November 1, 2000

Stephen Fernands
Consultant
Customized Energy Solutions
AES NewEnergy Inc. representative

Following are recommended revisions to the 11/4/00 Draft. The revisions reflect the input of the Long Island Power Authority (LIPA) to the process. LIPA is generally supportive of the concept of an Emergency Curtailment Program at the NYISO, as it has some similarity to the Peak Load Reduction Program that has existed on Long Island for the last decade. In addition to the specific characteristics identified below, it is LIPA's position that such a program should be administratively simple and reflective of the needs of participating customers as well as the LSE's that serve those customers.

Overview

- The Emergency Curtailment program is a transaction between the NYISO and the LSEs. All notifications, arrangements and payments under the program are between these parties only. Nothing in this program is intended to limit the LSE's ability to schedule additional load responses from retail customers at the discretion of the LSE.
- LSEs are responsible for attracting customers to the program, making arrangements that are mutually satisfactory with the customers, and for all contacts with the NYISO. Under this program, there is no direct contact or relationship between the NYISO and the retail customers of the LSE.
- The program is voluntary (no penalties or availability/ capacity payments).
- To achieve simplicity of billing and performance, and maintain an orderly marketplace, the program restricts each LSE to representing only those customers whose load is served by that same LSE. Aggregation by third parties LSEs (even if they are NYISO-approved LSEs) is not allowed. NYISO-approved Aggregators (which do not actively serve the load of the retail customers) would be allowed to negotiate with the retail customers, and then transfer the customers to an approved LSE. Direct Retail Customers of the NYISO are eligible to

enroll themselves in this program.~~To participate in the program, End Use customers can be aggregated by 1) any NYISO LSE (not just their own), 2) NYISO-approved Aggregators (see below) or 3) Direct Customers of the ISO.~~

- The program will be limited to LSEs with full membership in the NYISO.~~Aggregators of customers can participate in this program through a new "membership light" program. (Depending on the ability of the Billing and Accounting group to manage this task. Otherwise the program will be limited to current NYISO members.)~~
- LSEs are responsible for ensuring that retail Customers must have appropriate interval metering (clarified in more detail below).
- The program is limited to periods where the ISO feels that an emergency will be imminently called. Furthermore, the NYISO will not call this program when cheaper resources are available from other resources (such as out-of-state) in that hour.
- The duration of curtailment during each day of emergency should be limited to the four-hour period between 2 PM and 6 PM.
- The price that the LSEs ~~customers~~ will be paid for load response is the ~~higher of $500 MWh or~~ LBMP in the zone where the load response is located. (LIPA would consider a different methodology where a fixed rate of $500/MWH would be paid for all load response, regardless of the LBMP, which may be higher or lower than $500/MWH in any given hour.)
- The quantity compensated will be the ~~for would equal~~ difference between the hourly load actually consumed and the load that would have been consumed absent the program. ~~before consumption and the consumption after response plus~~ NYISO will adjust its calculations of the reduction achieved by each LSE for the appropriate level of losses.

- Each LSE participant must aggregate a minimum of 100 kW under the program. LSEs may aggregate retail Customers of any size into this program, so long as each customer is provided with the appropriate interval metering capability. Retail customers should ~~participating in this program should have the expectation that they can reduce 100kw and~~ be able to respond within ~~two~~ four hour of the emergency notification from their LSE. NYISO should anticipate an additional hour or more, where practical, for the LSEs to contact the retail customers.
- LSEs can claim both capacity savings under Special Case Resources and energy reductions under this program for the same load response. However, LSEs may not claim energy market reductions under this program if the same load has been identified as energy reductions in other NYISO-related programs. ~~Customers already under a contract that limits their ability to curtail energy or under a contract that contains curtailment provisions that are in conflict with this program are prohibited from participating in this program.~~
- Costs should be included under Schedule 1 of the NYISO tariff, and charged to (wholesale) customers of the NYISO consistent with the existing rules for emergency purchases. ~~will be allocated to the zones where the resources are called on if there is a Local Maximum Generation Emergency while if there is a system wide emergency the costs would be allocated on a system wide basis.~~
- The Day Ahead Market is not included in this program but will be evaluated by the NYISO at some future date. However, NYISO should attempt to give more advance notice under the program, including Day Ahead notification if conditions warrant.
- If Special Case Resources are called on, the NYISO will activate this program at the same time. LSEs having Special Case Resources enrolled under this program will receive the same

energy payments for their SCR reductions as the other reductions in the program.

Additionally the NYISO may activate this program in the RT (with at least a 2 hour notice) without activating the Special Case Resources.

- **Detailed Description of Pilot Program**

The proposed Pilot Program is similar to the load response programs recently approved by the Commission in California Independent System Operator Corp., Docket No. ER00-2208, 91 FERC ¶ 61,256 (June 14, 2000) ("California") and New England Power Pool, 91 FERC ¶ 61,203 (2000) ("New England") and is modeled after the PJM Interconnection filing Docket No. ER00-3090-000. Moreover, as explained below, the Pilot Program fits within the category of filings the Commission encouraged in the Supplemental Notice. In that notice, the Commission "encourages ISOs to take advantage of on-site generation and load management programs to facilitate reliability." Supplemental Notice, slip op. at 4. The program also has many of the characteristics of the Peak Load Reduction Program which has been in place in the LIPA (Long Island) service area for at least 10 years.

Participant Qualification

To participate in the Pilot Program, an entity must be an LSE ~~or Aggregator that has contracted with loads~~ or Direct Customer of the NY ISO that either has the ability to completely disconnect from the local distribution system and supply required load via local generators[1] or to reduce a measurable and verifiable portion of its load (collectively "Pilot Participant"). Furthermore, the Pilot Participant (1) must be capable of reducing at least 100 kW of load; (2) have the ability to participate for a total of at least 10 hours over the operating period of the Pilot Program; (3) be capable of achieving full reduction within four ~~two~~ hours of receiving the ~~LSE, Aggregator or Direct Customer's~~ request to reduce; (4) meet certain metering requirements and; (5) be a member of the NY ISO as either an LSE~~, Aggregator~~ or Direct Customer. Additionally,

[1] These generators either can be non-synchronized to the grid or synchronized to the grid with no net export to the grid while serving load.

Special Case Resources as defined in Section 4.8 of the NYISO Installed Capacity Manual will be able to participate in this program.

The NYISO Pilot Program is not intended to interfere with existing contractual obligations under other load management programs. Accordingly, NYISO will confirm with the appropriate LSE and Electric Distribution Company that the load to be reduced is not under any other specific contractual obligation that would prevent participation in the Pilot Program. However, where such other obligation is not inconsistent with participation herein (such as LIPA's Peak Load Reduction Program), such participation will be permitted.

The entities participating in the Pilot Program will contribute to the reliable and efficient operation of the NYISO energy market during emergency conditions. Currently, retail customers (served by LSEs or recognized as DRCs) ~~Pilot Participants~~ with on-site generation can sell their generation at wholesale into the market, but only if they can readily synchronize with the grid. Alternatively, under the Pilot Program, such entities will now be able to reduce load and use their on-site generation to serve what otherwise would be NYISO load, thereby reducing the total NYISO load in emergencies. This has the same reliability impact as selling the generation into the NYISO energy market. Similarly, the Pilot Program enables other LSEs and DRCs ~~entities~~ that do not have generation~~, as well as load serving entities,~~ to manage their load and assist both the reliability and efficiency of the energy market. During an emergency, such LSEs and DRCs ~~entities~~ will be able to reduce their loads and be compensated rationally for such reduction at real-time, locational prices.

This program promotes the reliable and efficient working of the NYISO energy market that the Commission has approved. As the Commission has recently recognized on several

occasions, "[t]he ability to rely on demand side responses better allows the market to resolve demand and supply imbalances." New England, 91 FERC at 61,713; see also California, 91 FERC slip op. at 6; ISO New England, Inc., Docket Nos. EL00-62 et al., 91 FERC ¶ 61,311, slip op. at 15 (June 28, 2000) ("The proposals by ISO New England and the California ISO that we recently approved to pay customers for curtailing load are examples of how demand side of the market can be given an increased role . . . markets would benefit by more participation by the demand side.")

Because the Commission regulates the NYISO energy market under its jurisdiction over wholesale energy markets and its jurisdiction over the ISOs that operate them, the Commission has jurisdiction over all rules that affect or relate to the market. See 16 U.S.C. § 824d(c) ("[E]very public utility shall file with the Commission . . . all rates and charges for any transmission or sale subject to the jurisdiction of the Commission, and the classifications, practices, and regulations affecting such rates and charges together with all contracts which in any manner affect or relate to such rates, charges, classifications, and services.") (emphasis added). Because the Pilot Program "affects" and "relates to" the already approved wholesale rates, terms, and conditions in the energy market, the Pilot Program is also subject to the Commission's jurisdiction. 16 U.S.C. § 824c. Particularly given the limited scope (emergencies only) and duration (through December 31, 2001) of the Pilot Program, the Commission can and should accept the Pilot Program as an amendment to the appropriate NYISO agreements, just as it accepted the similar program in the case of the California ISO. See California Independent System Operator Corp., 91 FERC ¶ 61,256 (2000) (approving a trial demand relief program for individuals or groups willing to reduce their load in order to support the reliability of the system this summer); see also Transmission Access Policy Study Group v. FERC, 2000 U.S. App.

LEXIS 15362 (D.C. Cir. June 30, 2000) (holding that the Commission may address retail stranded costs because it "is the byproduct of a legitimate exercise of FERC's power" to regulate interstate transmission).

Metering Requirements

Pilot Program participants must have metering equipment that provides integrated hourly kWh values for market settlement purposes. These requirements can be met by using either: (1) metering capable of recording integrated hourly values for the actual net generation; or (2) metering that provides actual load change by measuring actual load with and without ~~before and after~~ the reduction request, such that there is a valid integrated hourly value for the hour not subject ~~prior~~ to the event and each hour during the event. Through this metering, the amount of load reduction will be determined either by measuring, if metered, the actual net generation (where there is on-site generation) or by measuring the customer load in megawatts with and without ~~before and after~~ the reduction request. In the absence of meters capable of recording actual net generation, the metering will provide an integrated hourly load value for the hour not subject ~~prior~~ to the event and each hour during the event. Pilot Program participants will be compensated for the difference between the amount of their load in the corresponding hour on the maximum day that was not subject ~~in the hour prior~~ to the event and in each hour during the event. The loads in each hour on the maximum day not subject to an event may be adjusted upward if weather conditions indicate that the calculated load reduction has been understated.

Implementation

The NYISO will implement the Pilot program as part of its emergency procedures either coincident with the activation of special case resources, if the emergency is foreseeable on a day ahead basis, or on a real time basis with a two hour advanced notice.

It is generally intended that NYISO will rely on the Pilot Program load reductions before purchasing emergency energy from market participants and neighboring control areas, unless economic conditions are such that emergency power is available at less cost than the Pilot program. See California, slip op. at 2. By paying the prevailing LBMP for load reductions as proposed (see below), NYISO will avoid potentially higher cost purchases of emergency energy, to the benefit of the efficient, market-based operation of the energy market during emergencies.[2]

Verification

All load reduction metering data should ~~must~~ be submitted to the NYISO within 45 days of the load reduction event. Meter readings must be provided for ~~the~~ each hour on the maximum day not subject ~~prior~~ to the event, as well as every hour during the event. Failure to so provide such data will result in a Pilot Participant not receiving payment for its participation in the Pilot Program, unless other situations at the NYISO have delayed the completion of the billing process. In cases of billing delays at the NYISO, payments to Pilot Participants will be based on the latest information provided to the NYISO prior to the completion of the billing process. The Pilot Participant (LSE or DRC) will communicate the meter readings directly to the NYISO. The NYISO will forward the file to the appropriate Electric Distribution Company for optional review. In addition, all load reduction data are subject to NYISO market monitoring unit audit.

Market Settlements

Under the Pilot Program, reimbursement for reducing load is based on the kWh of relief provided. NYISO will pay the ~~higher of~~ the appropriate real-time zonal locational marginal

---

[2] Similar to California, the Pilot Program load reductions may be implemented prior to any ALM or other load reduction programs. See California, slip op. at 2-3.

price ("LMBP")[3] ~~or $500/MWh~~ to the Pilot Participant that nominates the load. NYISO's proposed payments for reducing load are in line with those approved in New England, 91 FERC at 61,711. In that order, the Commission approved payments of $500, $750, and $1,000 per MWh interrupted for load curtailments to fill blocks of interruptible load. Id.

~~Where the cause of emergency is a statewide event a~~All costs incurred under the Pilot Program will be allocated to purchasers of energy from the NYISO energy market, in an identifiable charge in a proportion to their net purchases from the energy market during the hour. This pricing methodology is consistent with NYISO's current method for allocating costs during emergency conditions under the NYISO Tariff. Under emergency conditions, costs for emergency purchases in excess of LBMP are allocated among NYISO members in proportion to their net purchases from the NYISO energy market during the hour. Similarly, the costs of the Pilot Program are allocated to NYISO members in proportion to their net purchases from the NYISO energy market during the hour. This is appropriate in that the load reductions under the Pilot Program are in lieu of making more expensive emergency purchases. As in California, 91 FERC slip op. at 8, the allocation methodology for the Pilot Program "simply tracks" the existing method for allocating costs relating to emergency conditions already established under the Operating Agreement. ~~Similarly, if this program is activated by the NYISO to respond to a Zonal Maximum Generation Emergency the funds will be charged to all LSEs in the Zone.~~

Effective Date

The start date of the program is proposed to be May 1, 2001 and the termination of the program on December 31, 2001.

---

[3] Because individual loads are not currently mapped to individual NYISO buses, the load-weighted average LBMP for a transmission zone will be applied.