

SCHEDULE 3

CHARGES FOR REGULATION SERVICE

Regulation Service is necessary to provide for the continuous balance of resources (generation and interchange) with Load ~~and for maintaining scheduled Interconnection frequency at sixty cycles per second (60 Hz).~~ 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~~ 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,

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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 calculate the charge for each hour as follows: $LSE\ Charge = (Supplier\ Payment - Supplier\ Charge - Generator\ Charge) \times LRS_{LSE}$

where:

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 Regulation Service as described in Sections 4.0, 5.0, 6.0 and 7.0 of Rate Schedule 3 of the ISO Services Tariff.

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, Rate Schedule 3; (ii) all real-time imbalance charges paid by Suppliers under Section 5.2(a) of that Rate Schedule; and all (iii) Regulation Revenue Adjustment Charges assessed pursuant to Section 6.0 of that Rate Schedule.

Generator Charge is the aggregate of charges paid by all Generators that do not provide

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Regulation Service and do not follow their RTD Base Points sufficiently accurately, as described in Rate Schedule 3-A of the ISO Services Tariff; and

LRS_{LSE} is each Transmission Customer's share of the Load in the NYCA.

(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.

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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 established by using the Operating Reserve Demand Curves described in Rate Schedule 4 of this 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

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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 ensure that providers of Operating Reserves are properly located electrically so that transmission Constraints resulting from either the commitment or dispatch of ~~Generators~~Suppliers do not limit the ability to deliver Energy to Loads in the case of a Contingency. The ISO will ensure that Suppliers that ~~counted~~ 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~~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 a ~~monthly~~ Operating Reserves charge equal to its share of the total Day Ahead Market and Real Time Market Operating Reserves charges for the month. The ISO shall calculate, and the LSE or Transmission Customer shall pay, an ~~hourly~~daily charge equal to the product of (A) cost to the ISO of providing all Operating Reserves; 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 hour. The cost to the ISO of providing Operating Reserves in each day 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 day, under Rate Schedule 4 of ~~this~~the ISO Services Tariff.

3.0 Self-Supply

Transmission Customers, including LSEs, may provide for Self-Supply of Operating

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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~~bilateral financial transactions, *e.g.*, contracts-for-differences, in order to hedge against price volatility in the Operating Reserves markets.

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