity Demand Curves for each year in a three-year period beginning May 1, 2008.¹

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, ancillary services and capacity markets, the NYISO operates the State’s high voltage electric transmission system. Last year, the NYISO’s market volume was about \$11 billion, and has been over \$40 billion since inception.

¹ Unless otherwise specified in this letter, capitalized terms have the meanings specified in the NYISO’s Market Administration and Control Area Services Tariff (“Services Tariff”) (copy available at: http://www.nyiso.com/public/documents/tariffs/market_services.jsp).

Purpose for Proposal

The objective of this Request for Proposal is to select a consultant to conduct a study of the parameters used as the basis to set the NYISO's installed capacity ("ICAP") Demand Curves for the three years beginning with the Summer 2008 Capability Period. Further details are set forth below, and certain background facts are described in Attachment A. The items required for submittal in response to this letter are listed in Appendix B. The timeline for developing the Demand Curves is set forth in Attachment C. The information provided by each consultant will be used by the NYISO to evaluate 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 or offer (implicit, explicit, or implied) nor does it imply any form of an agreement with candidate vendors. Additionally, the costs of bid preparation are not considered an allowable reimbursable expense under the terms of this RFP.

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.

Scope of Work

The Consultant will be required to recommend parameter values for the ICAP Demand Curves for the Capability Year starting May 1, 2008 and the following two Capability Years. As stated by the Federal Energy Regulatory Commission:

Demand Curves are derived from: (a) a point defined by the minimum ICAP requirement (118 percent of load) as set by the New York State Reliability Council, and the cost of new peaking generation (the "Annual Reference Value"); and (b) a point at which the ICAP requirement declines to zero ("Zero Crossing Point") that reflects the declining value of capacity reserves and an appropriate slope for the Demand Curve. The Annual Reference Value is determined by an estimate of the annual capital and fixed operation and maintenance costs, including a return on investment, to construct a typical new peaking unit (i.e., a simple cycle gas turbine plant), less an offset for projected energy and ancillary services revenues, net of variable operating costs, that a new peaking unit could expect to earn in the New York markets.²

The selected consultant will be required to deliver a written report to the NYISO documenting the consultant's study methodology, calculations, results and recommendations, and analyzing the following, consistent with FERC

² *New York Independent System Operator, Inc.*, 111 FERC ¶61,117 P16 (2005).

requirements and covering the Capability Year starting May 1, 2008 and the following two Capability Years:

- 1) Localized, levelized embedded cost of a peaking unit, defined as “the unit with technology that results in the lowest fixed costs and highest variable costs among all other units' technology that are economically viable,” in each NYCA Locality and the rest of state;³
- 2) Associated energy and ancillary services revenues in each NYCA Locality and the rest of state at equilibrium, or slightly above equilibrium for each NYCA Locality and the rest of state, consistent with applicable installed reserve margins and market rules (where equilibrium is the level at which installed reserve margins in each NYCA Locality and the rest of state equal the minimum installed reserve requirement, respectively); and
- 3) Recommended "zero-crossing point" where the demand curves cross \$0 (the point beyond which Unforced Capacity should be deemed to have no value) (the current "zero-crossing points" are 118%, 118% and 112% of the minimum Installed Capacity requirement for each NYCA Locality and the NYCA, respectively.
- 4) Rationalize recommendations with previous demand curve studies and the NYISO Independent Market Advisor's State of the Market Report

Examples of the specific study recommendations:

- 1) Peaking unit technology
- 2) Total installed cost by area/locality
- 3) Financial parameters and amortization period
- 4) Approach (modeling/simulation methodology) to determine revenues by area/locality
- 5) Determine the lowest cost of entry in each NYCA Locality and rest of state
- 6) Compare costs to historical values and those in similar studies
- 7) Point at or above equilibrium that reasonably assures that the minimum requirement is met
- 8) Analyze demand curve shape and slope to minimize market power, minimize price volatility, recognize value of extra capacity and minimize impacts to end users
- 9) Recommend the proper “zero-crossing point” (the point beyond which Installed Capacity has no value)
- 10) Recognize and incorporate locational capacity requirements in demand curve analysis

The written report may be used as part of regulatory filings as needed, and shall be due on the following dates:

- Draft Report: Due by March 30, 2007
- Final Report: Due by May 25, 2007

³ *New York Independent System Operator, Inc.*, 113 FERC 61,271 P12 (2005).

The chosen consultant will also be expected to make presentations of study methodology, calculations and results to NYISO stakeholders, and to answer stakeholder questions, on the following schedule:

- Initial assumptions and methodology by November 17, 2006;
- Meeting to accept comments on initial assumptions by November 27, 2006;
- Meeting to finalize initial assumptions by December 22, 2006;
- Progress report by March 1, 2007; and
- Final Presentation following acceptance of Final Report.

RFP Schedule

1. Requests for Proposals sent to qualified vendors by **August 11, 2006**.
2. Vendors to notify NYISO of their intent to bid by **5:00 PM ET on August 25, 2006**.
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 ending **September 8, 2006**
4. Vendors are required to respond with bids by **5:00 PM ET on September 29, 2006**. 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 by October 31, 2006.

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 518-356-7581**, no later than **August 25, 2006 at 5:00 PM ET**. 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 **August 22, 2006**.

Contact Information

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

John Charlton
New York Independent System Operator
187 Wolf Road
Albany, NY 12205

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) 356-7581
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:

{to be determined}
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 not correct, and we will be contracting with you as an individual, please 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 Analyst, Auxiliary Market Products
New York Independent System Operator

Attachment A

Background

The NYISO administers a series of periodic 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 these NYISO-administered auctions, LSEs have the opportunity to purchase the UCAP necessary to meet the LSE UCAP obligations established by the ISO Services Tariff⁴, and to purchase or sell excess UCAP. ICAP suppliers have the opportunity to sell UCAP. The auctions are a six month Capability Period, or “strip,” auction, a monthly auction, and a Spot Market Auction (“SMA”) shortly before the beginning of each month.

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 ICAP Demand Curves are used in the SMAs. All LSEs participate in the ICAP SMA. In the SMA, the NYISO submits monthly bids on behalf of all LSEs at a price per megawatt (“MW”) determined by the applicable ICAP Demand Curve. The SMA sets the LSE UCAP obligation for each NYCA LSE. LSEs that are awarded UCAP in the ICAP SMA pay to the NYISO the product of the applicable market-clearing price (“MCP”) of UCAP determined in the ICAP SMA and the amount of UCAP purchased on behalf of the LSE. The NYISO pays ICAP suppliers that are selected to provide UCAP the applicable MCP per MW sold determined in the SMA, except in the case of UCAP associated with in-city generation that is subject to capacity market mitigation measures, which receives the lesser of the applicable MCP or the supplier's mitigated price cap⁵.

Prior to each SMA, LSEs certify all UCAP to be counted toward their respective minimum UCAP requirements (through bilateral transactions, self-supply or NYISO-administered auctions). Each entity that has previously committed to supply UCAP for the obligation procurement period also certifies to the NYISO the amount of UCAP it is using to meet those requirements. The NYISO receives offers from qualified ICAP suppliers for the SMA for any amount of qualified UCAP that they have not previously certified. The NYISO also receives offers for the SMA of UCAP from any LSE for any amount of qualified UCAP

⁴ ISO Market Administration and Control Area Services Tariff:
http://www.nyiso.com/public/documents/tariffs/market_services.jsp.

⁵ 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.

such LSE has in excess of its NYCA minimum UCAP requirement or locational minimum UCAP requirement, as applicable.

Three (3) ICAP demand curves are used in the SMAs: one to determine the LSE UCAP obligations for the New York City Locality, one to determine the LSE UCAP obligations for the Long Island Locality and one to determine the total LSE UCAP obligations for all LSEs. As discussed in the attached letter, each ICAP demand curve is established by (i) an Annual Reference Value at the locational minimum ICAP requirement or the NYCA minimum ICAP requirement, as applicable, at the localized, levelized cost of new entry in the New York City Locality, the Long Island Locality, or the rest of state, and (ii) and the appropriate zero crossing point. The Annual Reference Values are set equal to the localized, levelized cost of a peaking unit less the associated energy and ancillary services revenues for each Locality and the rest of state. The ICAP demand curves are to be determined for three (3) Capability Years beginning on May 1, 2008.

Attachment B

Nature of Contract

The request for proposal is for a service contract to conduct a comprehensive analysis of the parameters used as the basis to set the NYISO's ICAP demand curves described in Attachment A and to recommend the appropriate parameter values for the 2008/2009 capability year and the subsequent two (2) capability years.

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 firm, not-to-exceed price proposal to perform the required analysis and to prepare the final report.
 - The 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 firm, not-to-exceed price bid
 - Time and material rates must be submitted for all personnel proposed for the project
2. Corporate 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.

(language providing guidance if proposers want to team up to be added).

Performance Period

The period of performance shall originate on or about November 1, 2006 and may extend through November 2007.

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.