

SCHEDULE 3

CHARGES FOR REGULATION SERVICE

Regulation Service is necessary to provide for the continuous balance of resources (generation and interchange) with Load. Regulation Service is accomplished by committing on-line Generators whose output is raised or lowered (predominantly through the use of automatic generating control equipment) as necessary to follow the moment-by-moment changes in Load. The obligation to maintain this balance between Resources and Load lies with the ISO. The ISO must offer this service when the Transmission Service is used to serve Load within the NYCA. The Transmission Customer must either purchase this service from the ISO or make alternative comparable arrangements to satisfy its Regulation Service obligation. The charges for Regulation Service are set forth below.

1.0 Customer Obligations and Responsibilities

Transmission Customers and LSEs shall either purchase this service from the ISO,

Self-Supply or purchase this service from alternate Suppliers.

2.0 Charges to Transmission Customers

(a) For all Actual Energy Withdrawals for Load located in the NYCA, the LSE is considered the Transmission Customer taking service under Parts II, III and IV of this Tariff for purposes of this Rate Schedule and shall pay a charge for this service on all Transmission Service in accordance with this Tariff and purchases in the LBMP Markets in accordance with the ISO Services Tariff, when such service serves Load located in the NYCA.

(b) The ISO shall charge Transmission Customers and LSEs serving Load in the NYCA for Regulation and Frequency Response for each hour. The ISO shall charge Transmission Customers or LSEs taking service under Part IV of the ISO OATT to supply Station Power as third-party providers for Regulation and Frequency Response for each day. The charge shall be calculated as the Regulation and Frequency Response Rate, determined as an hourly or a daily rate as appropriate, multiplied by the LSE's or Transmission Customer's Load for the hour or by the Transmission Customers or LSEs withdrawals to provide Station Power as a third party provider for the day. The ISO shall calculate the Regulation and Frequency Response Rate, for an hour or for a day as appropriate, as follows:

$$\text{Rate}_{\text{RFR}} = \frac{(\text{Supplier Payment} - \text{Supplier Charge} - \text{Generator Charge})}{\text{Load}_{\text{NYCA}}}$$

where: Rate_{RFR} is the hourly or daily rate for Regulation and Frequency Response;

Supplier Payment is the aggregate of all Day-Ahead Market and Real-Time Market payments (including Regulation Revenue Adjustment Payments) made by the ISO to all Suppliers of this Regulation Service as described in Sections 4.0, 5.0, 6.0 and 7.0 of Rate Schedule 3 of the ISO Services Tariff for the hour or for the day;

Supplier Charge is the aggregate of: (i) charges paid by all Suppliers for poor Regulation Service performance, as described in Section 5.4 and, if its provisions are re-instituted, Section 8.0 of Rate Schedule 3 of the ISO Services Tariff; (ii) all real-time imbalance charges paid by Suppliers under Section 5.2(a) of that Rate Schedule; and (iii) all Regulation Revenue Adjustment Charges assessed pursuant to Section 6.0 of that Rate Schedule for the hour or for the day.

Generator Charge is the aggregate of charges paid by all Generators that do not provide Regulation Service and do not follow their RTD Base Points sufficiently accurately, as described in Rate Schedule 3-A of the ISO Services Tariff for the hour or for the day; and

Load_{NYCA} is the total Load in the NYCA for the hour or for the day, as appropriate.

(c) In any hour where the charges paid by Generators and Suppliers, as described in the ISO Services Tariff, exceed the payments made to Suppliers of this service (i) the ISO shall not assess a charge against any LSE, and (ii) the surplus will be applied to the following hour as an offset to subsequent payments.

(d) Charges to be paid by Transmission Customers for this service shall be aggregated to render a monthly charge. The ISO shall credit charges paid for Regulation and Frequency Response by Transmission Customers or LSEs taking service under Part IV of the ISO OATT to supply Station Power as third-party providers for the day on a Load ratio share basis to Transmission Customers and LSEs serving Load in the NYCA for the day.

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SCHEDULE 5

CHARGES FOR OPERATING RESERVE SERVICE

The ISO must offer this service when Transmission Service is used to serve Load within the NYCA or to support Export Transactions from the NYCA. The Transmission Customer must either purchase this service from the ISO or make alternative comparable arrangements to satisfy its Operating Reserve obligation. The charges for Operating Reserve Service are set forth below. Operating Reserves requirements are defined by the ISO as is described in Rate Schedule 4 of the ISO Services Tariff, in accordance with the Reliability Rules and other applicable reliability standards. The ISO shall monitor the level of Operating Reserves utilizing the security monitoring program. Transmission Customers, Transmission Owners and Suppliers shall supply all data required for the proper operation of the security monitoring program.

The NYSRC shall be responsible for evaluating the adequacy of the criteria for

determining the required level of Operating Reserves and shall modify such criteria from time to time as required.

The ISO shall establish additional categories of Operating Reserves if necessary to ensure reliability.

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1.0 General Requirements

The ISO shall select Operating Reserves Suppliers that are properly located electrically so that all Operating Reserves requirements, as defined in Rate Schedule 4 of the ISO Services Tariff are satisfied and so that transmission Constraints resulting from either the commitment or dispatch of Suppliers do not limit the ability to deliver Energy to Loads in the case of a Contingency. The ISO will ensure that Suppliers that are compensated for using Capacity to provide one Operating Reserve product are not simultaneously compensated for providing another Operating Reserve product, or Regulation Service, using the same Capacity (consistent with the additive nature of the market clearing price calculation formulae in Sections 5.1 and 6.1 of Rate Schedule 4 of this ISO Services Tariff).

2.0 Operating Reserves Charges

Each Transmission Customer engaging in an Export and each LSE shall pay an hourly charge equal to the product of (A) cost to the ISO of providing all Operating Reserves a given Dispatch Day; and (B) the ratio of (i) the LSE's Load or the Transmission Customer's scheduled Export to (ii) the sum of all Load in the NYCA and all scheduled Exports during that Dispatch Day. The cost to the ISO of providing Operating Reserves in each hour will equal the total amount that the ISO pays to procure Operating Reserves on behalf of the market in the Day-Ahead Market and the Real-Time Market, less payments collected from entities that are scheduled to provide less Operating Reserves in the Real-Time Market than in the Day-Ahead Market during that hour, under Rate Schedule 4 of the ISO Services Tariff. The ISO shall aggregate the hourly charges to produce a total charge for a given Dispatch Day.

Transmission Customers taking service under Part IV of the OATT to supply Station Power as third-party providers shall pay to the ISO a daily charge for this service equal to the product of (A) the cost to the ISO of providing all Operating Reserves for the day less any

revenues from penalties collected during the day and (B) the ratio of (i) the Transmission Customer's Station Power supplied under Part IV of the OATT for the day to (ii) the sum of all Load in the NYCA and all scheduled Exports for the day. The ISO shall credit the daily charges paid for Operating Reserves by Transmission Customers taking service under Part IV of the OATT to supply Station Power as third-party providers on a Load ratio share basis to the Load in the NYCA for that day and all scheduled Exports for the day.

3.0 Self-Supply

Transmission Customers, including LSEs, may provide for Self-Supply of Operating Reserve by placing generation facilities supplying any one of the Operating Reserves under ISO Operational Control. The generation facilities must meet ISO rules for acceptability. The amount that any such customer will be charged for Operating Reserves Services will be reduced by the market value of the services provided by the specified generation facilities as determined in the ISO Services Tariff. In addition, Transmission Customers, including LSEs, may enter into Day-Ahead bilateral financial transactions, *e.g.*, contracts-for-differences, in order to hedge against price volatility in the Operating Reserves markets.