



October 27, 2014

VIA ELECTRONIC FILING

The Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: ISO New England Inc. and New England Power Pool,
Docket No. ER15- -000, Various Revisions to Forward Capacity Market Rules**

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act (“FPA”),¹ ISO New England Inc. (the “ISO”) joined by the New England Power Pool (“NEPOOL”) Participants Committee² (together, the “Filing Parties”), hereby electronically submits various revisions to the rules governing the Forward Capacity Market (“FCM”).³

As more fully described in Section III of this filing letter and in the joint testimony of Christopher Parent and Ryan McCarthy (the “Parent/McCarthy Testimony”), Manager and Lead Analyst in the Market Development Department at the ISO, respectively (sponsored solely by the ISO), the revisions to the FCM rules (the “Rule Changes”): (1) replace the term “Load Zone” with the term “Capacity Zone” where appropriate to conform Section III.13 with the current Capacity Zone modeling rules; (2) update the table of municipal utility ownership shares of Pool Planned Units contained in Section III.13.7.3.3.6 to recognize that additional capacity zones may be modeled

¹ 16 U.S.C. § 824d (2006 and Supp. II 2009).

² Capitalized terms used but not otherwise defined in this filing have the meanings ascribed thereto in the ISO’s Transmission, Markets and Services Tariff (the “Tariff”), the Second Restated New England Power Pool Agreement, and the Participants Agreement. Section III of the Tariff is Market Rule 1.

³ Under New England’s Regional Transmission Organization (“RTO”) arrangements, the rights to make this filing of changes to the Market Rule under Section 205 of the FPA are the ISO’s. NEPOOL, which pursuant to the Participants Agreement provides the sole Participant Processes for advisory voting on ISO matters, supported the changes reflected in this filing and, accordingly, joins in this Section 205 filing.

as import-constrained under the current Capacity Zone modeling rules; and (3) modify certain provisions related to Capacity Supply Obligation Bilaterals (“CSO Bilaterals”).

I. DESCRIPTION OF THE FILING PARTIES AND COMMUNICATIONS

The ISO is the private, non-profit entity that serves as the RTO for New England. The ISO operates the New England bulk power system and administers New England’s organized wholesale electricity market pursuant to the Tariff and the Transmission Operating Agreement with the New England Participating Transmission Owners (“TOA”). In its capacity as an RTO, the ISO has the responsibility to protect the short-term reliability of the New England Control Area and to operate the system according to reliability standards established by the Northeast Power Coordinating Council and the North American Electric Reliability Corporation (“NERC”).

NEPOOL is a voluntary association organized in 1971 pursuant to the New England Power Pool Agreement, and it has grown to include more than 430 members. The Participants include all of the electric utilities rendering or receiving service under the Tariff, as well as independent power generators, marketers, load aggregators, brokers, consumer-owned utility systems, end users, developers, demand resource providers, and a merchant transmission provider. Pursuant to revised governance provisions accepted by the Federal Energy Regulatory Commission (“FERC” or “Commission”),⁴ the Participants act through the NEPOOL Participants Committee. The Participants Committee is authorized by Section 6.1 of the Second Restated NEPOOL Agreement and Section 8.1.3(c) of the Participants Agreement to represent NEPOOL in proceedings before the Commission. Pursuant to Section 2.2 of the Participants Agreement, “NEPOOL provide[s] the sole Participant Processes for advisory voting on ISO matters and the selection of ISO Board members, except for input from state regulatory authorities and as otherwise may be provided in the Tariff, TOA and the Market Participant Services Agreement included in the Tariff.”

Correspondence and communications in this proceeding should be addressed to:

⁴ *ISO New England Inc.*, 109 FERC ¶ 61,147 (2004).

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II. STANDARD OF REVIEW

The Rule Changes are submitted pursuant to Section 205 of the FPA, which “gives a utility the right to file rates and terms for services rendered with its assets.”⁶ Under Section 205, the Commission “plays ‘an essentially passive and reactive’ role”⁷ whereby it “can reject [a filing] only if it finds that the changes proposed by the public utility are not ‘just and reasonable.’”⁸ The Commission limits this inquiry “into whether the rates proposed by a utility are reasonable – and [this inquiry does not] extend to determining whether a proposed rate schedule is more or less

⁵ The Filing Parties respectfully request a waiver of Section 385.203(b)(3) of the Commission’s regulations to allow the inclusion of more than two persons on the service list in this proceeding.

⁶ *Atlantic City Elec. Co. v. FERC*, 295 F.3d 1, 9 (D.C. Cir. 2002).

⁷ *Id.* at 10 (quoting *City of Winfield v. FERC*, 744 F.2d 871, 876 (D.C. Cir. 1984)).

⁸ *Id.* at 9.

reasonable than alternative rate designs.”⁹ The Rule Changes filed herein “need not be the only reasonable methodology, or even the most accurate.”¹⁰ As a result, even if an intervenor or the Commission develops an alternate proposal, the Commission must accept this Section 205 filing if it is just and reasonable.¹¹

III. DESCRIPTION OF RULES CHANGES

A. Replacing the Term “Load Zone” with the Term “Capacity Zone”

On January 31, 2014, in compliance with the Commission’s Order in Docket No. ER12-953-002,¹² the ISO submitted a filing in which it proposed a two-step process to determine whether or not to model a zone for an upcoming Forward Capacity Auction (the “Capacity Zones Filing”). To implement Step One, the ISO incorporated a transmission transfer capability assessment (pursuant to NERC Standard FAC-013-2) into Section 3.1 of Attachment K to the Tariff. Under Step One, the ISO (with input from its stakeholders) will identify and evaluate potential zonal boundaries and associated transfer capabilities.¹³ To implement Step Two, the ISO revised Section III.12 of the Tariff. Under Step Two, each year, the ISO will apply the results of the transfer capability assessment conducted in Step One to objective criteria (or triggers) in order to determine whether a zone should be modeled. With these triggers, a zone can be modeled as either import- or export-constrained.¹⁴ The Commission accepted the Capacity Zones Filing to become effective on April 28, 2014.¹⁵

The Rule Changes conform Section III.13 to the changes made in Section III.12 in the Capacity Zones Filing by replacing the term “Load Zone” with the term “Capacity Zone” where appropriate. Specifically, the current version of Section III.13.2.5.2.5 provides that a de-list bid or Non-Price Retirement Request (“NPRR”) will not be rejected solely on the basis that acceptance of

⁹ *Cities of Bethany, Bushnell et al. v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir.), *cert. denied*, 469 U.S. 917 (1984) (“*Cities of Bethany*”); *see also ISO New England Inc.*, 114 FERC ¶ 61,315 at P 33 and n.35 (2005) (citing *Pub. Serv. Co. of New Mexico v. FERC*, 832 F.2d 1201, 1211 (10th Cir. 1987) and *Cities of Bethany* at 1136.).

¹⁰ *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) (citing *Cities of Bethany* at 1136).

¹¹ *Cf. Southern California Edison Co., et al.*, 73 FERC ¶ 61,219 at 61,608 n.73 (1995) (“Having found the Plan to be just and reasonable, there is no need to consider in any detail the alternative plans proposed by the Joint Protesters.”) (citing *Cities of Bethany* at 1136.).

¹² *ISO New England Inc.*, 143 FERC ¶ 61,198 (2013).

¹³ *See ISO New England Inc.*, 147 FERC ¶ 61,071 (2014) at P 11.

¹⁴ *See id.* at P 12.

¹⁵ *Id.* at P1.

the NPRR or de-list bid may result in the procurement of less capacity than the Local Sourcing Requirement for Load Zones or aggregations of Load Zones considered for modeling in a Forward Capacity Auction. In order to conform this provision to the rules filed in the Capacity Zones Filing, the Rule Changes replace the words “Load Zones or aggregations of Load Zones considered for modeling in a Forward Capacity Auction” with the words “Capacity Zones.” The ISO has determined that this is the only instance where “Load Zone” needs to be replaced with “Capacity Zone” in Section III.13 to conform that section to the current Capacity Zone modeling rules in Section III.12.

B. Updating the Table of Municipal Utility Ownership Shares of Pool Planned Units Contained in Section III.13.7.3.3.6

Section III.13.7.3.3.6 of the Tariff provides that, in import-constrained Capacity Zones, in recognition of longstanding life of unit contracts, the municipal utility entitlement holder of a resource constructed as a Pool-Planned Unit will receive an initial allocation of Capacity Transfer Rights equal to the applicable seasonal claimed capability of the ownership entitlements in such unit. Municipal utility entitlements are set as shown in the table contained in Section III.13.7.3.3.6 and are not transferrable.

Under the Capacity Zone modeling rules that were in effect at the time when the table was developed, the only original municipal utility entitlement holders of resources constructed as Pool-Planned Units in a zone that could be modeled as import-constrained, were those located in NEMA/Boston. For that reason, the table only included the original municipal utility entitlement holders of resources constructed as Pool-Planned Units in that Capacity Zone. However, under the current Capacity Zone modeling rules (which were filed in the Capacity Zones Filing and accepted by the Commission as explained above), Capacity Zone formation will be dynamic. This means that other import-constrained Capacity Zones may be modeled. Accordingly, the ISO is updating the table by extending the current design of Section III.13.7.3.3.6 to include all initial municipal utility entitlement holders of resources constructed as Pool-Planned Units. Specifically, in accordance with the current ISO records, the Rule Changes add the following municipal utility entitlement holders, along with the percentages of their entitlements, to the table: Ashburnham, Boylston, Braintree, Groton, Hingham, Holden, Holyoke, Hudson, Hull, Littleton, Mansfield, Middleborough, North Attleborough, Pascoag, Paxton, Shrewsbury, South Hadley, Sterling, Taunton, Templeton, Vermont Public Power Supply Authority, West Boylston, and Westfield.

C. Modifying Certain Provisions Related to CSO Bilaterals

Currently, Section III.13.5.1 (f) of the Tariff requires that the Capacity Transferring Resource and the Capacity Acquiring Resource that are parties to a Capacity Supply Obligation Bilateral be located in the same Capacity Zone, or that the path from the Capacity Transferring Resource to the Capacity Acquiring Resource flow across adjacent Capacity Zones in the direction of the modeled interface constraint(s). Similarly, for Import Capacity Resources, Section III.13.5.1 (g) requires that the Capacity Acquiring Resource and the Capacity Transferring Resource be on the same external interface.

Market Participants expressed interest in adding flexibility in the rules for CSO Bilaterals to allow CSO Bilaterals across Capacity Zones and external interfaces, limited by the Local Sourcing Requirements, Maximum Capacity Limits and external capacity transfer limits. As explained in the Parent/McCarthy Testimony, the ISO determined that allowing bilateral trades across Capacity Zones and External Interfaces can be implemented within the current vertical demand curve design because the vertical demand curve offers a defined quantity threshold that can govern CSO Bilateral acceptance. Accordingly, the ISO is submitting the Rule Changes to provide additional flexibility in the trading of Capacity Supply Obligations through CSO Bilaterals.

For resources other than Import Capacity Resources, the Rule Changes add the desired flexibility in the rules for CSO Bilaterals by deleting Section III.13.5.1 (f) of the Tariff. For Import Capacity Resources, the additional flexibility can be implemented starting on April 1, 2015.¹⁶ For that reason, Section III.13.5.1 (g) has been modified to state that “[p]rior to April 1, 2015, if the Capacity Acquiring Resource is an Import Capacity Resource, then the Capacity Transferring Resource must be an Import Capacity Resource on the same external interface.” (Emphasis added). On April 1, 2015, Section III.13.5.1 (g) will sunset and, starting on that date, the restriction in that Section will no longer apply. Accordingly, Import Capacity Resources, like other resources, will be able to enter into CSO Bilaterals across Capacity Zones and external interfaces starting on April 1, 2015.

In addition, the Rule Changes in Section III.13.5.1.1.3 also allow netting of annual CSO Bilaterals within the ISO’s reliability review process. Specifically, language is being added in that section to provide that the ISO will review the net impact of all annual CSO Bilaterals to ensure that the regional and local adequacy and other reliability needs are maintained in the Capacity Transferring Resource’s Capacity Zone and the Capacity Acquiring Resource’s Capacity Zone or, in the case of Import Capacity Resources, across the external interface. If after its review of the net impact of all annual CSO Bilaterals the ISO determines that the regional and local adequacy and other reliability needs are not maintained, the ISO will approve or reject CSO Bilaterals based on the order in which they are confirmed.¹⁷ Hence, the priority to transfer capacity before CSO Bilaterals are constrained by adequacy and reliability limits will be given starting with the earliest confirmed CSO Bilateral based upon its confirmation timestamp.

IV. STAKEHOLDER PROCESS

The Rule Changes filed herein were considered through the complete NEPOOL Participant Processes and received the unanimous support of the NEPOOL Participants Committee. At its

¹⁶ The rest of the Rule Changes can be implemented on the requested effective date, which is described in Section V of this transmittal letter.

¹⁷ The current rule for monthly CSO Bilaterals is that they will be approved based on the order in which they are confirmed. The Rule Changes do not modify that rule and, to make that clear, the words “and for all monthly Capacity Supply Obligation Bilaterals” are being added in Section III.13.5.1.1.3.

September 3-4, 2014 meeting, the NEPOOL Markets Committee unanimously voted to recommend NEPOOL Participants Committee support for the Rule Changes based on a show of hands. The Participants Committee, at its October 3, 2014 meeting, supported the Rule Changes as part of its Consent Agenda.¹⁸

V. REQUESTED EFFECTIVE DATE

The Filing Parties request that the Commission permit the Rule Changes that are being submitted in this filing to become effective without suspension or hearing on December 26, 2014.

VI. ADDITIONAL SUPPORTING INFORMATION

Section 35.13 of the Commission's regulations generally requires public utilities to file certain cost and other information related to an examination of traditional cost-of-service rates.¹⁹ However, the Rule Changes are associated with the FCM and are not traditional "rates." Further, the ISO is not a traditional investor-owned utility. Therefore, to the extent necessary, the Filing Parties request waiver of Section 35.13 of the Commission's regulations. Notwithstanding their request for waiver, the Filing Parties submit the additional information enumerated below in substantial compliance with relevant provisions of Section 35.13.

35.13(b)(1) – Materials included herewith are as follows:

- ♦ This transmittal letter;
- ♦ Marked sections of the Tariff reflecting the Rule Changes effected by this filing;
- ♦ Clean sections of the Tariff incorporating the Rule Changes;
- ♦ Joint Parent/McCarthy Testimony, solely sponsored by the ISO; and
- ♦ List of governors, utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont, and others to which a copy of this filing has been e-mailed.

¹⁸ The Consent Agenda for a Participants Committee meeting, similar to the Consent Agenda for a Commission open meeting, is a group of actions (each recommended by a Technical Committee or subgroup established by the Participants Committee) to be taken by the Participants Committee through approval of a single motion at a meeting. All recommendations voted on as part of the Consent Agenda are deemed to have been voted on individually and independently. In this case, the Participants Committee's approval of the October 3, 2014 Consent Agenda included its support for the Rule Changes filed herein. Although there were oppositions recorded when the October 3 Consent Agenda was approved, those oppositions were specifically attributed to another Consent Agenda item and not to the Consent Agenda item supporting the Rule Changes filed herein.

¹⁹ 18 C.F.R. § 35.13 (2014).

35.13(b)(2) – As noted above, the Filing Parties request that the Rule Changes submitted with this filing become effective on December 26, 2014.

35.13(b)(3) - Pursuant to Section 17.11(e) of the Participants Agreement, Governance Participants are being served electronically rather than by paper copy. The names and addresses of the Governance Participants are posted on the ISO's website at http://www.iso-ne.com/regulatory/ferc/nepool/gov_ptcpnts_eserved.pdf. A copy of this transmittal letter and the accompanying materials have also been sent electronically to the governors and electric utility regulatory agencies for the six New England states that comprise the New England Control Area, to the New England Conference of Public Utility Commissioners, and to the Executive Director of the New England States Committee on Electricity. In accordance with Commission rules and practice, there is no need for the Governance Participants or the other entities described above to be included on the Commission's official service list in the captioned proceeding unless such entities become intervenors in this proceeding.

35.13(b)(4) - A description of the materials submitted pursuant to this filing is contained in Section VI of this transmittal letter.

35.13(b)(5) - The reasons for this filing are discussed in Section III of this transmittal letter.

35.13(b)(6) - The ISO's approval of these Rule Changes is evidenced by this filing. These Rule Changes reflect the results of the Participant Processes required by the Participants Agreement and reflect the support of the Participants Committee.

35.13(b)(7) - The Filing Parties have no knowledge of any relevant expenses or costs of service that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

VII. CONCLUSION

For the foregoing reasons, the Filing Parties respectfully request that the Commission approve the Rule Changes as described herein without condition or change.

Respectfully submitted,

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III.13.2. Annual Forward Capacity Auction.

III.13.2.1. Timing of Annual Forward Capacity Auctions.

Except with respect to the first six Forward Capacity Auctions (as described in Section III.13.1.10), each Forward Capacity Auction will be conducted beginning on the first Monday in the February that is approximately three years and four months before the beginning of the associated Capacity Commitment Period (unless, no later than the immediately preceding December 1, an alternative date is announced by the ISO), or, where exigent circumstances prevent the start of the Forward Capacity Auction at that time, as soon as possible thereafter.

III.13.2.2. Amount of Capacity Cleared in Each Forward Capacity Auction.

The total amount of capacity cleared in each Forward Capacity Auction shall be determined using the System-Wide Capacity Demand Curve pursuant to Section III.13.2.3.3.

The System-Wide Capacity Demand Curve is defined as follows:

- (a) For quantities less than the Installed Capacity Requirement (net of HQICCs) at 0.200 LOLE, the price is max [1.6 multiplied by Net CONE, CONE];
- (b) For quantities equal to or greater than the Installed Capacity Requirement (net of HQICCs) at 0.200 LOLE, but less than 0.011 LOLE, the price will be determined by a straight line between the price at 0.200 LOLE (which shall be max [1.6 multiplied by Net CONE, CONE] and the price at 0.011 LOLE (which shall be zero);
- (c) For quantities equal to or greater than the Installed Capacity Requirement (net of HQICCs) at 0.011 LOLE, the price is zero.

III.13.2.3. Conduct of the Forward Capacity Auction.

The Forward Capacity Auction shall be a descending clock auction, which will determine, subject to the provisions of Section III.13.2.7, the Capacity Clearing Price for each Capacity Zone modeled in that Forward Capacity Auction pursuant to Section III.12.4, and the Capacity Clearing Price for certain offers from New Import Capacity Resources and Existing Import Capacity Resources pursuant to Section III.13.2.3.3(d). The Forward Capacity Auction shall determine the outcome of all offers and bids accepted during the qualification process and submitted during the auction. Each Forward Capacity Auction shall be conducted as a series of rounds, which shall continue (for up to five consecutive Business Days, with up to eight rounds per day, absent extraordinary circumstances) until the Forward Capacity Auction is concluded for all modeled Capacity Zones in accordance with the provisions of Section III.13.2.3.3. Each

round of the Forward Capacity Auction shall consist of the following steps, which shall be completed simultaneously for each Capacity Zone included in the round:

III.13.2.3.1. Step 1: Announcement of Start-of-Round Price and End-of-Round Price.

For each round, the auctioneer shall announce a single Start-of-Round Price (the highest price associated with a round of the Forward Capacity Auction) and a single (lower) End-of-Round Price (the lowest price associated with a round of the Forward Capacity Auction). In the first round, the Start-of-Round Price shall equal the Forward Capacity Auction Starting Price for all modeled Capacity Zones. In each round after the first round, the Start-of-Round Price shall equal the End-of-Round Price from the previous round.

III.13.2.3.2. Step 2: Compilation of Offers and Bids.

The auctioneer shall compile all of the offers and bids for that round, as follows:

(a) Offers from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources.

(i) The Project Sponsor for any New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource accepted in the qualification process for participation in the Forward Capacity Auction may submit an offer (a “New Capacity Offer”) indicating the quantity of capacity that the Project Sponsor would commit to provide from the resource (in the associated modeled Capacity Zone during the qualification process) during the Capacity Commitment Period at that round’s prices. A New Capacity Offer shall be defined by the submission of one to five prices, each strictly less than the Start-of-Round Price but greater than or equal to the End-of-Round Price, and an associated quantity in the associated modeled Capacity Zone. Each price shall be expressed in units of dollars per kilowatt-month to an accuracy of at most three digits to the right of the decimal point, and each quantity shall be expressed in units of MWs to an accuracy of at most three digits to the right of the decimal point. Such a New Capacity Offer shall imply a supply curve indicating quantities offered at all of that round’s prices, pursuant to the convention of Section III.13.2.3.2(a)(iii).

(ii) If the Project Sponsor of a New Generating Capacity Resource, a New Import Capacity Resource, or New Demand Resource elects to offer in a Forward Capacity Auction, the Project Sponsor must offer the resource’s full FCA Qualified Capacity at the Forward Capacity Auction

Starting Price in the first round of the auction. A New Capacity Offer for a resource may in no event be for greater capacity than the resource's full FCA Qualified Capacity at any price. A New Capacity Offer for a resource may not be for less capacity than the resource's Economic Minimum Limit at any price, except where the New Capacity Offer is for a capacity quantity of zero.

(iii) Let the Start-of-Round Price and End-of-Round Price for a given round be P_S and P_E , respectively. Let the m prices ($1 \leq m \leq 5$) submitted by a Project Sponsor for a modeled Capacity Zone be p_1, p_2, \dots, p_m , where $P_S > p_1 > p_2 > \dots > p_m \geq P_E$, and let the associated quantities submitted for a New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource be q_1, q_2, \dots, q_m . Then the Project Sponsor's supply curve, for all prices strictly less than P_S but greater than or equal to P_E , shall be taken to be:

$$S(p) = \begin{cases} q_0, & \text{if } p > p_1, \\ q_1, & \text{if } p_2 < p \leq p_1, \\ q_2, & \text{if } p_3 < p \leq p_2, \\ \dots & \dots, \\ q_m, & \text{if } p \leq p_m. \end{cases}$$

where, in the first round, q_0 is the resource's full FCA Qualified Capacity and, in subsequent rounds, q_0 is the resource's quantity offered at the lowest price of the previous round.

(iv) [Reserved.]

(v) A New Generating Capacity Resource (except a Renewable Technology Resource), New Import Capacity Resource, or New Demand Resource may not include any capacity in a New Capacity Offer during the Forward Capacity Auction at any price below the resource's New Resource Offer Floor Price. The amount of capacity included in each New Capacity Offer at each price shall be included in the aggregate supply curves at that price as described in Section III.13.2.3.3.

(b) **Bids from Existing Capacity Resources Accepted in Qualification.** Static De-List Bids, Permanent De-List Bids, and Export Bids from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources submitted and accepted in the qualification process

(or as directed by the Commission) shall be automatically bid into the appropriate round(s) of the Forward Capacity Auction, such that each such resource's FCA Qualified Capacity will be included in the aggregate supply curves as described in Section III.13.2.3.3. until any Static De-List Bid, Permanent De-List Bid, or Export Bid clears in the Forward Capacity Auction, as described in Section III.13.2.5.2, and is removed from the aggregate supply curves. Administrative Export De-List Bids shall be automatically entered into the first round of the Forward Capacity Auction at the Forward Capacity Auction Starting Price. If the amount of capacity associated with Export Bids for an interface exceeds the transfer limit of that interface (minus any accepted Administrative De-List Bids over that interface), then the set of Export Bids associated with that interface equal to the interface's transfer limit (minus any accepted Administrative De-List Bids over that interface) having the highest bid prices shall be included in the auction as described above; capacity for which Export Bids are not included in the auction as a result of this provision shall be entered into the auction pursuant to Section III.13.2.3.2(c).

(c) **Existing Capacity Resources Not Having Accepted De-List or Export Bids and Self-Supplied FCA Resources.** Each Existing Generating Capacity Resource, Existing Import Capacity Resource, and Existing Demand Resource that did not submit a Static De-List Bid, a Permanent De-List Bid, an Export Bid, or an Administrative Export De-List Bid in its Existing Capacity Qualification Package, or an Existing Generating Capacity Resource, Existing Import Capacity Resource, or Existing Demand Resource that did not have any such bid accepted in the qualification process, and each existing Self-Supplied FCA Resource shall be automatically entered into each round of the Forward Capacity Auction at its FCA Qualified Capacity, such that the resource's FCA Qualified Capacity will be included in the aggregate supply curves as described in Section III.13.2.3.3, except where such resource, if permitted, submits an appropriate Dynamic De-List Bid, as described in Section III.13.2.3.2(d). Each new Self-Supplied FCA Resource shall be automatically entered into each round of the Forward Capacity Auction at its designated self-supplied quantity at prices at or above the resource's New Resource Offer Floor Price, such that the resource's designated self-supply quantity will be included in the aggregate supply curves as described in Section III.13.2.3.3.

(d) **Dynamic De-List Bids.** In any round of the Forward Capacity Auction in which prices are below the Dynamic De-List Bid Threshold, any Existing Generating Capacity Resource, Existing Import Capacity Resource, or Existing Demand Resource (but not any Self-Supplied FCA Resources) may submit a Dynamic De-List Bid at prices below the Dynamic De-List Bid Threshold. Such a bid shall be defined by the submission of one to five prices, each less than the Dynamic De-List Bid Threshold (or the Start-of-Round Price, if lower than the Dynamic De-List Bid Threshold) but greater than or equal to

the End-of-Round Price, and a single quantity associated with each price. Such a bid shall be expressed in the same form as specified in Section III.13.2.3.2(a)(i) and shall imply a curve indicating quantities at all of that round's relevant prices, pursuant to the convention of Section III.13.2.3.2(a)(iii). The curve may in no case increase the quantity offered as the price decreases. A dynamic De-List Bid may not offer less capacity than the resource's Economic Minimum Limit at any price, except where the amount of capacity offered is zero. All Dynamic De-List Bids are subject to a reliability review as described in Section III.13.2.5.2.5, and if not rejected for reliability reasons, shall be included in the round in the same manner as Static De-List Bids as described in Section III.13.2.3.2(b). Where a resource elected pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5 to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which the offer clears, the capacity associated with any resulting Capacity Supply Obligation may not be subject to a Dynamic De-List Bid in subsequent Forward Capacity Auctions for Capacity Commitment Periods for which the Project Sponsor elected to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply. Where a Lead Market Participant submits any combination of Dynamic De-List Bid, Static De-List Bid, Export Bid, and Administrative Export De-List Bid for a single resource, none of the prices in a set of price-quantity pairs associated with a bid may be the same as any price in any other set of price-quantity pairs associated with another bid for the same resource.

(e) **Repowering.** Offers and bids associated with a resource participating in the Forward Capacity Auction as a New Generating Capacity Resource pursuant to Section III.13.1.1.1.2 (resources previously counted as capacity resources) shall be addressed in the Forward Capacity Auction in accordance with the provisions of this Section III.13.2.3.2(e). The Project Sponsor shall offer such a New Generating Capacity Resource into the Forward Capacity Auction in the same manner and pursuant to the same rules as other New Generating Capacity Resources, as described in Section III.13.2.3.2(a). As long as any capacity is offered from the New Generating Capacity Resource, the amount of capacity offered is the amount that the auctioneer shall include in the aggregate supply curve at the relevant prices, and the quantity of capacity offered from the associated Existing Generating Capacity Resource shall not be included in the aggregate supply curve. If any portion of the New Generating Capacity Resource clears in the Forward Capacity Auction, the associated Existing Generating Capacity Resource shall be permanently de-listed as of the start of the associated Capacity Commitment Period. If at any price, no capacity is offered from the New Generating Capacity Resource, then the auctioneer shall include capacity from the associated Existing Generating Capacity Resource at that price, subject to any bids submitted and accepted in the qualification process for that Existing Generating Capacity Resource pursuant to Section III.13.1.2.5.

Bids submitted and accepted in the qualification process for an Existing Generating Capacity Resource pursuant to Section III.13.1.2.5 shall only be entered into the Forward Capacity Auction after the associated New Generating Capacity Resource is fully withdrawn (that is, the Forward Capacity Auction reaches a price at which the resource's New Capacity Offer is zero capacity), and shall only then be subject to the reliability review described in Section III.13.2.5.2.5.

(f) **Conditional Qualified New Generating Capacity Resources.** Offers associated with a resource participating in the Forward Capacity Auction as a Conditional Qualified New Generating Capacity Resource pursuant to Section III.13.1.1.2.3(f) shall be addressed in the Forward Capacity Auction in accordance with the provisions of this Section III.13.2.3.2(f). The Project Sponsor shall offer such a Conditional Qualified New Generating Capacity Resource into the Forward Capacity Auction in the same manner and pursuant to the same rules as other New Generating Capacity Resources, as described in Section III.13.2.3.2(a). An offer from at most one resource at a Conditional Qualified New Generating Capacity Resource's location will be permitted to clear (receive a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction. As long as a positive quantity is offered at the End-of-Round Price in the final round of the Forward Capacity Auction by the resource having a higher queue priority at the Conditional Qualified New Generating Capacity Resource's location, as described in Section III.13.1.1.2.3(f), then no capacity from the Conditional Qualified New Generating Capacity Resource shall clear. If at any price greater than or equal to the End-of-Round Price in the final round of the Forward Capacity Auction, zero quantity is offered from the resource having higher queue priority at the Conditional Qualified New Generating Capacity resource's location, as described in Section III.13.1.1.2.3(f), then the auctioneer shall consider capacity offered from the Conditional Qualified New Generating Capacity Resource in the determination of clearing, including the application of Section III.13.2.7.

(g) **Mechanics.** Offers and bids that may be submitted during a round of the Forward Capacity Auction must be received between the starting time and ending time of the round, as announced by the auctioneer in advance. The ISO at its sole discretion may authorize a participant in the auction to complete or correct its submission after the ending time of a round, but only if the participant can demonstrate to the ISO's satisfaction that the participant was making reasonable efforts to complete a valid offer submission before the ending time of the round, and only if the ISO determines that allowing the completion or correction will not unreasonably disrupt the auction process. All decisions by the ISO concerning whether or not a participant may complete or correct a submission after the ending time of a round are final.

III.13.2.3.3. Step 3: Determination of the Outcome of Each Round.

The auctioneer shall use the offers and bids for the round as described in Section III.13.2.3.2 to determine the aggregate supply curves for the New England Control Area and for each modeled Capacity Zone included in the round. The aggregate supply curve for the New England Control Area (the “Total System Capacity”) shall reflect at each price the sum of (the amount of capacity offered in all Capacity Zones modeled as import-constrained Capacity Zones at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources)) plus (the amount of capacity offered in the Rest-of-Pool Capacity Zone at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources)) plus (for each Capacity Zone modeled as an export-constrained Capacity Zone, the lesser of the amount of capacity offered in the Capacity Zone at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources) or the Capacity Zone’s Maximum Capacity Limit) plus (for each interface between the New England Control Area and an external Control Area, the lesser of that interface’s approved capacity transfer limit (net of tie benefits) or the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources). In computing the Total System Capacity, capacity associated with any New Capacity Offer at any price greater than the Forward Capacity Auction Starting Price will not be included in the tally of total capacity at the Forward Capacity Auction Starting Price for that Capacity Zone. In no event shall the Capacity Clearing Price for a Capacity Zone be greater than the Forward Capacity Auction Starting Price for that Capacity Zone. On the basis of these aggregate supply curves, the auctioneer shall determine the outcome of the round for each modeled Capacity Zone as follows:

(a) Import-Constrained Capacity Zones.

For a Capacity Zone modeled as an import-constrained Capacity Zone, if either of the following two conditions is met during the round:

- (1) the aggregate supply curve for the import-constrained Capacity Zone, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the Capacity Zone’s Local Sourcing Requirement; or

(2) the Total System Capacity, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the amount of capacity determined by the System-Wide Capacity Demand Curve;

then the Forward Capacity Auction for that Capacity Zone is concluded and such Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for that Capacity Zone shall be set at the highest price at which either of the two conditions above are satisfied, subject to the other provisions of this Section III.13.2. If neither of the two conditions above are met in the round, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the amount of capacity determined by the System-Wide Capacity Demand Curve at the End-of-Round Price) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and that Capacity Zone will be included in the next round of the Forward Capacity Auction.

(b) **Rest-of-Pool Capacity Zone.** For the Rest-of-Pool Capacity Zone, if the Total System Capacity adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the amount of capacity determined by the System-Wide Capacity Demand Curve, then the Forward Capacity Auction for the Rest-of-Pool Capacity Zone is concluded and the Rest-of-Pool Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for the Rest-of-Pool Capacity Zone shall be set at the highest price at which the Total System Capacity is less than or equal to the amount of capacity determined by the System-Wide Capacity Demand Curve, subject to the other provisions of this Section III.13.2. If the Total System Capacity exceeds the amount of capacity determined by the System-Wide Capacity Demand Curve at the End-of-Round Price, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the amount of capacity determined by the System-Wide Capacity Demand Curve at the End-of-Round Price) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and the Rest-of-Pool Capacity Zone will be included in the next round of the Forward Capacity Auction.

(c) **Export-Constrained Capacity Zones.** For a Capacity Zone modeled as an export-constrained Capacity Zone, if both of the following two conditions are met during the round:

(i) the aggregate supply curve for the export-constrained Capacity Zone, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), is equal to or below the Capacity Zone's Maximum Capacity Limit; and

(ii) the Total System Capacity, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the amount of capacity determined by the System-Wide Capacity Demand Curve;

then the Forward Capacity Auction for that Capacity Zone is concluded and such Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for that Capacity Zone shall be set at the highest price at which both of the conditions above are satisfied, subject to the other provisions of this Section III.13.2. If it is not the case that both of the two conditions above are satisfied in the round, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the amount of capacity determined by the System-Wide Capacity Demand Curve) and the quantity of excess supply in the export-constrained Capacity Zone (the amount of capacity offered at the End-of-Round Price in the export-constrained Capacity Zone minus the Maximum Capacity Limit of the export-constrained Capacity Zone) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and that Capacity Zone will be included in the next round of the Forward Capacity Auction.

(d) **Treatment of Import Capacity.** Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is less than or equal to that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the capacity offers from those resources shall be treated as capacity offers in the modeled Capacity Zone associated with that interface. Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the following provisions shall apply (separately for each such interface):

(i) For purposes of determining which capacity offers from the New Import Capacity Resources and Existing Import Capacity Resources over the interface shall clear and at what price, the offers over the interface shall be treated in the descending-clock auction as if they comprised a separately-modeled export-constrained capacity zone, with an aggregate supply curve consisting of the offers from the New Import Capacity Resources and Existing Import Capacity Resources over the interface.

(ii) The amount of capacity offered over the interface that will be included in the aggregate supply curve of the modeled Capacity Zone associated with the interface shall be the lesser of the following two quantities: the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over the interface; and the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF).

(iii) The Forward Capacity Auction for New Import Capacity Resources and Existing Import Capacity Resources over the interface is concluded when the following two conditions are both satisfied: the amount of capacity offered from New Import Capacity Resource and Existing Import Capacity Resources over the interface is less than or equal to the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF); and the Forward Capacity Auction is concluded in the modeled Capacity Zone associated with the interface.

(e) **Treatment of Export Capacity.** Any Export Bid or any Administrative Export De-List Bid that is used to export capacity through an export interface connected to an import-constrained Capacity Zone from another Capacity Zone, or through an export interface connected to the Rest-of-Pool Capacity Zone from an export-constrained Capacity Zone in the Forward Capacity Auction will be modeled in the Capacity Zone where the export interface that is identified in the Existing Capacity Qualification Package is located. The Export Bid or Administrative Export De-List Bid clears against the Capacity Clearing Price in the Capacity Zone where the Export Bid or Administrative Export De-List Bid is modeled.

(i) Then the MW quantity equal to the relevant Export Bid or Administrative Export De-List Bid from the resource associated with the Export Bid or Administrative Export De-List Bid will be de-listed in the Capacity Zone where the resource is located. If the export interface is connected to an import-constrained Capacity Zone, the MW quantity procured will be in addition to the Local Sourcing Requirement of the import-constrained Capacity Zone.

(ii) If the Export Bid or Administrative Export De-List Bid does not clear, then the resource associated with the Export Bid or Administrative Export De-List Bid will not be de-listed in the Capacity Zone where the resource is located.

(f) **Treatment of Real-Time Emergency Generation Resources.** In determining when the Forward Capacity Auction is concluded, no more than 600 MW of capacity from Real-Time Emergency Generation Resources shall be counted towards meeting the cleared amount of capacity determined by the System-Wide Capacity Demand Curve. If the sum of the Capacity Supply Obligations of Real-Time Emergency Generation Resources exceeds 600 MW, the Capacity Clearing Price, or in the case of Inadequate Supply or Insufficient Competition, the payment as described in Section III.13.2.8, (as adjusted pursuant to Section III.13.2.7.3(b)) paid to all Real-Time Emergency Generation Resources shall be adjusted by the ratio of 600 MW divided by the total of the final Capacity Supply Obligations of Real-Time Emergency Generation Resources. The acceptance of a Real-Time Emergency Generation Resource Static De-list Bid, Dynamic De-list Bid, or Permanent De-list Bid shall be based on the effective Capacity Clearing Price as described in Section III.13.2.7.

III.13.2.3.4. Determination of Final Capacity Zones.

(a) For all Forward Capacity Auctions up to and including the sixth Forward Capacity Auction (for the Capacity Commitment Period beginning June 1, 2015), after the Forward Capacity Auction is concluded for all modeled Capacity Zones, the final set of distinct Capacity Zones that will be used for all purposes associated with the relevant Capacity Commitment Period, including for the purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals, shall be those having distinct Capacity Clearing Prices as a result of constraints between modeled Capacity Zones binding in the running of the Forward Capacity Auction. Where a modeled constraint does not bind in the Forward Capacity Auction, and as a result adjacent modeled Capacity Zones clear at the same Capacity Clearing Price, those modeled Capacity Zones shall be a single Capacity Zone used for all purposes of the relevant Capacity Commitment Period, including for the purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals.

(b) For all Forward Capacity Auctions beginning with the seventh Forward Capacity Auction (for the Capacity Commitment Period beginning June 1, 2016) the final set of distinct Capacity Zones that will be used for all purposes associated with the relevant Capacity Commitment Period, including for the

purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals, shall be those described in Section III.12.4.

III.13.2.4. Forward Capacity Auction Starting Price and the Cost of New Entry.

The Forward Capacity Auction Starting Price is max [1.6 multiplied by Net CONE, CONE]. References in this Section III.13 to the Forward Capacity Auction Starting Price shall mean the Forward Capacity Auction Starting Price for the Forward Capacity Auction associated with the relevant Capacity Commitment Period.

CONE for the Forward Capacity Auction for the Capacity Commitment Period beginning on June 1, 2018 is \$14.04/kW-month

Net CONE for the Forward Capacity Auction for the Capacity Commitment Period beginning on June 1, 2018 is \$11.08/kW-month

CONE and Net CONE shall be recalculated using updated data coincident with the recalculation of Offer Review Trigger Prices pursuant to Section III.A.21.1.2. Whenever these values are recalculated, the ISO will review the results of the recalculation with stakeholders and the new values will be filed with the Commission prior to the Forward Capacity Auction in which the new value is to apply

Between recalculations, CONE and Net CONE will be adjusted for each Forward Capacity Auction pursuant to Section III.A.21.1.2(e), except that the energy and ancillary services offset will be adjusted using publicly available data for Mass Hub On-Peak electricity futures through the commitment period of the FCA and will not be adjusted based on natural gas prices. The adjusted CONE and Net CONE values will be published on the ISO's web site.

III.13.2.5. Treatment of Specific Offer and Bid Types in the Forward Capacity Auction.

III.13.2.5.1. Offers from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources.

A New Capacity Offer (other than one from a Conditional Qualified New Generating Capacity Resource) clears (receives a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction if the Capacity Clearing Price is greater than or equal to the price specified in

the offer, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6. An offer from a Conditional Qualified New Generating Capacity Resource clears (receives a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6, if all of the following conditions are met: (i) the Capacity Clearing Price is greater than or equal to the price specified in the offer; (ii) capacity from that resource is considered in the determination of clearing as described in Section III.13.2.3.2(f); and (iii) such offer minimizes the costs for the associated Capacity Commitment Period, subject to Section III.13.2.7.7(c).

The amount of capacity that receives a Capacity Supply Obligation through the Forward Capacity Auction shall not exceed the quantity of capacity offered from the New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource at the Capacity Clearing Price.

III.13.2.5.2. Bids and Offers from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources.

III.13.2.5.2.1. Permanent De-List Bids.

Except as provided in Section III.13.2.5.2.5 and Section III.13.2.5.2.7, a Permanent De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6.

III.13.2.5.2.2. Static De-List Bids and Export Bids.

Except as provided in Section III.13.2.5.2.5 and Section III.13.2.5.2.7, a Static De-List Bid or an Export Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6.

III.13.2.5.2.3. Dynamic De-List Bids.

A Dynamic De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6. If more Dynamic De-List Bids are submitted at a price than are needed to clear the

market, such Dynamic De-List Bids shall be cleared pro-rata, but in no case less than a resource's Economic Minimum Limit.

III.13.2.5.2.4. Administrative Export De-List Bids.

An Administrative Export De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) regardless of the Capacity Clearing Price and regardless of whether there is Inadequate Supply or Insufficient Competition in the Capacity Zone.

III.13.2.5.2.5. Bids Rejected for Reliability Reasons.

The ISO shall review each Non-Price Retirement Request, Permanent De-List Bid, Static De-List Bid, Export Bid, Administrative Export De-List Bid, and Dynamic De-List Bid entered into the Forward Capacity Auction to determine whether the capacity associated with that Non-Price Retirement Request or de-list bid is needed for reliability reasons during the Capacity Commitment Period associated with the Forward Capacity Auction. The capacity shall be deemed needed for reliability reasons if the absence of the capacity would result in the violation of any NERC or NPCC criteria, or ISO New England System Rules. Non-Price Retirement Requests and de-list bids shall only be rejected pursuant to this Section III.13.2.5.2.5 for the sole purpose of addressing a local reliability issue, and shall not be rejected solely on the basis that acceptance of the Non-Price Retirement Request or de-list bid may result in the procurement of less capacity than the Local Sourcing Requirement for ~~Load Zone Capacity Zones or aggregations of Load Zones considered for modeling in a Forward Capacity Auction~~. Where a Non-Price Retirement Request would otherwise be accepted, or a Permanent De-List Bid, Static De-List Bid, Export Bid, Administrative Export De-List Bid, or Dynamic De-List Bid would otherwise clear in the Forward Capacity Auction, but the ISO has determined that some or all of the capacity associated with the Non-Price Retirement Request or de-list bid is needed for reliability reasons, then the de-list bid having capacity needed for reliability will not clear in the Forward Capacity Auction and the Non-Price Retirement Request will not be approved as described in Section III.13.1.2.3.1.5.3, and the following provisions will apply:

- (a) The Lead Market Participant shall be notified that its de-list bid did not clear for reliability reasons at the later of: (i) immediately after the end of the Forward Capacity Auction round in which the auction price reaches the price of the de-list bid; or (ii) as soon as practicable after the time at which the ISO has determined that the de-list bid must be rejected for reliability reasons. In no event, however, shall a Lead Market Participant be notified that a bid submitted pursuant to Section III.13.1.2.5 and accepted in

the qualification process for an Existing Generating Capacity Resource did not clear for reliability reasons if the associated New Generating Capacity Resource remains in the Forward Capacity Auction. In such a case, the Lead Market Participant shall be notified that its bid did not clear for reliability reasons at the later of: (i) immediately after the end of the Forward Capacity Auction round in which the auction price reaches the price of the bid; (ii) immediately after the end of the Forward Capacity Auction round in which the associated New Generating Capacity Resource is fully withdrawn (that is, the Forward Capacity Auction reaches a price at which the resource's New Capacity Offer is zero capacity); or (iii) as soon as practicable after the time at which the ISO has determined that the bid must be rejected for reliability reasons.

- (i) In the case of Non-Price Retirement Request, the Lead Market Participant will be notified whether or not the request has been rejected for reliability reasons within 90 days of the submission of the request.

- (b) A resource that has a de-list bid rejected pursuant to this Section III.13.2.5.2.5 shall be compensated pursuant to the terms set out in Section III.13.2.5.2.5.1. An Existing Generating Capacity Resource or Existing Demand Resource that has a Non-Price Retirement Request rejected pursuant to this Section III.13.2.5.2.5 shall have the option to retire pursuant to Section III.2.5.2.5.3(a)(iii) or to continue operation and be compensated pursuant to Section III.13.2.5.2.5.1. A resource receiving payment under this Section III.13.2.5.2.5 and Section III.13.2.5.2.5.1 shall have Capacity Supply Obligations as described in Section III.13.6.1.

- (c) The ISO shall review the results of each annual reconfiguration auction and determine whether the reliability need which prevented the de-listing of the resource has been met through the annual reconfiguration auction. The ISO may also attempt to address the reliability concern through other reasonable means (including transmission enhancements).

- (d) If the reliability need that prevented the de-listing of the resource is met through a reconfiguration auction or other means, the resource shall be de-listed, be relieved of its Capacity Supply Obligation and no longer be eligible to receive the compensation specified in Section III.13.2.5.2.5(b). The ISO shall enter bids at the Forward Capacity Auction Starting Price to replace the capacity on behalf of load in subsequent annual reconfiguration auctions associated with the Capacity Commitment Period (and subsequent Capacity Commitment Periods, in the case of a Permanent De-List Bid).

(e) If a Permanent De-List Bid that would otherwise clear in a Forward Capacity Auction or a Non-Price Retirement Request is rejected for reliability reasons, that resource, or portion thereof, as applicable, is no longer eligible to participate as an Existing Generating Capacity Resource in any reconfiguration auction, Forward Capacity Auction or Capacity Supply Obligation Bilateral for that and subsequent Capacity Commitment Periods. If the resource, or portion thereof, continues to be needed for reliability reasons, it shall be counted as capacity in the Forward Capacity Auction and shall be compensated as described in Section III.13.2.5.2.5.1 until such time as it is no longer needed for reliability reasons.

(f) [Reserved.]

(g) The ISO shall review with the Reliability Committee (i) the status of any prior rejected delist bids reported to the Commission in an FCA results filing pursuant to Section 13.8.2, and (ii) the status of any Non-Price Retirement Request that has been rejected for reliability reasons and has elected to continue to operate, prior to the New Capacity Qualification Deadline in accordance with Section 4.1(c) of Attachment K of the ISO OATT.

In instances where an identified reliability need results in the rejection of a Non-Price Retirement Request, or the rejection of a Permanent De-List Bid, Export Bid, Administrative Export De-List Bid, Static De-List Bid, or Dynamic De-List Bid while executing an FCA, the ISO shall (i) review each specific reliability need with the Reliability Committee in accordance with the timing provided for in the ISO New England Operating Documents and, (ii) update the current system Needs Assessments pursuant to Section 4.1(c) of Attachment K of the ISO OATT. For de-list bids, this review and update will follow ISO's filing of the FCA results with the Commission pursuant to Section 13.8.2. System needs associated with Non-Price Retirement Requests that are rejected for reliability reasons will be reviewed with the Reliability Committee prior to the notification of the Lead Market Participant that has submitted the Non-Price Retirement Request consistent with Section 13.2.5.2.5(a)(i).

III.13.2.5.2.5.1. Compensation for Bids Rejected for Reliability Reasons.

(a)(i) In cases where a Static De-List Bid, Export Bid, Administrative Export De-List Bid, Dynamic De-List Bid, or partial Permanent De-List Bid would otherwise clear in the Forward Capacity Auction but the de-list bid has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource qualifies for payment under Section III.13.2.5.2.5.1(a)(ii), the resource will be paid by the ISO in the same manner as all other capacity resources, except that payment shall be made on the basis of its de-list bid as accepted for the Forward Capacity Auction for the relevant Capacity Commitment Period instead

of the Forward Capacity Market Clearing Price. Under this Section, accepted Dynamic De-list Bids filed with the Commission as part of the FCA results filing are subject to review and approval by the Commission pursuant to the “just and reasonable” standard of Section 205 of the Federal Power Act.

(a)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(a)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the de-list bid was rejected. Once qualified under this Section III.13.2.5.2.5.1(a)(ii), the resource will have a Capacity Supply Obligation for the 12-month Capacity Commitment Period for which the de-list bid was rejected.

(b)(i) In cases where a Permanent De-List Bid for the capacity of an entire resource would otherwise clear in the Forward Capacity Auction but the Permanent De-List Bid has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource qualifies for payment under Section III.13.2.5.2.5.1(b)(ii), the resource will be paid either (i) in the same manner as all other capacity resources, except that payment shall be made on the basis of its de-list bid as accepted for the Forward Capacity Auction for the relevant Capacity Commitment Period instead of the Forward Capacity Market Clearing Price or (ii) under the terms of a cost-of-service agreement pursuant to Section III, Appendix I. Resources must notify the ISO of their election within six months after the ISO files the results of the relevant Forward Capacity Auction with the Commission. A resource that has had a Permanent De-List Bid rejected for reliability reasons and does not notify the ISO of its election as described in this paragraph will be paid on the basis of the resource’s Permanent De-List Bid as accepted for the Forward Capacity Auction. Cost-of-service agreements must be filed with and approved by the Commission, and cost-of-service compensation may not commence until the Commission has approved the use of cost-of-service rates for the unit in question or has accepted the use of the cost-of-service rates subject to refund while the rate is reviewed. In no event will payment under the cost-of-service agreement start prior to the start of the relevant Capacity Commitment Period for which the Permanent De-List Bid was submitted. Resources that elect payment based on the accepted Permanent De-List Bid may file with the Commission pursuant to Section 205 of the Federal Power Act to update its Permanent De-List Bid if the unit is retained for reliability for a period longer than the Capacity Commitment Period for which the Permanent De-List Bid was originally submitted.

(b)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(b)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the Permanent De-List Bid

was rejected. Once qualified under this Section III.13.2.5.2.5.1(b)(ii), the resource will have a Capacity Supply Obligation for the 12-month Capacity Commitment Period for which the Permanent De-List Bid was rejected. If a resource continues to be needed for reliability in Capacity Commitment Periods following the Capacity Commitment Period for which the Permanent De-List Bid was rejected, payment pursuant to Section III.13.2.5.2.5.1(b)(i) will continue and will terminate upon 120 day notice from the ISO to the resource that it is no longer needed for reliability.

(c)(i) In cases where a Non-Price Retirement Request for less than the entire resource has been submitted and the request has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource has not elected to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), the resource will continue to be paid in the same manner as other listed capacity resources until such time as the resource is no longer needed for reliability. In cases where a Non-Price Retirement Request for the entire resource has been submitted and the request has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource has not elected to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), the resource may elect to either (i) continue to be paid in the same manner as other listed capacity resources until such time as the resource is no longer needed for reliability, or (ii) the resource may elect to receive cost-of-service compensation pursuant to Section III, Appendix I. Resources must notify the ISO of their election within six months after the ISO files the results of the relevant Forward Capacity Auction with the Commission. A resource that has had a Non-Price Retirement Request rejected for reliability reasons and does not notify the ISO of its election as described in this paragraph will be paid in the same manner as other listed capacity resources. Cost-of-service agreements must be filed with and approved by the Commission, and cost-of-service compensation may not commence until the Commission has approved the use of cost-of-service rates for the unit in question or has accepted subject to refund while the rate is reviewed. In no event will compensation under the cost-of-service agreement start prior to the start of the relevant Capacity Commitment Period for which the Non-Price Retirement Request was rejected.

(c)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(c)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the Non-Price Retirement Request was rejected. Once qualified under this Section III.13.2.5.2.5.1(c)(ii), compensation will be provided for the 12-month Capacity Commitment Period for which the Non-Price Retirement Request was rejected. If a resource continues to be needed for reliability in Capacity Commitment Periods following the Capacity Commitment Period for which the Non-Price Retirement Request was rejected,

payment pursuant to Section III.13.2.5.2.5.1 will continue and will terminate upon 120 day notice from the ISO to the resource that it is no longer needed for reliability.

(d) The difference between payments based on resource de-list bids or cost-of-service compensation as detailed in this Section III.13.2.5.2.5.1 and payments based on the market clearing price for the Forward Capacity Market under this Section III.13.2.5.2.5.1 shall be allocated to Regional Network Load within the affected Reliability Region.

(e) **Compensation for Existing Generating Capacity Resources at Stations with Common Costs that are Retained for Reliability.** If a Static De-List Bid or Permanent De-List Bid from an Existing Generating Capacity Resource that is associated with a Station having Common Costs is rejected for reliability reasons, the Existing Generating Capacity Resource will be paid as follows: (i) if one or more Existing Generating Capacity Resources at the Station assume a Capacity Supply Obligation through the normal clearing of the Forward Capacity Auction and one or more Existing Generating Capacity Resources are retained for reliability, then the Existing Generating Capacity Resources retained for reliability will be paid the sum of the Asset-Specific Going Forward Costs for the assets comprising that Existing Generating Capacity Resource; or (ii) if no Existing Generating Capacity Resources at the Station assumes a Capacity Supply Obligation through the normal clearing of the Forward Capacity Auction and one or more Existing Generating Capacity Resources are retained for reliability, then each Existing Generating Capacity Resource retained for reliability will be paid the sum of the Asset-Specific Going Forward Costs for the assets associated with that Existing Generating Capacity Resource plus a portion of the Station Going Forward Common Costs (such that the full amount of Station Going Forward Common Costs are allocated to the Existing Generating Capacity Resources retained for reliability).

III.13.2.5.2.5.2. Incremental Cost of Reliability Service From Non-Price Retirement Request Resources:

In cases where an Existing Generating Capacity Resource or Existing Demand Resource has had a Non-Price Retirement Request for the entire resource rejected for reliability reasons pursuant to Section III.13.2.5.2.5, does not elect to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), and must make a capital improvement to the unit to remain in operation in order to continue to operate to meet the reliability need identified by the ISO, the resource may make application to the Commission pursuant to Section 205 of the Federal Power Act to receive just and reasonable compensation of the capital investment pursuant to the following:

(a) **Notice to State Utility Commissions, the ISO and Stakeholder Committees of Expectation that a Capital Expense will be Necessary to Meet the Reliability Need Identified by the ISO:** A resource seeking to avail itself of the recovery mechanism provided in this Section must notify the state utility commissions in the states where rate payers will fund the capital improvement, the ISO, and the Participants Committee of its intent to make the capital expenditure and the need for the expenditure. This notification must be made at least 120 days prior to the resource making the capital expenditure.

(b) **Required Showing Made to the Federal Energy Regulatory Commission:** In order to receive just and reasonable compensation for a capital expenditure under this Section, a resource must file an explanation of need with the Commission that explains why the capital expenditure is necessary in order to meet the reliability need identified by the ISO. This showing must demonstrate that the expenditure is reasonably determined to be the least-cost commercially reasonable option consistent with Good Utility Practice to meet the reliability need identified by the ISO. If the resource elects cost-of-service treatment pursuant to Section III.13.2.5.2.5.1(c), the Incremental Cost of Reliability Service filing described in this Section must be made separately from and may be made in advance of the resource's cost-of-service filing.

(c) **Allocation:** Costs of capital expenditures approved by the Commission under this provision shall be allocated to Regional Network Load within the affected Reliability Region.

III.13.2.5.2.5.3. Retirement of Resources

(a)(i) A resource, or portion thereof, that submits a Non-Price Retirement Request pursuant to Section III.13.1.2.3.1.5 will be retired coincident with the commencement of the Capacity Commitment Period for which the Non-Price Retirement Request is submitted if the request is approved, or if not approved the resource nonetheless elects to retire pursuant to Section III.13.2.5.2.5.3(a)(iii). If the Non-Price Retirement Request is approved after the resource has a Capacity Supply Obligation for the Capacity Commitment Period for which the Non-Price Retirement Request was submitted, the resource, or portion thereof, will be retired coincident with the end of Capacity Supply Obligation under Section III.13.2.5.2.5.1(c)(ii). The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(a)(ii) An Existing Generating Capacity Resource or Existing Demand Resource with an approved Non-Price Retirement Request may retire the resource, or portion thereof, earlier than the Capacity

Commitment Period for which its Non-Price Retirement Request has been approved if it is able to transfer the relevant Capacity Supply Obligation of the resource to another resource through one or more approved Capacity Supply Obligation Bilateral transactions as described in Section III.13.5.1 or reconfiguration auctions as described in Section III.13.4.1. A resource, or portion thereof, electing to retire pursuant to this provision must notify the ISO in writing of its election to retire and the date of retirement. The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(a)(iii) In cases where an Existing Generating Capacity Resource or Existing Demand Resource has submitted a Non-Price Retirement Request and the request is not approved because the resource is determined to be needed for reliability pursuant to Section III.13.2.5.2.5, the portion of the resource subject to the Non-Price Retirement Request may nonetheless retire as permitted by applicable law coincident with the commencement of the Capacity Commitment Period for which the Non-Price Retirement Request is submitted by notifying ISO no later than 15 days prior to commencement of the relevant Forward Capacity Auction. A resource making an election pursuant to this Section III.13.2.5.2.5.3(a)(iii) will not be eligible for compensation pursuant to Sections III.13.2.5.2.5.1 or III.13.2.5.2.5.2. The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(b)(i) A resource that has submitted a non-partial Permanent De-List Bid that has cleared in the Forward Capacity Auction may retire the resource as of the Capacity Commitment Period for which its Permanent De-List Bid has cleared or earlier as described in Section III.13.2.5.2.5.3(b)(ii) by notifying the ISO in writing of its election to retire and the date of retirement. The date specified for retirement is subject to the limit for resource inactivity set out in Section III.13.2.5.2.5.3(d). The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date of retirement.

(b)(ii) A resource with a cleared non-partial Permanent De-List Bid may retire the resource earlier than the Capacity Commitment Period for which its Permanent De-List Bid has cleared if it is able to transfer the entire Capacity Supply Obligation of the resource to another resource through one or more approved Capacity Supply Obligation Bilateral transactions as described in Section III.13.5.1 or reconfiguration auctions as described in Section III.13.4. A resource electing to retire pursuant to this provision must

notify ISO in writing of its election to retire and the date of retirement. The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date on retirement.

(c) A resource that has never been counted as a capacity resource may retire the asset by notifying the ISO in writing of its election to retire and the date of retirement. The date specified for retirement is subject to the limit for resource inactivity set out in Section III.13.2.5.2.5.3(d). The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date of retirement.

(d) A resource that does not operate commercially for a period of three calendar years will be deemed by the ISO to be retired. The interconnection rights for the unit will terminate and the status of the unit will be converted to retired on the date of retirement. Where a generator has submitted an application to repower under Schedule 22 or 23 of the OATT, the current interconnection space will be maintained beyond the three years unless the application under Schedule 22 or 23 is withdrawn voluntarily or by the operation of those provisions. Where an application is withdrawn under Schedule 22 or 23, the three year period will be calculated from the last day of commercial operation of the resource.

III.13.2.5.2.6. [Reserved.]

III.13.2.5.2.7. Treatment of De-List and Export Bids When the Capacity Clearing Price is Set Administratively.

Where the Capacity Clearing Price is set pursuant to Section III.13.2.7.9 (Capacity Carry Forward Rule), or where payments are set pursuant to Section III.13.2.8 (Inadequate Supply and Insufficient Competition), and as a result a Permanent De-List Bid, Static De-List Bid, or Export Bid clears that would not otherwise have cleared, then the de-listed or exported capacity will not be replaced in the current Forward Capacity Auction (that is, the amount of capacity procured in the Forward Capacity Auction shall be the Local Sourcing Requirement, as appropriate, minus the amount of the de-listed or exported capacity that results from the application of administratively determined prices) and shall be included in subsequent annual reconfiguration auctions (that is, the amount of capacity procured in subsequent annual reconfiguration auctions shall be increased by the amount of the de-listed or exported capacity).

III.13.2.6. Capacity Rationing Rule.

Except for Dynamic De-List Bids, Export Bids, and offers from New Import Capacity Resources and Existing Import Capacity Resources, offers and bids in the Forward Capacity Auction must clear or not clear in whole, unless the offer or bid specifically indicates that it may be rationed. A resource may elect to be rationed to either its Economic Minimum Limit or a level above its Economic Minimum Limit. These levels are submitted pursuant to Section III.13.1.1.2.2.3. Offers from New Import Capacity Resources and Existing Import Capacity Resources are subject to rationing, except where such rationing would violate any applicable physical minimum flow requirements on the associated interface. Export Bids may elect to be rationed generally, but regardless of such election will always be subject to potential rationing where the associated external interface binds. If more Dynamic De-List Bids are submitted at a price than are needed to clear the market, the bids shall be cleared pro-rata, subject to honoring the Economic Minimum Limit of the resources. Where an offer or bid may be rationed, such rationing may not result in procuring an amount of capacity that is below the associated resource's Economic Minimum Limit.

III.13.2.7. Determination of Capacity Clearing Prices.

The Capacity Clearing Price in each Capacity Zone shall be the price established by the descending clock Forward Capacity Auction as described in Section III.13.2.3, subject to the other provisions of this Section III.13.2.

III.13.2.7.1. Import-Constrained Capacity Zone Capacity Clearing Price Floor.

The Capacity Clearing Price in an import-constrained Capacity Zone shall not be lower than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone. If after the Forward Capacity Auction is conducted, the Capacity Clearing Price in an import-constrained Capacity Zone is less than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone, all resources clearing in the import-constrained Capacity Zone shall be paid based on the Capacity Clearing Price in the Rest-of-Pool Capacity Zone during the associated Capacity Commitment Period.

III.13.2.7.2. Export-Constrained Capacity Zone Capacity Clearing Price Ceiling.

The Capacity Clearing Price in an export-constrained Capacity Zone shall not be higher than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone. If after the Forward Capacity Auction is conducted, the Capacity Clearing Price in an export-constrained Capacity Zone is higher than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone, all resources clearing in the export-constrained Capacity Zone shall be paid based on the Capacity Clearing Price in the Rest-of-Pool Capacity Zone during the associated Capacity Commitment Period.

III.13.2.7.3. Capacity Clearing Price Floor.

In the Forward Capacity Auctions for the Capacity Commitment Periods beginning on June 1, 2013, June 1, 2014, June 1, 2015, and June 1, 2016 only, the following additional provisions regarding the Capacity Clearing Price shall apply in all Capacity Zones (and in the application of Section III.13.2.3.3(d)(iii)):

(a) [Reserved.]

(b) The Capacity Clearing Price shall not fall below 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 below \$3.15). Where the Capacity Clearing Price reaches 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 reaches \$3.15), offers shall be prorated such that no more than the Installed Capacity Requirement (net of HQICCs) is procured in the Forward Capacity Auction, as follows:

(i) The total payment to all listed capacity resources during the associated Capacity Commitment Period shall be equal to 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 shall be equal to \$3.15) times the Installed Capacity Requirement (net of HQICCs) applicable in the Forward Capacity Auction.

(ii) Payments to individual listed resources shall be prorated based on the total number of MWs of capacity clearing in the Forward Capacity Auction (receiving a Capacity Supply Obligation for the associated Capacity Commitment Period).

(iii) Suppliers may instead prorate their bid MWs of participation in the Forward Capacity Market by partially de-listing one or more resources. Regardless of any such proration, the full amount of capacity that cleared in the Forward Capacity Auction will be ineligible for treatment as new capacity in subsequent Forward Capacity Auctions (except as provided under Section III.13.1.1.1.2).

(iv) Any proration shall be subject to reliability review. Where proration is rejected for reliability reasons, the resource's payment shall not be prorated as described in subsection (ii) above, and the difference between its actual payment based on the Capacity Clearing Price and

what its payment would have been had prorationing not been rejected for reliability reasons shall be allocated to Regional Network Load within the affected Reliability Region. In this case, the total payment described in subsection (i) above will increase accordingly.

(v) Any election to prorate bid MWs associated with a New Capacity Offer that clears in the Forward Capacity Auction shall also apply in subsequent Forward Capacity Auctions for Capacity Commitment Periods for which the Project Sponsor elected to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5.

III.13.2.7.3A Treatment of Imports.

At the Capacity Clearing Price, if the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between an external Control Area and the New England Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF):

(a) the full amount of capacity offered at that price from Existing Import Capacity Resources associated with contracts listed in Section III.13.1.3.3(c) shall clear, unless that amount of capacity is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), in which case the capacity offered at that price from Existing Import Capacity Resources associated with contracts listed in Section III.13.1.3.3(c) shall be rationed such that the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) is not exceeded; and

(b) if there is space remaining over the interface after the allocation described in subsection (a) above, then the capacity offered at that price from New Import Capacity Resources and Existing Import Capacity Resources other than Existing Import Capacity Resources associated with the contracts listed in Section III.13.1.3.3(c) will be rationed such that the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) is not exceeded. If the capacity offered at that price by any single New Import Capacity Resource or Existing Import Capacity Resource that is not associated with the contracts listed in Section III.13.1.3.3(c) is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the capacity offered

by that resource that is above the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) shall not be included in the rationing.

III.13.2.7.4. Effect of Capacity Rationing Rule on Capacity Clearing Price.

Where the requirement that offers and bids clear or not clear in whole (Section III.13.2.6) prohibits the descending clock auction in its normal progression from clearing a Capacity Zone at the precise amount of capacity required, then the auctioneer shall analyze the aggregate supply curve to determine cleared capacity offers and Capacity Clearing Prices that result in procuring at least the amount of capacity required while seeking to maximize social surplus for the associated Capacity Commitment Period. In an import-constrained Capacity Zone, the clearing algorithm will not consider blocks of capacity not needed to meet the import-constrained Capacity Zone's Local Sourcing Requirement when price separation occurs between the import-constrained Capacity Zone and the Rest-of-Pool Capacity Zone. The clearing algorithm may result in offers below the Capacity Clearing Price not clearing, and in de-list bids below the Capacity Clearing Price clearing.

III.13.2.7.5. Effect of Decremental Repowerings on the Capacity Clearing Price.

Where the effect of accounting for certain repowering offers and bids (as described in Section III.13.2.3.2(e)) results in the auction not clearing at the lowest price for the required quantity of capacity, then the auctioneer will conduct additional auction rounds of the Forward Capacity Auction as necessary to minimize capacity costs.

III.13.2.7.6. Minimum Capacity Award.

Each offer (excluding offers from Conditional Qualified New Generating Capacity Resources that do not satisfy the conditions specified in Sections III.13.2.5.1(i)-(iii)) clearing in the Forward Capacity Auction shall be awarded a Capacity Supply Obligation at least as great as the amount of capacity offered at the End-of-Round Price in the final round of the Forward Capacity Auction. For Intermittent Power Resources and Intermittent Settlement Only Resources, the Capacity Supply Obligation for months in the winter period (as described in Section III.13.1.5) shall be adjusted based on its winter Qualified Capacity as determined pursuant to Section III.13.1.1.2.2.6 and Section III.13.1.2.2.2.

III.13.2.7.7. Tie-Breaking Rules.

Where the provisions in this Section III.13.2 for clearing the Forward Capacity Auction (system-wide or in a single Capacity Zone) result in a tie – that is, where two or more resources offer sufficient capacity at

prices that would clear the auction at the same minimum costs – the auctioneer shall apply the following rules (in sequence, as necessary) to determine clearing:

- (a) [Reserved.]
- (b) If multiple projects may be rationed, they will be rationed proportionately.
- (c) Where clearing either the offer associated with a resource with a higher queue priority at a Conditional Qualified New Generating Capacity Resource's location or the offer associated with the Conditional Qualified New Generating Capacity Resource would result in equal costs, the offer associated with the resource with the higher queue priority shall clear.
- (d) The offer associated with the Project Sponsor having the lower market share in the capacity auction (including Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources) shall be cleared.

III.13.2.7.8. [Reserved.]

III.13.2.7.9 Capacity Carry Forward Rule.

III.13.2.7.9.1. Trigger.

The capacity carry forward rule shall be triggered in an import-constrained Capacity Zone if all of the following conditions are met:

- (a) the sum of the amount of New Capacity Required plus the amount of Permanent De-List Bids clearing in the Forward Capacity Auction in the Capacity Zone is less than or equal to zero;
- (b) there is not Inadequate Supply in the Forward Capacity Auction in the Capacity Zone; and
- (c) at the Capacity Clearing Price, the sum of the amount of New Capacity Required plus the amount of Permanent De-List Bids clearing in the Forward Capacity Auction plus the amount of capacity carried forward due to rationing is greater than zero. The amount of capacity carried forward due to rationing shall equal the amount of capacity above the Local Sourcing Requirement procured

in that Capacity Zone in the previous Forward Capacity Auction as a result of the Capacity Rationing Rule.

III.13.2.7.9.2. Pricing.

If the capacity carry forward rule is triggered, then the Capacity Clearing Price for the Capacity Zone shall be the lesser of: (1) \$0.01 below the price at which the last New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource in the Capacity Zone to withdraw withdrew from the Forward Capacity Auction; or (2) the applicable Net CONE value; provided, however, that if in the Capacity Zone there is Insufficient Competition and no capacity offered from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources has been withdrawn from the Forward Capacity Auction, then the Capacity Clearing Price shall equal the applicable Net CONE value.

III.13.2.8. Inadequate Supply and Insufficient Competition.

In the case of either Inadequate Supply or Insufficient Competition, as defined in this Section III.13.2.8, the Forward Capacity Auction shall still be used to the extent possible; that is, the remedy for Inadequate Supply or Insufficient Competition shall be limited to import-constrained Capacity Zones having Inadequate Supply or Insufficient Competition.

III.13.2.8.1. Inadequate Supply.

III.13.2.8.1.1. Inadequate Supply in an Import-Constrained Capacity Zone.

An import-constrained Capacity Zone will be considered to have Inadequate Supply if at the Forward Capacity Auction Starting Price the amount of capacity offered in the import-constrained Capacity Zone through New Capacity Offers is less than the amount of New Capacity Required in that Capacity Zone. In an import-constrained Capacity Zone, “New Capacity Required” shall mean the Capacity Zone’s Local Sourcing Requirement, minus the total amount of capacity of Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources in the Capacity Zone (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated in the Capacity Zone for the Capacity Commitment Period.

(a) Where an import-constrained Capacity Zone has Inadequate Supply, Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (other than those still subject to a multi-year Capacity Commitment Period election as described in Sections

III.13.1.1.2.2.4 and III.13.1.4.2.2.5) in that Capacity Zone, other than such resources, or portions thereof, that have no Capacity Supply Obligation or are designated as Self-Supplied FCA Resources for the Capacity Commitment Period, shall be paid the max [applicable Net CONE value, Capacity Clearing Price for the Rest-of-Pool Capacity Zone] during the associated Capacity Commitment Period, and New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources in the Forward Capacity Auction in that Capacity Zone shall be paid the Forward Capacity Auction Starting Price during the associated Capacity Commitment Period (and subsequent Capacity Commitment Periods, as elected pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5).

(b) In an import-constrained Capacity Zone having Inadequate Supply, the difference between the amount of capacity offered in the Capacity Zone through New Capacity Offers and the amount of New Capacity Required in that Capacity Zone shall be included in subsequent annual reconfiguration auctions.

(c) Inadequate Supply in one or more import-constrained Capacity Zones shall not affect Capacity Zones having adequate supply.

(d) Any availability penalty assessed during the associated Capacity Commitment Period pursuant to Section III.13.7.2.7.1.2 on a resource in an import-constrained Capacity Zone having Inadequate Supply will be assessed at a rate equal to \$7.025/kW-month.

III.13.2.8.1.2. [Reserved.]

III.13.2.8.2. Insufficient Competition.

The Forward Capacity Auction shall be considered to have Insufficient Competition in an import-constrained Capacity Zone if there is not Inadequate Supply and the following two conditions are both satisfied:

(a) at the Forward Capacity Auction Starting Price, the amount of capacity offered from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated for the Capacity Commitment Period, is less than the Local Sourcing Requirement; and

(b) at the Forward Capacity Auction Starting Price:

- (i) less than 300 MW of capacity is offered from New Generating Capacity Resources and New Demand Resources (the ISO shall revisit the appropriateness of the 300 MW threshold in the case of an import-constrained Capacity Zone having a Local Sourcing Requirement of less than 5000 MW);
- (ii) the amount of capacity offered from New Generating Capacity Resources and New Demand Resources is less than twice the amount of New Capacity Required; or
- (iii) any Market Participant's total capacity from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources is pivotal. For purposes of this Section III.13.2.8.2, a Market Participant shall be considered pivotal if, at the Forward Capacity Auction Starting Price, some capacity from that Market Participant's potential New Generating Capacity Resources, New Import Capacity Resources, or New Demand Resources is required to satisfy the Local Sourcing Requirement.

If the Forward Capacity Auction has Insufficient Competition, New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources shall be paid the Capacity Clearing Price during the associated Capacity Commitment Period, and Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (other than those still subject to a multi-year Capacity Commitment Period election as described in Sections III.13.1.1.2.2.4 and III.13.1.4.2.2.5) shall be paid the lower of: (1) the Capacity Clearing Price; or (2) max [applicable Net CONE value, the Capacity Clearing Price for the Rest-of-Pool Capacity Zone] during the associated Capacity Commitment Period. Any availability penalty assessed during the associated Capacity Commitment Period pursuant to Section III.13.7.2.7.1.2 on a resource in an import-constrained Capacity Zone having Insufficient Competition will be assessed at a rate equal to the lower of: (1) the Capacity Clearing Price; or (2) \$7.025/kW-month.

III.13.2.9. [Reserved.]

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III.13.5. Bilateral Contracts in the Forward Capacity Market.

Market Participants shall be permitted to enter into Capacity Supply Obligation Bilaterals, Capacity Load Obligation Bilaterals and Supplemental Availability Bilaterals in accordance with this Section III.13.5, with the ISO serving as Counterparty in each such transaction. Market Participants may not offset a Capacity Load Obligation with a Capacity Supply Obligation.

III.13.5.1. Capacity Supply Obligation Bilaterals.

A resource having a Capacity Supply Obligation seeking to shed that obligation (“Capacity Transferring Resource”) may enter into a bilateral transaction to transfer its Capacity Supply Obligation, in whole or in part (“Capacity Supply Obligation Bilateral”), to a resource, or portion thereof, having Qualified Capacity for that Capacity Commitment Period that is not already obligated (“Capacity Acquiring Resource”), subject to the following limitations

- (a) A monthly Capacity Supply Obligation Bilateral must be coterminous with a calendar month, and an annual Capacity Supply Obligation Bilateral must be coterminous with a Capacity Commitment Period.
- (b) A Capacity Supply Obligation Bilateral may not transfer a Capacity Supply Obligation amount that is greater than the lowest monthly Capacity Supply Obligation of the Capacity Transferring Resource during the period covered by the Capacity Supply Obligation Bilateral. A Capacity Supply Obligation Bilateral may not transfer a Capacity Supply Obligation amount that is greater than the lowest monthly amount of unobligated Qualified Capacity (that is, Qualified Capacity as determined in the most recent Forward Capacity Auction or reconfiguration auction qualification process that is not subject to a Capacity Supply Obligation for the relevant time period) of the Capacity Acquiring Resource during the period covered by the Capacity Supply Obligation Bilateral, as determined in the qualification process for the most recent Forward Capacity Auction or annual reconfiguration auction prior to the submission of the Capacity Supply Obligation Bilateral to the ISO.
- (c) A Capacity Supply Obligation Bilateral may not transfer a Capacity Supply Obligation to a Capacity Acquiring Resource where that Capacity Acquiring Resource’s unobligated Qualified Capacity is unobligated as a result of an Export Bid or Administrative Export De-List Bid that cleared in the Forward Capacity Auction.

(d) A Real-Time Emergency Generation Resource may participate in a Capacity Supply Obligation Bilateral as either a Capacity Transferring Resource or a Capacity Acquiring Resource, provided, however, that where a Real-Time Emergency Generation Resource participates in a Capacity Supply Obligation Bilateral as a Capacity Acquiring Resource, the Capacity Transferring Resource must also be a Real-Time Emergency Generation Resource.

(e) [Reserved.]

~~(f) The Capacity Transferring Resource and the Capacity Acquiring Resource that are parties to a Capacity Supply Obligation Bilateral must be located in the same Capacity Zone, or the path from the Capacity Transferring Resource to the Capacity Acquiring Resource must flow across adjacent Capacity Zones in the direction of the modeled interface constraint(s), as such Capacity Zones and interface constraints are defined following the Forward Capacity Auction conducted for the Capacity Commitment Period to which the transferred Capacity Supply Obligation applies. [Reserved.]~~

(g) Prior to April 1, 2015, if the Capacity Acquiring Resource is an Import Capacity Resource, then the Capacity Transferring Resource must also be an Import Capacity Resource on the same external interface.

(h) A resource, or a portion thereof, that has been designated as a Self-Supplied FCA Resource may transfer the self-supplied portion of its Capacity Supply Obligation by means of Capacity Supply Obligation Bilateral. In such a case, however, the Capacity Acquiring Resource shall not become a Self-Supplied FCA Resource as a result of the transaction.

(i) A monthly Capacity Supply Obligation may not be acquired by any resource on an approved outage for the relevant Capacity Commitment Period month.

(j) A resource that has not achieved Commercial Operation by the submission deadline for a monthly Capacity Supply Obligation Bilateral may not submit a transaction as a Capacity Acquiring Resource for that Capacity Commitment Period month, unless the resource has a negative Capacity Supply Obligation, in which case it may submit a Capacity Supply Obligation Bilateral in an amount up to the absolute value of its Capacity Supply Obligation.

III.13.5.1.1. Process for Approval of Capacity Supply Obligation Bilaterals.

III.13.5.1.1.1. Timing of Submission.

The Lead Market Participant or Project Sponsor for either the Capacity Transferring Resource or the Capacity Acquiring Resource may submit a Capacity Supply Obligation Bilateral to the ISO during submittal windows, as defined in the ISO New England Manuals and ISO New England Operating Procedures. The ISO will issue a schedule of the submittal windows for annual and monthly Capacity Supply Obligation Bilaterals as soon as practicable after the issuance of Forward Capacity Auction results. A Capacity Supply Obligation Bilateral must be confirmed by the party other than the party submitting the Capacity Supply Obligation Bilateral to the ISO no later than the end of the relevant submittal window.

III.13.5.1.1.2. Application.

The submission of a Capacity Supply Obligation Bilateral to the ISO shall include the following: (i) the resource identification number of the Capacity Transferring Resource; (ii) the amount of the Capacity Supply Obligation being transferred in MW amounts up to three decimal places; (iii) the term of the transaction; and (iv) the resource identification number of the Capacity Acquiring Resource. If the parties to a Capacity Supply Obligation Bilateral so choose, they may also submit a price, in \$/kW-month, to be used by the ISO in settling the Capacity Supply Obligation Bilateral. If no price is submitted, the ISO shall use a default price of \$0.00/kW-month.

III.13.5.1.1.3. ISO Review.

(a) The ISO shall review the information provided in support of the Capacity Supply Obligation Bilateral, and shall reject the Capacity Supply Obligation Bilateral if any of the provisions of this Section III.13.5.1 are not met. For a Capacity Supply Obligation Bilateral submitted before the relevant submittal window opens, this review shall occur once the submittal window opens. For a Capacity Supply Obligation Bilateral submitted after the submittal window opens, this review shall occur upon submission.

(b) After the close of the relevant submittal window, each Capacity Supply Obligation Bilateral shall be subject to a reliability review by the ISO to determine whether the transaction would result in a violation of any NERC or NPCC (or their successors) criteria, or ISO New England System Rules, during the Capacity Commitment Period associated with the transaction. Capacity Supply Obligation Bilaterals shall be reviewed by the ISO to ensure the regional and local adequacy achieved through the Forward Capacity Auction and other reliability needs are maintained. The ISO's review will consider the location and operating and rating limitations of resources associated with the Capacity Supply Obligation Bilateral to ensure reliability standards will remain satisfied if the capacity associated with the Capacity

Transferring Resource is withdrawn and the capacity associated with the Capacity Acquiring Resource is accepted. The ISO's reliability reviews will assess transactions based on operable capacity needs while considering any approved or interim approved transmission outage information and any approved generation or Demand Response Resource outage information, and will include transmission security studies. The ISO will review all confirmed monthly Capacity Supply Obligation Bilaterals for each upcoming Obligation Month for reliability needs immediately preceding the monthly reconfiguration auction. For a monthly Capacity Supply Obligation Bilateral, the ISO shall obtain and consider information from the Local Control Center regarding whether the Capacity Supply Obligation of the Capacity Transferring Resource is needed for local system conditions and whether it is adequately replaced by the Acquiring Resource.

The ISO will review the net impact of all annual Capacity Supply Obligation Bilaterals to ensure that the regional and local adequacy and other reliability needs achieved through the Forward Capacity Auction are maintained in the Capacity Transferring Resource's Capacity Zone and the Capacity Acquiring Resource's Capacity Zone or across the external interface.

If after its review of the net impact of all annual Capacity Supply Obligation Bilaterals the ISO determines that the regional and local adequacy and other reliability needs achieved through the Forward Capacity Auction are not maintained, and for all monthly Capacity Supply Obligation Bilaterals, the ISO will approve or reject Capacity Supply Obligation Bilaterals based on the order in which they are confirmed. If multiple Capacity Supply Obligation Bilaterals are submitted between the same resources, they may be reviewed together as one transaction and the most recent confirmation time among the related transactions will be used to determine the review order of the grouped transaction. Transactions that cannot meet the applicable reliability needs will only be accepted or rejected in their entirety and the resources will not be accepted or rejected in part for purposes of that transaction. Where the ISO has determined that a Capacity Supply Obligation Bilateral must be rejected for reliability reasons the Lead Market Participant or Project Sponsor, as appropriate, for the Capacity Transferring Resource and the Capacity Acquiring Resource shall be notified as soon as practicable of the rejection and of the reliability need prompting such rejection.

(c) Each Capacity Supply Obligation Bilateral shall be subject to a financial assurance review by the ISO. If the Capacity Transferring Resource and the Capacity Acquiring Resource are not both in compliance with all applicable provisions of the ISO New England Financial Assurance Policy, including

those regarding Capacity Supply Obligation Bilaterals, the ISO shall reject the Capacity Supply Obligation Bilateral.

III.13.5.1.1.4. Approval.

Upon approval of a Capacity Supply Obligation Bilateral, the Capacity Supply Obligation of the Capacity Transferring Resource shall be reduced by the amount set forth in the Capacity Supply Obligation Bilateral, and the Capacity Supply Obligation of the Capacity Acquiring Resource shall be increased by the amount set forth in the Capacity Supply Obligation Bilateral.

III.13.5.2. Capacity Load Obligations Bilaterals.

A Market Participant having a Capacity Load Obligation seeking to shed that obligation (“Capacity Load Obligation Transferring Participant”) may enter into a bilateral transaction to transfer all or a portion of its Capacity Load Obligation in a Capacity Zone (“Capacity Load Obligation Bilateral”) to any Market Participant seeking to acquire a Capacity Load Obligation (“Capacity Load Obligation Acquiring Participant”). A Capacity Load Obligation Bilateral must be in whole calendar month increments, may not exceed one year in duration, and must begin and end within the same Capacity Commitment Period. A Capacity Load Obligation Transferring Participant will be permitted to transfer, and a Capacity Load Obligation Acquiring Participant will be permitted to acquire, a Capacity Load Obligation if after entering into a Capacity Load Obligation Bilateral and submitting related information to the ISO within the specified submittal time period, the ISO approves such Capacity Load Obligation Bilateral.

III.13.5.2.1. Process for Approval of Capacity Load Obligation Bilaterals.

III.13.5.2.1.1. Timing.

Either the Capacity Load Obligation Transferring Participant or the Capacity Load Obligation Acquiring Participant may submit a Capacity Load Obligation Bilateral to the ISO. All Capacity Load Obligation Bilaterals must be submitted to the ISO in accordance with resettlement provisions as described in ISO New England Manuals. However, to be included in the initial settlement of payments and charges associated with the Forward Capacity Market for the first month of the term of the Capacity Load Obligation Bilateral, a Capacity Load Obligation Bilateral must be submitted to the ISO no later than 12:00 pm on the second Business Day after the end of that month (though a Capacity Load Obligation Bilateral submitted at that time may be revised by the parties to the transaction throughout the resettlement process). A Capacity Load Obligation Bilateral must be confirmed by the party other than the

party submitting the Capacity Load Obligation Bilateral to the ISO no later than the same deadline that applies to submission of the Capacity Load Obligation Bilateral.

III.13.5.2.1.2. Application.

The submission of a Capacity Load Obligation Bilateral to the ISO shall include the following : (i) the amount of the Capacity Load Obligation being transferred in MW amounts up to three decimal places; (ii) the term of the transaction; (iii) identification of the Capacity Load Obligation Transferring Participant and the Capacity Load Obligation Acquiring Participant; and (iv) the Capacity Zone in which the Capacity Load Obligation is being transferred is located.

III.13.5.2.1.3. ISO Review.

The ISO shall review the information provided in support of the Capacity Load Obligation Bilateral and shall reject the Capacity Load Obligation Bilateral if any of the provisions of this Section II.13.5.2 are not met.

III.13.5.2.1.4. Approval.

Upon approval of a Capacity Load Obligation Bilateral, the Capacity Load Obligation of the Capacity Load Obligation Transferring Participant in the Capacity Zone specified in the submission to the ISO shall be reduced by the amount set forth in the Capacity Load Obligation Bilateral and the Capacity Load Obligation of the Capacity Load Obligation Acquiring Participant in the specified Capacity Zone shall be increased by the amount set forth in the Capacity Load Obligation Bilateral.

III.13.5.3. Supplemental Availability Bilaterals.

A resource's availability score during a Shortage Event may be supplemented by entering into a Supplemental Availability Bilateral as described in this Section III.13.5.3.

III.13.5.3.1. Designation of Supplemental Capacity Resources.

III.13.5.3.1.1. Eligibility.

Demand Response Capacity Resources and Generating Capacity Resources that are not Intermittent Power Resources or Settlement Only Resources may be designated as Supplemental Capacity Resources. A Generating Capacity Resource may be designated as a Supplemental Capacity Resource in a MW amount up to the difference between the resource's CNR Capability (reduced by the hourly integrated delivered MW for any External Transaction sale or sales submitted in accordance with Section

III.1.10.7(f) from that resource and its Capacity Supply Obligation in each day of the term in which it is designated to be a Supplemental Capacity Resource. A Demand Response Capacity Resource may be designated as a Supplemental Capacity Resource in a MW amount up to the difference between the resource's Qualified Capacity from the Forward Capacity Auction for the current Capacity Commitment Period pursuant to Section III.13.1.4.1 and its Capacity Supply Obligation in each day of the term in which it is designated to be a Supplemental Capacity Resource.

III.13.5.3.1.2. Designation.

The designation of a Supplemental Capacity Resource must be made by the resource's Lead Market Participant. The designation shall indicate the term for which the resource is designated as a Supplemental Capacity Resource, which shall be in Operating Day increments, no less than one Operating Day, and no greater than one calendar month. Such designation shall indicate the MW amount being designated as a Supplemental Capacity Resource, and the Capacity Zone in which the resource is located. Such designation must be submitted to the ISO no later than the deadline for the submission of Supply Offers in the Day-Ahead Energy Market for the first Operating Day of the indicated term.

III.13.5.3.1.3. ISO Review.

The ISO shall review the information provided in submission of the designation as a Supplemental Capacity Resource, and shall reject the designation for any of the hours in which any of the provisions of this Section III.13.5.3.1 are not met.

III.13.5.3.1.4. Effect of Designation.

Regardless of whether it ever becomes subject to a Supplemental Availability Bilateral as described in Section III.13.5.3.2, the portion of a resource designated as a Supplemental Capacity Resource is subject to the same energy market offer requirements applicable to a resource having a Capacity Supply Obligation as described in Sections III.13.6.1.1.1 and III.13.6.1.1.2 for Generating Capacity Resources and as described in Sections III.13.6.1.5.1. and III.13.6.1.5.2. for Demand Response Capacity Resources for the entire term indicated in the designation described in Section III.13.5.3.1.2.

III.13.5.3.2. Submission of Supplemental Availability Bilaterals.

The Lead Market Participant for a resource previously designated as a Supplemental Capacity Resource in accordance with the provisions of Section III.13.5.3.1 for a term that included a Shortage Event may submit a Supplemental Availability Bilateral to the ISO assigning all or a portion of its available capability up to its designated supplemental capacity in each hour of that Shortage Event to a Generating

Capacity Resource or Demand Response Capacity Resource having a Capacity Supply Obligation during that Shortage Event (“Supplemented Capacity Resource”). No other Market Participant may submit a Supplemental Availability Bilateral. The Supplemental Capacity Resource and the Supplemented Capacity Resource must either: (i) be located in the same Reserve Zone (although in no case may a Supplemental Capacity Resource located in an export-constrained Capacity Zone provide supplemental availability outside of that export-constrained Capacity Zone); or (ii) be located in different Reserve Zones such that direction of flow between the Supplemental Capacity Resource and the Supplemented Capacity Resource is counter to any Reserve Zone or Capacity Zone constraint. For purposes of this Section III.13.5.3.2, a Reserve Zone having a locational reserve requirement (established pursuant to Section III.9.2.2) that is less than or equal to zero shall be considered to be unconstrained with respect to the neighboring Reserve Zone. A Supplemental Capacity Resource may submit Supplemental Availability Bilaterals with multiple Supplemented Capacity Resources, but each MW of supplemental capacity may only be assigned to one Supplemented Capacity Resource. No Supplemental Capacity Resource may itself be a Supplemented Capacity Resource for an hour.

III.13.5.3.2.1. Timing.

A Supplemental Availability Bilateral must be submitted in accordance with resettlement provisions as described in ISO New England Manuals. However, to be included in the initial settlement of payments and charges associated with the Forward Capacity Market for the month associated with the Supplemental Availability Bilateral, a Supplemental Availability Bilateral must be submitted to the ISO no later than 12:00 pm on the second Business Day after the end of that month, or at such later deadline as specified by the ISO upon notice to Market Participants (though a Supplemental Availability Bilateral may be revised by the parties to the transaction throughout the resettlement process). A Supplemental Availability Bilateral must be confirmed by the Lead Market Participant for the Supplemented Capacity Resource no later than the same deadline that applies to submission of the Supplemental Availability Bilateral.

III.13.5.3.2.2. Application.

The submission of a Supplemental Availability Bilateral to the ISO shall include the following: (i) the resource identification number for the Supplemental Capacity Resource; (ii) the resource identification number for the Supplemented Capacity Resource; (iii) the MW amount of capacity being assigned from the Supplemental Capacity Resource to the Supplemented Capacity Resource; (iv) the term of the transaction, which shall be in hourly increments coinciding with hourly boundaries, no less than one hour, and no greater than one calendar month.

III.13.5.3.2.3. ISO Review.

The ISO shall review the information provided in submission of the Supplemental Availability Bilateral, and shall reject the Supplemental Availability Bilateral if any of the provisions of this Section III.13.5.3 are not met. The ISO shall reject the applicability of a Supplemental Availability Bilateral in any hour of a Shortage Event unless: (i) the Supplemental Capacity Resource was on-line and following ISO dispatch instructions during that hour of the Shortage Event and the MW amount of capacity being assigned from the Supplemental Capacity Resource is (a) less than or equal to the difference between the Generating Capacity Resource's Economic Maximum Limit as submitted or redeclared by the Lead Market Participant and the Supplemental Capacity Resource's Capacity Supply Obligation or (b) less than or equal to the difference between (the greater of the Demand Response Capacity Resource's Real-Time Demand Reduction Obligation plus Net Supply or the lesser of ((the Demand Response Capacity Resource's Demand Response Baseline as adjusted pursuant to Section III.8B.5, plus the Economic Maximum Limit for any associated available Net Supply Generator Assets), the Hourly Adjusted Audited Demand Reduction, or (the Maximum Reduction as submitted or redeclared by the Lead Market Participant plus the Economic Maximum Limit of associated Net Supply Generator Assets))), adjusted for average avoided peak transmission and distribution losses as addressed in Section III.13.7.1.5.10, and the Supplemental Capacity Resource's Capacity Supply Obligation; or (ii) the Supplemental Capacity Resource was offline for the hour of the Shortage Event and the MW amount of capacity being assigned from the Supplemental Capacity Resource is less than or equal to the difference between the sum of the Supplemental Capacity Resource's Real-Time Reserve Designations of TMNSR and TMOR and the Supplemental Capacity Resource's Capacity Supply Obligation.

III.13.5.3.2.4. Effect of Supplemental Availability Bilateral.

A Supplemental Availability Bilateral does not affect in any way either party's Capacity Supply Obligation or the rights and obligations associated therewith. The sole effect of a Supplemental Availability Bilateral is to modify the Supplemental Capacity Resource's availability score as described in Section III.13.7.1.1.4.

III.13.7. Performance, Payments and Charges in the FCM.

During each month within each Capacity Commitment Period (“Obligation Month”), each resource that acquired or shed a Capacity Supply Obligation for that Capacity Commitment Period (or any portion thereof) will be subject to payments, charges, penalties and adjustments for such activity. In addition, all resources with a Capacity Supply Obligation as of the beginning of the Obligation Month shall have their performance measured throughout the month, based on the resource’s availability during any Shortage Events in the Obligation Month.

In the event of a change in the Lead Market Participant for a resource that has a Capacity Supply Obligation, the Capacity Supply Obligation shall remain associated with the resource and the new Lead Market Participant for the resource shall be bound by all provisions of this Section III.13 arising from such Capacity Supply Obligation. The Lead Market Participant for the resource at the start of an Obligation Month shall be responsible for all payments and charges associated with that resource in that Obligation Month.

III.13.7.1. Performance Measures.

III.13.7.1.1. Generating Capacity Resources.

During each Capacity Commitment Period, each Generating Capacity Resource having a Capacity Supply Obligation for that Capacity Commitment Period (or any portion thereof) will have its performance measured during each Obligation Month based on the resource’s availability during any Shortage Events during the month.

III.13.7.1.1.1. Definition of Shortage Events.

(a) In all Capacity Zones, any period of thirty or more contiguous minutes of Reserve Constraint Penalty Factor activation for Ten-Minute Non-Spinning Reserves shall be a Shortage Event.

(b) Prior to June 1, 2017, in any Capacity Zone, any period of thirty or more contiguous minutes of Reserve Constraint Penalty Factor activation for the “minimum TMOR” requirement sub-category of the system-wide Thirty-Minute Operating Reserves requirement (described in Section III.2.7A(c)) when Action 2 under Operating Procedure No. 4 has also been implemented for the entire Capacity Zone shall also be a Shortage Event. Beginning on June 1, 2017, in any Capacity Zone, any period of thirty or more contiguous minutes of Reserve Constraint Penalty Factor activation for the “minimum TMOR”

requirement sub-category of the system-wide Thirty-Minute Operating Reserves requirement (described in Section III.2.7A(c)) shall also be a Shortage Event.

(c) Prior to June 1, 2017, in an import-constrained Capacity Zone, as determined pursuant to Section III.13.2.3.4, a Shortage Event shall also be Action 2 under Operating Procedure No. 4, or any Operating Procedure No. 7 event, that is declared for the entire import-constrained Capacity Zone for thirty or more contiguous minutes and that is not also declared for the entire Rest-of-Pool Capacity Zone. Beginning on June 1, 2017, in an import-constrained Capacity Zone, as determined pursuant to Section III.13.2.3.4, a Shortage Event shall also be any period of thirty or more contiguous minutes of Reserve Constraint Penalty Factor activation for the local Thirty-Minute Operating Reserves requirement (described in Section III.2.7A(c)) that is declared for the entire import-constrained Capacity Zone.

(d) In all cases, to be considered discrete Shortage Events, such events must be separated by at least 2.5 hours. Events that would satisfy the definition of Shortage Events except that they are separated by less than 2.5 hours shall be considered a single Shortage Event with a duration equal to the sum of the lengths of the underlying events. There shall be no more than two Shortage Events per Capacity Zone per day. If there are more than two Shortage Events in a day, only the first two Shortage Events that occur will be recognized.

(e) For the purposes of Section III.13.7.1.1.1(d), Shortage Events that cross daily boundaries will be considered to occur on the day in which the Shortage Event was triggered. Availability during Shortage Events that cross monthly boundaries will be applied to the Obligation Month in which the Shortage Event was triggered.

III.13.7.1.1.1.A Shortage Event Availability Score.

For each Shortage Event, the ISO shall calculate a Shortage Event Availability Score for each resource, as follows: For each hour containing any portion of the Shortage Event, the ISO shall multiply the resource's hourly availability score by the number of minutes of the Shortage Event in that hour, and then divide the product by the total number of minutes in the Shortage Event. The resulting values for each hour shall then be added together to determine the resource's Shortage Event Availability Score.

III.13.7.1.1.2. Hourly Availability Scores.

The ISO shall calculate an availability score for each resource for each hour that contains any portion of a Shortage Event. A resource's availability score for an hour, expressed as a percentage which may not

exceed 100 percent, shall be the sum of the resource's available MW in that hour plus any adjustments pursuant to Section III.13.7.1.1.4 divided by the resource's Capacity Supply Obligation. In the event that there are no Shortage Event hours during a month, no availability penalties will be assessed.

III.13.7.1.1.3. Hourly Available MW.

A resource's available MW in each hour that contains any portion of a Shortage Event shall be determined pursuant to the provisions of this Section III.13.7.1.1.3, provided, however, that in no case shall a resource's available MW in an hour exceed that resource's CNR Capability (reduced by the hourly integrated delivered MW for any External Transaction sale or sales from that resource).

(a) For a resource that is on-line with a metered output greater than zero and following ISO dispatch instructions, the available MW in an hour shall be the resource's Economic Maximum Limit, as submitted or redeclared by the Lead Market Participant.

(b) For a resource that is off-line with a metered output equal to zero and available for dispatch and following ISO dispatch instructions and has a cold notification time plus cold start time of thirty minutes or less, the available MW in an hour shall be the resource's Economic Maximum Limit, as submitted or redeclared by the Lead Market Participant.

(c) For a resource that is off-line with a metered output equal to zero and available for dispatch and following ISO dispatch instructions and has a cold notification plus cold start-up time of less than or equal to 12 hours (16 hours, during the first five Capacity Commitment Periods for resources with notification plus start-up times greater than 12 hours as of June 16, 2006) and the output, up to the Capacity Supply Obligation, was competitively offered into the Energy Market (i.e., capacity from the listed portion of the resource was offered at or below the appropriate Reference Level plus applicable conduct thresholds) but was not committed by the ISO and was consequently unavailable within 30 minutes, the available MW in an hour shall be the resource's Economic Maximum Limit, as submitted or redeclared by the Lead Market Participant.

(d) For a resource that is off-line but not meeting the requirements of either Section III.13.7.1.1.3(b) or Section III.13.7.1.1.3(c), the available MW in an hour shall be zero.

(e) For a resource that is on-line but not able to follow ISO dispatch instructions, the available MW in an hour shall be the resource's metered output for the hour.

(f) Where a resource is not committed due to an outage or derate of transmission equipment within the New England Control Area, other than an outage or de-rate of transmission equipment that is controlled by the owner of the resource or that constitutes a radial lead to a resource in the New England Control Area (other than radial leads to Wyman 4 and Stony Brook), that resource's available MW in an hour shall not be reduced as a result. Maine Independence Station shall be considered available when derated or not committed because of a transmission constraint.

(g) Where a resource is denied a self-schedule request by the ISO and therefore was not available in the Real-Time Energy Market, that resource's available MW in an hour shall not be reduced as a result.

(h) Where a New Generating Capacity Resource that has cleared in the Forward Capacity Auction has completed construction but due to a planned transmission facility (e.g., a radial interconnection) not being in service is not able to achieve Commercial Operation and cannot conduct its capability audit by the first day of the Obligation Month, that resource's available MW in an hour shall not be reduced as a result (i.e., the resource shall not be subject to an availability penalty as a result).

(i) Where a New Generating Capacity Resource that has cleared in the Forward Capacity Auction has completed construction but due to a planned transmission facility (e.g., a radial interconnection) not being in service is not able to achieve Commercial Operation, and is able to conduct a capability audit, that resource's available MW in an hour shall not be reduced as a result (i.e., the resource shall not be subject to an availability penalty as a result).

(j) Where a resource is associated with one or more External Transaction sales submitted in accordance with Section III.1.10.7(f), that resource will have its hourly available MW reduced by the hourly integrated delivered MW for the External Transaction sale or sales.

III.13.7.1.1.4. Availability Adjustments.

(a) A resource's hourly availability score may be increased using a Supplemental Availability Bilateral as described in Section III.13.5.3. Where all of the requirements of Section III.13.5.3 are met, the amount of available MW from the Supplemented Capacity Resource during each hour of the Shortage Event will be increased by the amount of supplemental capacity specified in the Supplemental Availability Bilateral, provided, however, that only available capacity above the Supplemental Capacity

Resource's Capacity Supply Obligation, if any, during each hour of the Shortage Event may be counted as supplemental capacity for the Supplemented Capacity Resource. The sum of these amounts will be counted in determining the availability score of the Supplemented Availability Resource for the Shortage Event.

(b) A resource's hourly availability score may be increased when an asset associated with the resource is on a planned outage that was approved in the ISO's annual maintenance scheduling process. Market Participants may indicate when submitting a planned outage request that the outage is to be considered exempt as described in ISO New England Operating Procedure No. 5. In such cases the associated resource's hourly available MWs may be increased by an amount up to the outage MWs requested, provided that the resource has not exceeded the maintenance allotment hour limit regarding exempt approved planned outages at the time of the Shortage Event as described in the ISO New England Manuals. In the case of a Settlement Only Resource, a planned outage scheduled in either December or January or during the period June 1 through September 15 may not be used to increase the resource's hourly availability score as described in this subsection.

III.13.7.1.1.5. Poorly Performing Resources.

Prior to the Forward Capacity Auction qualification process, the ISO shall determine whether a resource meets the following two criteria: in the most recent four consecutive Capacity Commitment Periods or the most recent 4 years in which the resource assumed a Capacity Supply Obligation: (a) the resource received 3 annual availability scores of less than or equal to 40 percent; and (b) the resource has failed to be available in its entirety during ten or more Shortage Events during that same period. The annual availability score for each Capacity Commitment Period shall be equal to the average of all availability scores as calculated for each hour during each Shortage Event. If both of these criteria are met, the resource shall be considered a Poorly Performing Resource and shall not be eligible to participate in any subsequent Forward Capacity Auctions, and may not assume an obligation through the reconfiguration auctions, or Capacity Supply Obligation Bilaterals until it either achieves an availability score of 60 percent or higher in three consecutive Capacity Commitment Periods or 3 consecutive years, or demonstrates to the ISO that the reasons for the inadequate availability scores have been remedied. For the purposes of determining whether a resource is a Poorly Performing Resource, its availability score while it is de-listed shall not be considered. For the purposes of returning from poorly performing status, the ISO, at the request of the resource owner, may consider performance while de-listed, but in no case shall the ISO use non-consecutive years for evaluating a resource's performance.

III.13.7.1.2. Import Capacity.

The performance of an Import Capacity Resource with a Capacity Supply Obligation will be measured during Shortage Events as defined in Section III.13.7.1.1.1. An Import Capacity Resource's Shortage Event Availability Score and hourly availability score shall be calculated in the manner described in Section III.13.7.1.1.1.A and III.13.7.1.1.2, respectively (with the hourly availability score adjusted pursuant to Section III.13.7.1.2.1, as appropriate). An Import Capacity Resource's available MW in each hour that contains any portion of a Shortage Event shall be determined as follows:

(a) Where the corresponding External Transactions are delivering energy in accordance with ISO dispatch instructions, the resource's available MW in the hour shall be equal to the MW associated with the External Transactions, as submitted by the Market Participant.

(b) Where the corresponding External Transactions have been offered in accordance with the provisions of Section III.13.6.1.2 and is not delivering energy during the hour because the ISO has not requested dispatch of the transaction, the resource's available MW in the hour shall be equal to the MW associated with the External Transactions, as submitted by the Market Participant.

(c) Where the corresponding External Transactions have not been offered in accordance with the provisions of Section III.13.6.1.2 or have been offered in accordance with the provisions of Section III.13.6.1.2 and are not delivering energy during the hour despite ISO requested dispatch of the transaction, the resource's available MW in the hour shall be zero.

(d) Where the Import Capacity Resource was offered in accordance with the provisions of Section III.13.6.1.2 but cannot make Real-Time deliveries of energy because the relevant external interface is already flowing at its Total Transfer Capability into New England in Real-Time, the resource's available MW in the hour shall be equal to the MW associated with the External Transactions, as submitted by the Market Participant.

III.13.7.1.2.1. Availability Adjustments.

The hourly availability score of an Import Capacity Resource that qualified as being backed by a single External Resource may be increased when the associated External Resource is on a planned outage in the same manner as described in Section III.13.7.1.1.4(b).

III.13.7.1.3. Intermittent Power Resources.

The performance measure for Intermittent Power Resources, including Intermittent Settlement Only Resources will be included in the determination of their summer and winter Qualified Capacity as described in Section III.13.1.1.2.2.6 and Section III.13.1.2.2.2.

III.13.7.1.4. Settlement Only Resources.

III.13.7.1.4.1. Non-Intermittent Settlement Only Resources.

A Non-Intermittent Settlement Only Resource's Shortage Event Availability Score and hourly availability score shall be calculated in the manner described in Section III.13.7.1.1.1.A and III.13.7.1.1.2, respectively. Its available MW in an hour of a Shortage Event shall be the resource's metered output for the hour.

III.13.7.1.4.2. Intermittent Settlement Only Resources.

The performance measure for Intermittent Settlement Only Resources will be included in the determination of their summer and winter Qualified Capacity as described in Section III.13.1.1.2.2.6 and Section III.13.1.2.2.2.

III.13.7.1.5. Demand Resources.

III.13.7.1.5.1. Capacity Values of Demand Resources.

The Capacity Value of a Demand Resource for an Obligation Month shall be its Demand Reduction Value for the month as determined pursuant to Section III.13.7.1.5.3 multiplied by the summer Installed Capacity Requirement divided by the 50/50 summer system peak load forecast as determined by the ISO for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears, multiplied by one plus the percent average avoided peak transmission and distribution losses used by the ISO in its calculations of the Installed Capacity Requirement for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears. Beginning with the Capacity Commitment Period starting June 1, 2012 the Capacity Value of a Demand Resource for an Obligation Month shall be its Demand Reduction Value for the month as determined pursuant to Section III.13.7.1.5.3 multiplied by one plus the percent average avoided peak transmission and distribution losses used to calculate the Installed Capacity Requirement for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears. For the first Forward Capacity Auction, the value of the Installed Capacity Requirement

divided by the 50/50 summer system peak load forecast shall be 1.143, and one plus the percent average avoided peak transmission and distribution losses shall be 1.08.

III.13.7.1.5.1.1. Special Provisions for Demand Resources that Cleared in the First through Seventh Forward Capacity Auctions in which Project Sponsor Elected to have its Capacity Supply Obligation and Capacity Clearing Price Apply for Multiple Capacity Commitment Periods.

For a Demand Resource that cleared in the Forward Capacity auction for the Capacity Commitment Period beginning June 1, 2010 in which the Project Sponsor elected to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period beginning June 1, 2010, the Capacity Value of that Demand Resource for an Obligation Month shall be its Demand Reduction Value for the month as determined pursuant to Section III.13.7.1.5.3 multiplied by the product of 1.143 and 1.08. For a Demand Resource that cleared in the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2011 in which the Project Sponsor elected to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period beginning June 1, 2011, the Capacity Value of that Demand Resource for an Obligation Month shall be its Demand Reduction Value for the month as determined pursuant to Section III.13.7.1.5.3 multiplied by the product of 1.161 and 1.08. For a Demand Resource that cleared in the Forward Capacity Auction for any of the Capacity Commitment Periods beginning June 1, 2012 through the Capacity Commitment Period beginning in which the Project Sponsor elected to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply in a future Capacity Commitment Period, the Capacity Value of that Demand Resource for an Obligation Month shall be its Demand Reduction Value for the month as determined pursuant to Section III.13.7.1.5.3 multiplied by the product of 1.08. This special provision shall cease to apply once the period elected by the Project Sponsor to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which its Demand Resource offer cleared has expired.

III.13.7.1.5.2. Capacity Values of Certain Distributed Generation.

For those Distributed Generation resource assets that are capable of generating energy in excess of the facility load and capable of delivering the excess generation to the power grid, if across Demand Resource On-Peak Hours, Demand Resource Seasonal Peak Hours, Real-Time Demand Response Event Hours, or Real-Time Emergency Generation Event Hours, as appropriate, a Distributed Generation resource asset's monthly average hourly output is greater than the monthly average hourly load of the

end-use customer to which the resource is directly connected, the Capacity Value of the portion of output exceeding the customer's load for the month will be the Demand Reduction Value for that portion of the output. No average avoided peak transmission and distribution losses shall be applied to Net Supply associated with a Demand Response Asset, Demand Response Resource, or Demand Response Capacity Resource.

III.13.7.1.5.3. Demand Reduction Values.

A Demand Reduction Value is a quantity of reduced demand produced by a Demand Resource and is calculated pursuant to Section III.13.7.1.5.4, III.13.7.1.5.5, III.13.7.1.5.6, III.13.7.1.5.7 and III.13.7.1.5.8.

III.13.7.1.5.4. Calculation of Demand Reduction Values for On-Peak Demand Resources.

Monthly Demand Reduction Values shall be established for the months of June, July, August, December, and January and seasonal Demand Reduction Values for the remaining calendar months. The monthly Demand Reduction Value of On-Peak Demand Resources shall be equal to its Average Hourly Load Reduction or Average Hourly Output over Demand Resource On-Peak Hours in the month.

III.13.7.1.5.4.1. Summer Seasonal Demand Reduction Value.

The summer seasonal Demand Reduction Value of On-Peak Demand Resources shall be equal to the simple average of its monthly Demand Reduction Values in the most recent months of June, July and August. The summer seasonal Demand Reduction Value shall apply to the months of September, October, November, April and May.

III.13.7.1.5.4.2. Winter Seasonal Demand Reduction Value.

The winter seasonal Demand Reduction Value of On-Peak Demand Resources shall be equal to the simple average of its monthly Demand Reduction Values in the most recent months of December and January. The winter seasonal Demand Reduction Value shall apply to the months of February and March.

III.13.7.1.5.5. Calculation of Demand Reduction Values for Seasonal Peak Demand Resources.

Monthly Demand Reduction Values shall be established for the months of June, July, August, December, and January and seasonal Demand Reduction Values for the remaining calendar months. The monthly Demand Reduction Value of Seasonal Peak Demand Resources shall be equal to its Average Hourly Load Reduction or Average Hourly Output over Demand Resource Seasonal Peak Hours in the month. If there are no Demand Resource Seasonal Peak Hours in the months of July, August, or January, the Demand

Reduction Value for those months shall be equal to: (i) the Demand Reduction Value established for the previous month if the previous month's Demand Reduction Value was calculated using Seasonal Peak Hours or (ii) the Seasonal DR Audit results if the Demand Reduction Value for the previous month was not calculated using Seasonal Peak Hours. If there are no Demand Resource Seasonal Peak Hours in the months of June or December, the Demand Reduction Value of that resource for those months shall be equal to (i) the first applicable seasonal audit, if conducted in that month, or (ii) where there was no audit conducted in the month, the applicable previous seasonal Demand Reduction Value.

III.13.7.1.5.5.1. Summer Seasonal Demand Reduction Value.

The summer seasonal Demand Reduction Value of Seasonal Peak Demand Resources shall be equal to the simple average of its monthly Demand Reduction Values in the most recent months of June, July and August. This summer seasonal Demand Reduction Value will apply to the months of September, October, November, April and May.

III.13.7.1.5.5.2. Winter Seasonal Demand Reduction Value.

The winter seasonal Demand Reduction Value of Seasonal Peak Demand Resources shall be equal to the simple average of its monthly Demand Reduction Values in the most recent months of December and January. This winter seasonal Demand Reduction Value will apply to the months of February and March.

III.13.7.1.5.6. [Reserved.]

III.13.7.1.5.6.1. [Reserved.]

III.13.7.1.5.6.2. [Reserved.]

III.13.7.1.5.7. Demand Reduction Values for Real-Time Demand Response Resources.

Demand Reduction Values are determined on a monthly basis. For the months of June, July, August, December, and January, the Demand Reduction Value of a Real-Time Demand Response Resource is the simple average of its Hourly Calculated Demand Resource Performance Values in the month.

If there are no Real-Time Demand Response Event Hours for a Real-Time Demand Response Resource in the months of July, August, or January, the Demand Reduction Value of that resource for those months shall be equal to (i) the Demand Reduction Value established for the previous month if the previous month's Demand Reduction Value was calculated using Real-Time Demand Response Event Hours or (ii)

the sum of the audit values of the assets mapped to the Real-Time Demand Response Resource in that month if the Demand Reduction Value for the previous month was not calculated using Real-Time Demand Response Event Hours. If there are no Real-Time Demand Response Event Hours for a Real-Time Demand Response Resource in the months of June or December the Demand Reduction Value of that resource for those months shall be equal to (i) the first applicable seasonal audit, if conducted in that month, or (ii) the sum of the audit values of the assets mapped to the Real-Time Demand Response Resource in that month.

III.13.7.1.5.7.1. Summer Seasonal Demand Reduction Value.

The summer seasonal Demand Reduction Value of a Real-Time Demand Response Resource for September, October, November, April and May shall be equal to (i) the simple average of its Demand Reduction Values in the most recent months of June, July and August if there are no Real-Time Demand Response Event Hours in the month or (ii) the simple average of (a) the simple average of its Demand Reduction Values in the most recent months of June, July and August and (b) its Demand Reduction Value, established using the method specified in Section III.13.7.1.5.7, across the Real-Time Demand Response Event Hours in the month if there are Real-Time Demand Response Event Hours in the month.

III.13.7.1.5.7.2. Winter Seasonal Demand Reduction Value.

The winter seasonal Demand Reduction Value of a Real-Time Demand Response Resource for February and March shall be equal to (i) the simple average of its Demand Reduction Values in the most recent months of December and January if there are no Real-Time Demand Response Event Hours in the month or (ii) the simple average of (a) the simple average of its Demand Reduction Value in the most recent months of December and January and (b) its Demand Reduction Value, established using the method specified in Section III.13.7.1.5.7, across the Real-Time Demand Response Event Hours in the month if there are Real-Time Demand Response Event Hours in the month.

III.13.7.1.5.7.3. Determination of Hourly Calculated Demand Resource Performance Values for Real-Time Demand Response Resources.

The Hourly Calculated Demand Resource Performance Value shall be computed for each Real-Time Demand Response Resource receiving a Dispatch Instruction for a Real-Time Demand Response Event Hour. The Hourly Calculated Demand Resource Performance Value shall be computed as (i) the Real-Time Demand Response Resource's Capacity Supply Obligation, divided by (ii) the summer Installed Capacity Requirement divided by the 50/50 summer system peak load forecast as determined by the ISO for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the

Demand Resource clears, divided by (iii) one plus the percent average avoided peak transmission and distribution losses used in the calculation of the Installed Capacity Requirement for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears, and multiplied by (iv) one plus the quotient of Hourly Real-Time Demand Response Resource Deviation and the amount of load reduction or output that the Market Participant with the resource was instructed to produce from that resource pursuant to Dispatch Instructions.

III.13.7.1.5.7.3.1. Determination of the Hourly Real-Time Demand Response Resource Deviation.

An Hourly Real-Time Demand Response Resource Deviation shall be calculated for each Real-Time Demand Response Resource as the difference between the Average Hourly Load Reduction or Average Hourly Output of the Real-Time Demand Response Resource and the amount of load reduction or output that the Market Participant with the resource was instructed in the Dispatch Instruction to produce in the Real-Time Demand Response Event Hour. The calculation of the Hourly Real-Time Demand Response Resource Deviation shall be determined in a manner that reflects that Real-Time Demand Response Resources are allowed 30 minutes from the beginning of the first Real-Time Demand Response Event Hour in consecutive Real-Time Demand Response Event Hours in a Dispatch Instruction for the same Operating Day to achieve the load reduction amount indicated in the Dispatch Instruction when such resources are dispatched in response to Real-Time Demand Resource Dispatch Hours. The Total Negative Hourly Demand Resource Deviations for each hour shall be calculated as the absolute value of the sum of the negative Hourly Real-Time Demand Response Resource Deviations and negative Hourly Real-Time Emergency Generation Deviations from all Real-Time Demand Response Resources and Real-Time Emergency Generation Resources receiving Dispatch Instructions in the same hour in the same Load Zone or, starting on June 1, 2011, in the same Dispatch Zone. The Total Positive Hourly Demand Resource Deviations for each hour shall be calculated as the sum of the positive Hourly Real-Time Demand Response Resource Deviations and positive Hourly Real-Time Emergency Generation Deviations from all Real-Time Demand Response Resources and Real-Time Emergency Generation Resources receiving Dispatch Instructions in the same hour in the same Load Zone or, starting on June 1, 2011, in the same Dispatch Zone. If the Hourly Real-Time Demand Response Resource Deviation is greater than zero in any Real-Time Demand Response Event Hour, the Hourly Real-Time Demand Response Resource Deviation shall be multiplied by the lesser of: (i) one, or; (ii) the ratio of the Total Negative Hourly Demand Resource Deviations divided by the Total Positive Demand Resource Deviations in the same Load Zone in the hour or, starting on June 1, 2011, in the same Dispatch Zone in the hour.

III.13.7.1.5.8. Demand Reduction Values for Real-Time Emergency Generation Resources.

Demand Reduction Values shall be determined on a monthly basis. For the months of June, July, August, December, and January, the Demand Reduction Value of a Real-Time Emergency Generation Resource shall be the simple average of its Hourly Calculated Demand Resource Performance Values in the month.

If there are no Real-Time Emergency Generation Event Hours for a Real-Time Emergency Generation Resource in the months of July, August, or January, the Demand Reduction Value for those months shall be equal to (i) the Demand Reduction Value established for the previous month if the previous months Demand Reduction Value was calculated using Real-Time Emergency Generation Event Hours or (ii) the sum of the audit values of the assets mapped to the Real-Time Emergency Generation Resource in that month if the Demand Reduction Value for the previous month was not calculated using Real-Time Emergency Generation Event Hours. If there are no Real-Time Emergency Generation Event Hours for a Real-Time Emergency Generation Resource in the months of June or December, the Demand Reduction Value of that resource for those months shall be equal to (i) the first applicable seasonal audit, if conducted in that month, or (ii) the sum of the audit values of the assets mapped to the Real-Time Emergency Generation Resource in that month.

III.13.7.1.5.8.1. Summer Seasonal Demand Reduction Value.

The summer seasonal Demand Reduction Value for the months of September, October, November, April and May shall be equal to the simple average of the Demand Reduction Values in the most recent months of June, July and August if there are no Real-Time Emergency Generation Event Hours in the month. If there are Real-Time Emergency Generation Event Hours in the months of September, October, November, April or May, the Demand Reduction Value shall be equal to the Demand Reduction Value, established using the method specified in Section III.13.7.1.5.8, during all the Real-Time Emergency Generation Event Hours in the month.

III.13.7.1.5.8.2. Winter Seasonal Demand Reduction Value.

The winter seasonal Demand Reduction Value for the months of February and March shall be equal to the simple average of the Demand Reduction Values in the most recent months of December and January if there are no Real-Time Emergency Generation Event Hours in the month. If there are Real-Time Emergency Generation Event Hours in the months of February or March, the Demand Reduction Value shall be equal to the Demand Reduction Value, established using the method specified in Section III.13.7.1.5.8 during all the Real-Time Emergency Generation Event Hours in the month.

III.13.7.1.5.8.3. Determination of Hourly Calculated Demand Resource Performance Values for Real-Time Emergency Generation Resources.

The Hourly Calculated Demand Resource Performance Value shall be computed for each Real-Time Emergency Generation Resource receiving a Dispatch Instruction for a Real-Time Emergency Generation Event Hour. The Hourly Calculated Demand Resource Performance Value shall be computed as (i) the Real-Time Emergency Generation Resource's Capacity Supply Obligation, divided by (ii) the summer Installed Capacity Requirement divided by the 50/50 summer system peak load forecast for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears, divided by (iii) one plus the percent average avoided peak transmission and distribution losses used in the calculation of the Installed Capacity Requirement for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears, and multiplied by (iv) one plus the quotient of Hourly Real-Time Emergency Generation Resource Deviation and the amount of load reduction or output that the Market Participant with the resource was instructed to produce from that resource pursuant to Dispatch Instructions.

III.13.7.1.5.8.3.1. Determination of the Hourly Real-Time Emergency Generation Resource Deviation.

An Hourly Real-Time Emergency Generation Resource Deviation shall be calculated for each Real-Time Emergency Generation Resource as the difference between the Average Hourly Output or Average Hourly Load Reduction of the Real-Time Emergency Generation Resource and the amount of output that the Market Participant with the resource was instructed in the Dispatch Instruction to produce in the Real-Time Emergency Generation Event Hour. The calculation of the Hourly Real-Time Emergency Generation Resource Deviation shall be determined in a manner that reflects that Real-Time Emergency Generation Resources are allowed 30 minutes from the beginning of the first Real-Time Emergency Generation Event Hour in consecutive Real-Time Emergency Generation Event Hours in a Dispatch Instruction for the same Operating Day to achieve the load reduction amount indicated in a Dispatch Instruction. The Total Negative Hourly Demand Resource Deviations for each hour shall be calculated as the absolute value of the sum of the negative Hourly Real-Time Demand Response Resource Deviations and negative Hourly Real-Time Emergency Generation Deviations from all Real-Time Demand Response Resources and Real-Time Emergency Generation Resources receiving Dispatch Instructions in the same hour in the same Load Zone or, starting on June 1, 2011, in the same Dispatch Zone. The Total Positive Hourly Demand Resource Deviations for each hour shall be calculated as the sum of the positive Hourly Real-Time Demand Response Resource Deviations and positive Hourly Real-Time Emergency

Generation Deviations from all Real-Time Demand Response Resources and Real-Time Emergency Generation Resources receiving Dispatch Instructions in the same hour in the same Load Zone or, starting on June 1, 2011, in the same Dispatch Zone. If the Hourly Real-Time Emergency Generation Resource Deviation is greater than zero in any Real-Time Emergency Generation Event Hour, the Hourly Real-Time Emergency Generation Resource Deviation shall be multiplied by the lesser of: (i) one, or; (ii) the ratio of the Total Negative Hourly Demand Resource Deviations divided by the Total Positive Demand Resource Deviations in the same Dispatch Zone in the hour.

III.13.7.1.5.9. Determination of Hourly Calculated Demand Resource Performance Values for Real-Time Demand Response Resources and Real-Time Emergency Generation Resources Starting with the Capacity Commitment Period beginning June 1, 2012.

Starting with the Capacity Commitment Period beginning June 1, 2012, the divisor described in (ii) of Sections III.13.7.1.5.7.3 and III.13.7.1.5.8.3, which is equal to the summer Installed Capacity Requirement divided by the 50/50 summer system peak load forecast as determined by the ISO for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears, shall be eliminated from the determination of Hourly Calculated Demand Resource Performance Values, with the exception of Demand Resources that cleared in the Forward Capacity Auctions for the Capacity Commitment Periods beginning June 1, 2010 and June 1, 2011 in which the Project Sponsor elected to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which its Demand Resource offer cleared. For Demand Resources with such multi-year Capacity Supply Obligations the divisor described in (ii) of Sections III.13.7.1.5.7.3 and III.13.7.1.5.8.3 shall continue to apply until the period elected by the Project Sponsor to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which its Demand Resource offer cleared has expired.

III.13.7.1.5.10. Demand Response Capacity Resources.

The performance of a Demand Response Capacity Resource with a Capacity Supply Obligation will be measured during Shortage Events as defined in Section III.13.7.1.1.1. A Demand Response Capacity Resource's Shortage Event Availability Score and hourly availability score shall be calculated in the manner described in Section III.13.7.1.1.1.A and III.13.7.1.1.2, respectively (with the hourly availability score adjusted pursuant to Section III.13.7.1.2.1). For the portion associated with the ability to reduce demand, availability for Demand Response Capacity Resources would be adjusted for average avoided

peak transmission and distribution losses as described in Section III.13.7.1.5.1 and Section III.13.7.1.5.1.1. For the portion associated with the ability to provide Net Supply, availability for Demand Response Capacity Resources would not be adjusted for average avoided peak transmission and distribution losses.

III.13.7.1.5.10.1 Hourly Available MW.

A Demand Response Capacity Resource's available MW in each hour that contains any portion of a Shortage Event shall be determined based upon the sum of its associated Demand Response Resources as follows, provided, that in no case shall a Demand Response Capacity Resource's available MW in an hour exceed that resource's Qualified Capacity from the Forward Capacity Auction for the current Capacity Commitment Period per Section III.13.1.4.1. For purposes of the following calculations, when the output of a Real-Time Emergency Generation Asset exceeds the Demand Response Baseline, adjusted pursuant to Section III.8B.5, of a Demand Response Asset located at the same Retail Delivery Point and Net Supply is produced, any Net Supply of a Net Supply Generator Asset located at the same Retail Delivery Point, hourly Desired Dispatch Point and Economic Maximum Limit of the Net Supply Generator Asset, shall be reduced by the difference between the Real-Time Emergency Generation Asset's output and the adjusted Demand Response Baseline of the Demand Response Asset.

- (a) For a Demand Response Resource that reduces demand and is following Dispatch Instructions and for any associated Net Supply Generator Assets that are following Dispatch Instructions where the total Desired Dispatch Point for the Demand Response Resource and the associated Net Supply Generator Assets is less than (the Maximum Reduction plus the Economic Maximum Limit for any associated available Net Supply Generator Assets) and greater than or equal to the Minimum Reduction, the available MW in an hour shall be the greater of (the resource's Real-Time Demand Reduction Obligation plus the Net Supply for any associated available Net Supply Generator Assets) and the lesser of (the resource's Demand Response Baseline as adjusted pursuant to Section III.8B.5 plus the Economic Maximum Limit for any associated available Net Supply Generator Assets), the resource's Hourly Adjusted Audited Demand Reduction, or (the resource's Maximum Reduction as submitted or redeclared by the Lead Market Participant for the resource plus the Economic Maximum Limit for any associated available Net Supply Generator Assets as submitted or redeclared by the Lead Market Participant).

- (b) For a Demand Response Resource that reduces demand and is following Dispatch Instructions and for any associated Net Supply Generator Assets that are following Dispatch Instruction where the total Desired Dispatch Point for the Demand Response Resource and the associated Net Supply Generator

Assets is equal to Maximum Reduction plus the Economic Maximum Limit for any associated available Net Supply Generator Assets) or (Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets equals Minimum Reduction plus Economic Minimum Limit for any associated available Net Supply Generator Assets) or total Desired Dispatch Point for the Demand Response Resource and the associated Net Supply Generator Assets is less than the Minimum Reduction plus Economic Minimum Limit for any associated available Net Supply Generator Assets, the available MW in an hour shall be the resource's Real-Time Demand Reduction Obligation plus any associated Net Supply.

(c) For a Demand Response Resource that has reduced demand or any associated Net Supply Generator Assets have been dispatch but are not responding to Dispatch Instructions where the Real-Time Demand Reduction Obligation plus any associated Net Supply is less than the total Desired Dispatch Point for the Demand Response Resource and the associated Net Supply Generator Assets, the available MW in an hour shall be the resource's Real-Time Demand Reduction Obligation plus any associated Net Supply for the hour.

(d) For a Demand Response Resource that has reduced demand or any associated Net Supply Generator Assets that have been dispatch but are not responding to Dispatch Instructions where the Real-Time Demand Reduction Obligation is greater than the total Desired Dispatch Point for the Demand Response Resource and the associated Net Supply Generator Assets, the available MW in an hour shall be the lesser of the resource's Real-Time Demand Reduction Obligation plus any associated Net Supply and Hourly Adjusted Audited Demand Reduction for the hour.

(e) For a Demand Response Resource that is not reducing demand, is available for dispatch and is able to respond to Dispatch Instructions, and has an Offered Full Reduction Time (adjusted for the Audited Demand Reduction) and an Audited Full Reduction Time (adjusted for the Maximum Reduction and Economic Maximum Limit for any associated available Net Supply Generator Assets) of thirty minutes or less, the available MW in an hour shall be the lesser of (the lesser of (the resource's Maximum Reduction, as submitted or redeclared by the Lead Market Participant, and Actual Load) plus the sum of the Economic Maximum Limits for any associated available Net Supply Generator Assets as submitted or redeclared by the Lead market Participant) or Hourly Adjusted Audited Demand Reduction.

(f) For a Demand Response Resource that is not reducing demand, is available for dispatch and is able to respond to Dispatch Instructions, and has an Audited Full Reduction Time (adjusted for the

Maximum Reduction and Economic Maximum Limit for any associated available Net Supply Generator Assets as submitted or redeclared by the Lead Market Participant) or Offered Full Reduction Time (adjusted for the Audited Demand Reduction) greater than thirty minutes and less than or equal to 12 hours, the available MW shall be zero unless the duration of the Shortage Event exceeds the Audited Full Reduction Time (adjusted for the Maximum Reduction and Economic Maximum Limit for any associated available Net Supply Generator Assets) and Offered Full Reduction Time (adjusted for the Audited Demand Reduction), in which case the available MW in an hour shall be the lesser of (the lesser of (the resource's Maximum Reduction, as submitted or redeclared by the Lead Market Participant, the resource's Actual Load plus Economic Maximum Limits for any associated available Net Supply Generator Assets as submitted or redeclared by the Lead Market Participant or the resource's Hourly Adjusted Audited Demand Reduction time weighted to reflect the portion of the hour in which the Demand Response Resource Notification Time and Demand Response Resource Start-Up Time exceeded the Shortage Event duration.

(g) For a Demand Response Resource that (i) is not reducing demand, is available for dispatch and is able to respond to Dispatch Instructions, and has an Audited Full Reduction Time (adjusted for the Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets) or Offered Full Reduction Time (adjusted for the Audited Demand Reduction) greater than 12 hours or (ii) is unavailable to reduce demand, the available MW shall be zero.

III.13.7.1.5.10.1.1 Adjusted Audited Demand Reduction.

A Demand Response Resource's Adjusted Audited Demand Reduction shall be determined as follows. For purposes of these calculations, when the output of a Real-Time Emergency Generation Asset exceeds the Demand Response Baseline, adjusted pursuant to Section III.8B.5 of a Demand Response Asset located at the same Retail Delivery Point and Net Supply is produced, the Economic Maximum Limit of the Net Supply Generator Asset at the same location shall be reduced by the difference between the Real-Time Emergency Generation Asset's output and the adjusted Demand Response Baseline of the Demand Response Asset:

(a) A Demand Response Resource that has an Offered Full Reduction Time (adjusted for the Audited Demand Reduction) equal to its Audited Full Reduction Time (adjusted for the Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets) shall have its Adjusted Audited Demand Reduction set equal to the resource's Audited Demand Reduction.

(b) A Demand Response Resource that has an Offered Full Reduction Time (adjusted for the Audited Demand Reduction) greater than its Audited Full Reduction Time (adjusted for the Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets) shall have its Adjusted Audited Demand Reduction calculated as:

((the Audited Full Reduction Time adjusted for the (Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets)) divided by (the Offered Full Reduction Time adjusted for the Audited Demand Reduction)) multiplied by the lesser of (the Audited Demand Reduction or (Maximum Reduction as submitted or redeclared by the Lead Market Participant plus Economic Maximum Limit for any associated available Net Supply Generator Assets)).

(c) A Demand Response Resource that has an Offered Full Reduction Time (adjusted for the Audited Demand Reduction) less than its Audited Full Reduction Time (adjusted for the Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets) shall have its Adjusted Audited Demand Reduction calculated as:

((the Offered Full Reduction Time adjusted for the Audited Demand Reduction) divided by (the Audited Full Reduction Time adjusted for the (Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets))) multiplied by the lesser of (the Audited Demand Reduction or (Maximum Reduction as submitted or redeclared by the Lead Market Participant plus Economic Maximum Limit for any associated available Net Supply Generator Assets)).

III.13.7.1.5.10.1.2 Hourly Adjusted Audited Demand Reduction.

The Hourly Adjusted Audited Demand Reduction shall be calculated as the time weighted average of the Adjusted Audited Demand Reduction and Audited Demand Reduction for the period the resource was dispatched.

III.13.7.1.5.10.2 Availability Adjustments.

The hourly availability score of a Demand Response Capacity Resource shall be increased in the same manner as described in Section III.13.7.1.1.4(a). The hourly availability score of a Demand Response Capacity Resource comprised of an aggregation of one or more Demand Response Resources shall be adjusted as described in Section III.13.7.1.1.4(b). In the case of Demand Response Resources comprised of an aggregation of one or more Demand Response Assets with a demand reduction and any Net Supply

of less than 5 MW achieved by the asset in the most recent seasonal audit of the associated Demand Response Capacity Resource, a planned outage of the equipment used to produce the demand reduction scheduled in either December or January or during the period June 1 through September 15 may not be used to increase the resource's hourly availability score as described in Section III.13.7.1.1.4(b).

In addition, the hourly availability score of a Demand Response Capacity Resource shall be increased as described in this subsection:

(a) A Demand Response Capacity Resource's hourly availability score shall be increased, subject to verification by the ISO, when one or more Demand Response Assets of a Demand Response Resource associated with the Demand Response Capacity Resource is on a forced curtailment or scheduled reduction.

(i) A forced reduction can be submitted to the ISO as described in the ISO New England Manuals for any reductions in demand that occur as a result of actions outside the control of the Demand Response Asset that is subject to the forced reduction. The forced reduction can be submitted or revised during the resettlement process and cannot exceed the demand reduction achieved by the Demand Response Asset in the most recent seasonal audit of the associated Demand Response Capacity Resource.

(ii) A scheduled reduction must be submitted to the ISO at least 15 days ahead of the start of the reduction to be eligible for an adjustment for any reductions in load that are the result of a scheduled plant shutdown or maintenance of energy consuming equipment. The scheduled reduction cannot exceed the demand reduction achieved by the Demand Response Asset in the most recent seasonal audit of the associated Demand Response Capacity Resource. Scheduled deductions must be a minimum of a single calendar day, and shall not exceed a total of 14 calendar days per Capacity Commitment Period.

(b) The sum of the availability adjustments for an hour may not exceed:

(i) for a Demand Response Resource that has received a Dispatch Instruction to reduce its demand, the lesser of the resource's Demand Response Baseline as adjusted pursuant to Section III.8B.5 plus Economic Maximum Limit for any associated available Net Supply Generator Assets) and Audited Demand Reduction adjusted down by the greater of (the Maximum Reduction, as submitted or redeclared by the Lead Market Participant plus Economic Maximum

Limit for any associated available Net Supply Generator Assets), or (Real-Time Demand Reduction Obligation plus Net Supply for any associated Net Supply Generator Assets). For purposes of this calculation, when the output of a Real-Time Emergency Generation Asset at the same location exceeds the Demand Response Baseline, adjusted pursuant to Section III.8B.5, of a Demand Response Asset located at the same Retail Delivery Point, any Net Supply and the Economic Maximum Limit of the Net Supply Generator Asset at the same location shall be reduced by the difference between the Real-Time Emergency Generation Asset's output and adjusted Demand Response Baseline of the Demand Response Asset.

(ii) for a Demand Response Resource that as not received a Dispatch Instruction to reduce its demand, the lesser of the resource's Actual Load plus Economic Maximum Limit for any associated available Net Supply Generator Assets, as submitted or redeclared by the Lead Market Participant), and the Audited Demand Reduction adjusted down by (the Maximum Reduction, as submitted or redeclared by the Lead Market Participant plus Economic Maximum Limit for any associated available Net Supply Generator Assets, as submitted or redeclared by the Lead Market Participant).

III.13.7.1.6. Self-Supplied FCA Resources.

Self-Supplied FCA Resources are subject to the availability penalties and credits as defined by their resource type.

III.13.7.2. Payments and Charges to Resources.

Resources acquiring or shedding a Capacity Supply Obligation shall be subject to payments and charges in accordance with this Section III.13.7.2. Such resources will also be subject to adjustments as detailed in Section III.13.7.2.7.

III.13.7.2.1. Generating Capacity Resources.

III.13.7.2.1.1. Monthly Capacity Payments.

Each resource that has: (i) cleared in a Forward Capacity Auction, except for the portion of resources designated as Self-Supplied FCA Resources or for resources not commercial during an Obligation Month pursuant to Section III.13.7.1.1.3(h); (ii) cleared in a reconfiguration auction; or (iii) entered into a Capacity Supply Obligation Bilateral shall be entitled to a monthly payment (subject to the adjustments in Section III.13.7.2.7) or charge during the Capacity Commitment Period as follows:

(a) **Forward Capacity Auction.** For a resource whose offer has cleared in a Forward Capacity Auction, the monthly capacity payment shall equal the product of its cleared capacity (or in the case described in Section III.13.7.1.1.3(i), the lesser of the resource's Capacity Supply Obligation or its audited amount) and the Capacity Clearing Price in the appropriate Capacity Zone in the New England Control Area as adjusted pursuant to Section III.13.2.7.3(b) and as adjusted by applicable indexing for resources with additional Capacity Commitment Period elections pursuant to Section III.13.1.1.2.2.4 in the manner described below (the "FCA Payment"). For a resource that has elected to have the Capacity Clearing Price and the Capacity Supply Obligation apply for more than one Capacity Commitment Period, payments associated with the Capacity Supply Obligation and Capacity Clearing Price (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) shall continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which the offer clears, for up to four additional and consecutive Capacity Commitment Periods, in whole Capacity Commitment Period increments only.

(b) **Reconfiguration Auctions.** For a resource whose offer or bid has cleared in an annual or monthly reconfiguration auction, the monthly capacity payment or charge shall be equal to the product of its cleared capacity and the appropriate reconfiguration auction clearing price in the Capacity Zone in which the resource cleared.

(c) **Capacity Supply Obligation Bilaterals.** For resources that have acquired or shed a Capacity Supply Obligation through a Capacity Supply Obligation Bilateral, the monthly capacity payment or charge shall be equal to the product of the Capacity Supply Obligation being assumed or shed and price associated with the Capacity Supply Obligation Bilateral.

III.13.7.2.2. Import Capacity.

Import Capacity Resources shall receive monthly capacity payments utilizing the same methodology as that used for Generating Capacity Resources set forth in Section III.13.7.2.1.

III.13.7.2.2.A. Export Capacity.

If there are any Export Bids or Administrative Export De-list Bids from resources located in an export-constrained Capacity Zone or in the Rest-of-Pool Capacity Zone that have cleared in the Forward Capacity Auction and if the resource is exporting capacity at an export interface that is connected to an import-constrained Capacity Zone or the Rest-of-Pool Capacity Zone that is different than the Capacity

Zone in which the resource is located, then charges and credits are applied as follows (for the following calculation, the Capacity Clearing Price will be the value prior to PER adjustments).

Charge Amount to Resource Exporting = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-List Bid]

Credit Amount to Capacity Load Obligations in the Capacity Zone where the export interface is located = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-list Bid]

Credits and charges to load in the applicable Capacity Zones, as set forth above, shall be allocated in proportion to each LSE's Capacity Load Obligation as calculated in Section III.13.7.3.1.

III.13.7.2.3. Intermittent Power Resources.

An Intermittent Power Resource shall be entitled to monthly payments during the Capacity Commitment Period calculated in the same manner as that used for Generating Capacity Resources as described in Section 13.7.2.1, except that any reduction in the Capacity Supply Obligation of an Intermittent Power Resource made pursuant to Section III.13.4.2.1.2.2.3 shall be at the same payment rate applicable to the reduced MW, such that there is a net zero payment for the reduced MW.

III.13.7.2.4. Settlement Only Resources.

III.13.7.2.4.1. Non-Intermittent Settlement Only Resources.

Non-Intermittent Settlement Only Resources shall be entitled to monthly payments during the Capacity Commitment Period calculated in the same manner as that used for Generating Capacity Resources as described in Section III.13.7.2.1.

III.13.7.2.4.2. Intermittent Settlement Only Resources.

Intermittent Settlement Only Resources shall be entitled to monthly payments during the Capacity Commitment Period calculated in the same manner as that used for Generating Capacity Resources as described in Section III.13.7.2.1, except that any reduction in the Capacity Supply Obligation of an Intermittent Settlement Only Resource made pursuant to Section III.13.4.2.1.2.2.3 shall be at the same payment rate applicable to the reduced MW, such that there is a net zero payment for the reduced MW.

III.13.7.2.5. Demand Resources.

III.13.7.2.5.1. Monthly Capacity Payments for All Resources Except Real-Time Emergency Generation Resources.

For all Demand Resources except for Real-Time Emergency Generation Resources, the monthly payment shall be calculated in the same manner as for Generating Capacity Resources as described in Section III.13.7.2.1.1.

III.13.7.2.5.2. Monthly Capacity Payments for Real-Time Emergency Generation Resources.

For Real-Time Emergency Generation Resources, monthly payments shall be calculated in the same manner as for Generating Capacity Resources as described in Section III.13.7.2.1.1, except that such payments may also be adjusted as described in Section III.13.2.3.3(f).

III.13.7.2.5.3. Energy Settlement for Real-Time Demand Response Resources

A Market Participant with Real-Time Demand Response Assets associated with a Real-Time Demand Response Resource that is dispatched or audited pursuant to Section III.13 shall be paid or charged for demand reductions, adjusted for net supply as described in Section III.E1.8.3 and for the percent average avoided peak distribution losses, at the Real-Time LMP for the Load Zone in which the Real-Time Demand Response Resource is located. The demand reduction paid or charged shall be net of the Real-Time Demand Reduction Obligation of Real-Time Demand Response Assets that are part of the Real-Time Demand Response Resource that received payment pursuant to Sections III.E1.9.2.1 or III.E1.9.2.2 for the same dispatch or audit period. Demand reductions eligible for payments or charges pursuant to this section shall be those produced during Real-Time Demand Response Event Hours or, in the case of an audit, for the period during which the ISO has requested the resource to audit.

III.13.7.2.5.4. Energy Settlement for Real-Time Emergency Generation Resources

A Market Participant with Real-Time Emergency Generation Assets associated with a Real-Time Emergency Generation Resource that is dispatched or audited pursuant to Section III.13 shall be paid or charged for demand reductions or generator output, adjusted as described in Section III.E1.8.3 or III.13.7.2.5.4.1 and for the percent average avoided peak distribution losses for the portion of the asset reducing demand, at the Real-Time LMP for the Load Zone in which the Real-Time Emergency Generation Resource is located for Capacity Commitment Periods commencing prior to June 1, 2017, and

at the Real-Time LMP for the Dispatch Zone in which the Real-Time Emergency Generation Resource is located for Capacity Commitment Periods commencing on or after June 1, 2017. Demand reductions or generator output eligible for payments or charges pursuant to this section shall be those produced during Real-Time Emergency Generation Event Hours or, in the case of an audit, for the period during which the ISO has requested the resource to audit.

III.13.7.2.5.4.1 Adjustment for Net Supply Generator Assets

For Capacity Commitment Periods commencing on or after June 1, 2017, when the output of a Real-Time Emergency Generation Asset exceeds the Demand Response Baseline, adjusted pursuant to Section 8B.5, of a Demand Response Asset located at the same Retail Delivery Point and Net Supply is produced, the output eligible for payments will be set equal the adjusted Demand Response Baseline of the Demand Response Asset.

III.13.7.2.6. Self-Supplied FCA Resources.

Self-Supplied FCA Resources shall not receive monthly capacity payments for the portion of the resource designated as a Self-Supplied FCA Resource. Charges to load associated with Self-Supplied FCA Resources are calculated pursuant to Section III.13.7.3.

III.13.7.2.7. Adjustments to Monthly Capacity Payments.

Monthly capacity payments to resources with a Capacity Supply Obligation as of the beginning of the Obligation Month will be adjusted as described in Section III.13.7.2.7.1.

III.13.7.2.7.1. Adjustments to Monthly Capacity Payments of Generating Capacity Resources.

III.13.7.2.7.1.1. Peak Energy Rents.

Payments to New Generating Capacity Resources and Existing Generating Capacity Resources with Capacity Supply Obligations, except for resources not commercial as described in Section III.13.7.1.1.3(h) or Section III.13.7.1.1.3(i), shall be decreased by Peak Energy Rents (“PER”) calculated in each Capacity Zone, as determined pursuant to Section III.13.2.3.4 in the Forward Capacity Auction, as provided below. The PER calculation shall utilize hourly integrated Real-Time LMPs. For each Capacity Zone in the Forward Capacity Auction, as determined pursuant to Section III.13.2.3.4, PER shall be computed based on the load-weighted Real-Time LMPs for each Capacity Zone, using the Real-Time Hub Price for the Rest-of-Pool Capacity Zone.

III.13.7.2.7.1.1.1. Hourly PER Calculations.

(a) For hours with a positive difference between the hourly Real-Time energy price and a strike price, the ISO shall compute PER for each hour ("Hourly PER") equal to this positive difference in accordance with the following formula, which includes scaling adjustments for system load and availability:

$$\text{Hourly PER}(\$/\text{kW}) = [(\text{LMP} - \text{Strike Price}) * [\text{Scaling Factor}] * [\text{Availability Factor}]$$

Where:

Strike Price = the heat rate x fuel cost of the PER Proxy Unit described below.

Scaling Factor = the ratio of actual hourly integrated system load (calculated as the sum of Real-Time Load Obligations for the system as calculated in the settlement of the Real-Time Energy Market and adjusted for losses and including imports delivered in the Real-Time Energy Market) and the 50/50 predicted peak system load reduced appropriately for Demand Resources, used in the most recent calculation of the Installed Capacity Requirement for that Capacity Commitment Period, capped at an hourly ratio of 1.0.

Availability Factor = 0.95

(b) PER Proxy Unit characteristics shall be as follows:

(i) The PER Proxy Unit shall be indexed to the marginal fuel, which shall be the higher of ultra low-sulfur No. 2 oil measured at New York Harbor plus a seven percent markup for transportation or day-ahead gas measured at the Algonquin City Gate, as determined on a daily basis;

(ii) The PER Proxy Unit shall be assumed to have no start-up, ramp rate or minimum run time constraints;

(iii) The PER Proxy Unit shall have a 22,000 Btu/kWh heat rate. This assumption shall be periodically reviewed after the first Capacity Commitment Period by the ISO to ensure that the heat rate continues to reflect a level slightly higher than the marginal generating unit in the region

that would be dispatched as the system enters a scarcity condition. Any changes to the heat rate of the PER Proxy Unit shall be considered in the stakeholder process in consultation with the state utility regulatory agencies, shall be filed pursuant to Section 205 of the Federal Power Act, and shall be applied prospectively to the settlement of future Forward Capacity Auctions.

III.13.7.2.7.1.1.2. Monthly PER Application.

(a) The Hourly PER shall be summed for each calendar month to determine the total PER for that month ("Monthly PER"). The ISO shall then calculate the Average Monthly PER earned by the proxy unit. The Average Monthly PER shall be equal to the average of the Monthly PER values for the 12 months prior to the Obligation Month. The PER deduction for each resource shall be calculated as follows:

PER Adjustment = the minimum of: (i) the PER cap or (ii) the Average Monthly PER x PER Capacity Supply Obligation.

Where the PER cap for each resource equals the FCA Payment, plus the product of the net value of any other Capacity Supply Obligations assumed or shed after the Forward Capacity Auction for the same Capacity Commitment Period multiplied by the Capacity Clearing Price applicable to that resource's location from that Forward Capacity Auction. Where the calculation results in a PER cap value less than zero, the PER cap will be revised to zero.

Where the PER Capacity Supply Obligation is equal to the minimum of the Capacity Supply Obligation or the Capacity Supply Obligation less any Capacity Supply Obligation MW from any portion of a Self-Supplied FCA Resource. However, if the Capacity Supply Obligation less any Capacity Supply Obligation from any portion of a Self-Supplied FCA Resource is less than zero, it will be zero for purposes of comparing it to the Capacity Supply Obligation in the PER Capacity Supply Obligation calculation.

(b) PER shall be deducted from capacity payments independently of availability penalties.

(c) FCA Payment minus PER may not be negative for any month.

III.13.7.2.7.1.2. Availability Penalties.

Availability penalties shall be assessed for each resource with a Capacity Supply Obligation as of the beginning of the Obligation Month. The penalty will be based on the Capacity Clearing Price (as adjusted pursuant to Section III.13.2.7.3(b) or as described in Section III.13.2.8) in the Capacity Zone in which the resource is located for the relevant Capacity Commitment Period, regardless of whether the resource assumed the Capacity Supply Obligation through a Forward Capacity Auction, a reconfiguration auction, or a Capacity Supply Obligation Bilateral.

For capacity resources that are partially or fully unavailable during a Shortage Event:

(a) Penalties shall be determined and assessed on a resource-specific basis. Penalties shall be calculated for each Shortage Event during an Obligation Month and assessed on a monthly basis, subject to the availability penalty caps outlined in Section III.13.7.2.7.1.3.

(b) The penalty per resource for each Shortage Event shall be equal to:

$$\text{Penalty} = [\text{Resource's Annualized FCA Payment}] * \text{PF} * [1 - \text{Shortage Event Availability Score}]$$

Where:

Annualized FCA Payment = the relevant Capacity Clearing Price, or in the case of Inadequate Supply or Insufficient Competition, the payment as described in Section III.13.2.8, (as adjusted pursuant to Section III.13.2.7.3(b)) multiplied by the resource's Capacity Supply Obligation as of the beginning of the Obligation Month multiplied by 12.

PF = .05 for Shortage Events of 5 hours or less. PF is increased by .01 for each additional hour above 5 hours.

III.13.7.2.7.1.3. Availability Penalty Caps.

The following caps will apply to the total availability penalties assessed to a resource. If a resource with a Capacity Supply Obligation sheds or acquires an obligation outside the relevant Obligation Month, the Annualized FCA Payment shall not be prorated. Caps are resource-specific and partial year assumption or transfer of a Capacity Supply Obligation through Capacity Supply Obligation Bilaterals or reconfiguration auctions does not affect the application of the cap to each resource independently.

(a) **Per Day.** In no case shall the total penalties for all Shortage Events in an Operating Day exceed 10 percent of a resource's Annualized FCA Payment for that Capacity Commitment Period.

(b) **Per Month.** The sum of a resource's penalties arising from unavailability during an Obligation Month may not exceed two and one-half times the Annualized FCA Payment, divided by twelve, for that Obligation Month. The sum of a resource's penalties arising from unavailability due to a single outage of four days or less but spanning two calendar months may not exceed two and one-half times the average of the Annualized FCA Payments, divided by twelve, for both months.

(c) **Per Capacity Commitment Period.** In determining the availability penalties for the Obligation Month, a resource's cumulative availability penalties for a Capacity Commitment Period may not exceed its Annualized FCA Payment (less PER adjustments) for that Capacity Commitment Period.

III.13.7.2.7.1.4. Availability Credits for Capacity Demand Response Capacity Resources, Generating Capacity Resources, Import Capacity Resources and Self-Supplied FCA Resources.

On a monthly basis, penalties received from unavailable resources shall be redistributed to Demand Response Capacity Resources, Generating Capacity Resources and Import Capacity Resources with Capacity Supply Obligations and to designated Supplemental Capacity Resources without a Capacity Supply Obligation that have a valid Supplemental Availability Bilateral (pursuant to Section III.13.5.3.2) that were available (pursuant to Section III.13.7.1.1.3, Section III.13.7.1.5.10.1) in the respective hours on a Capacity Zone basis as follows: For each Obligation Month, the penalties assessed for the Shortage Events during the month will be credited to those resources identified above that were available, in whole or in part, during the Shortage Events, pro-rata by hourly available MW in the relevant Capacity Zones. Self-Supplied FCA Resources shall be eligible to receive their pro rata share of availability penalties paid by other capacity resources.

III.13.7.2.7.2. Import Capacity.

In addition to the adjustment in this section, Import Capacity Resources shall also be subject to the same adjustments as Generating Capacity Resources as described in Section III.13.7.2.7.1.

III.13.7.2.7.2.1. External Transaction Offer and Delivery Performance Adjustments.

In the event that the conditions in Section III.13.6.1.2.1 are not met in any hour of an Operating Day, the Import Capacity Resource will be subject to the following:

(a) If in any hour of an Operating Day a priced External Transaction associated with an Import Capacity Resource with a Capacity Supply Obligation is offered above both the offer threshold for the Operating Day and the offer threshold of the prior Operating Day, and for any priced External Transactions from the New York Control Area also is offered above the corresponding hourly day-ahead energy price (NYISO Location-Based Marginal Price) at the source interface, the Market Participant with the Import Capacity Resource will pay a penalty equal to the product of the Import Capacity Resource's Capacity Supply Obligation and the corresponding interface Capacity Clearing Price as adjusted in Section III.13.2.7.3(b), divided by the number of days in the month.

(b) For every hour of an Operating Day that the total amount offered from all External Transactions associated with an Import Capacity Resource is less than the Import Capacity Resource's Capacity Supply Obligation, the Market Participant with the Import Capacity Resource will pay a penalty equal to the product of the difference between the Capacity Supply Obligation and the total amount of energy offered for that hour and the corresponding interface Capacity Clearing Price as adjusted in Section III.13.2.7.3(b), divided by the number of hours in the month. For each Operating Day only the greater of the total penalties in either the Day-Ahead Energy Market or Real-Time Energy Market will be assessed. For the purposes of this section the total energy offered will be adjusted in accordance with Section III.13.7.1.1.4(b) for any amount that was unavailable due to an outage approved in the ISO's annual maintenance scheduling process.

(c) Except as specified in Section III.13.7.2.7.2.2, for every hour the total energy from an External Transaction associated with an Import Capacity Resource delivered in real-time to the New England Control Area is less than the energy requested, the Market Participant with the Import Capacity Resource will pay a penalty equal to the product of the difference between the quantity requested and the quantity delivered and the corresponding interface Capacity Clearing Price as adjusted in Section III.13.2.7.3(b), divided by the number of hours in the month.

Any External Transaction associated with an Import Capacity Resource that is determined to be in economic merit during the next-hour scheduling process will be considered a requested transaction and the ISO may request all or a portion of each transaction.

A Market Participant's total penalty amount for a single Operating Day for each Import Capacity Resource shall be no more than the product of the Import Capacity Resource's Capacity Supply

Obligation and the corresponding interface Capacity Clearing Price as adjusted in Section III.13.2.7.3(b), divided by the number of days in the month.

Each Obligation Month the penalty amounts from all Market Participants with Import Capacity Resources will be allocated to all Market Participants based on their pro-rata share of Capacity Load Obligation within each Capacity Zone in the Obligation Month, with each Capacity Zone allocated an amount based on the pro-rata share of total capacity credits within each Capacity Zone.

III.13.7.2.7.2.2. Exceptions.

- a) No penalty will be assessed if the applicable external interface is fully loaded and the energy from an External Transaction that would otherwise be requested cannot flow. If the transfer capability of the applicable external interface is zero in the import direction it will be considered fully loaded for the purpose of this section.

- b) No penalty will be assessed if the delivered energy from a priced External Transaction associated with the New York Control Area is less than requested when the Real-Time Energy Market price at the source location (NYISO Location-Based Marginal Price) is higher than the Real-Time LMP at the associated External Node, provided that Operating Procedure No. 4 has not been declared due to a system-wide capacity deficiency.

- c) No penalty will be assessed during periods when the ISO has taken action to reduce import transactions due to a Minimum Generation Emergency condition or due to ramping constraints.

- d) No penalty will be assessed on the affected external interface during periods when minimum-flow or directional-flow constraints have occurred, when the ISO was unable to utilize the automated check-out processes for the external interface, or when in-hour curtailments have occurred.

III.13.7.2.7.3. Intermittent Power Resources.

Monthly capacity payments to Intermittent Power Resources are subject to PER adjustments but are not subject to any additional availability penalties.

III.13.7.2.7.4. Settlement Only Resources.

III.13.7.2.7.4.1. Non-Intermittent Settlement Only Resources.

Non-Intermittent Settlement Only Resources are subject to the same PER adjustments and availability penalties as Generating Capacity Resources as described in Section III.13.7.2.7.1.

III.13.7.2.7.4.2. Intermittent Settlement Only Resources.

Monthly capacity payments to Intermittent Power Resources are subject to PER adjustments but are not subject to any additional availability penalties.

III.13.7.2.7.5. Demand Resources.

Demand Response Capacity Resources shall be subject to the same adjustments as Generating Capacity Resources as described in Section III.13.7.2.7.1.

III.13.7.2.7.5.1. Calculation of Monthly Capacity Variances.

For each month, the Monthly Capacity Variance of a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource shall be calculated by subtracting the Demand Resource's Capacity Supply Obligation for the month from the Demand Resource's monthly Capacity Value. If a Demand Resource's Monthly Capacity Variance is zero, the Demand Resource will not be subject to Demand Resource Performance Penalties or Demand Resource Performance Incentives.

III.13.7.2.7.5.2. Negative Monthly Capacity Variances.

With the exception of a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which that offer cleared, if a Demand Resource's Monthly Capacity Variance is a negative value, the Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource shall be subject to a Demand Resource Performance Penalty equal to the absolute value of the Monthly Capacity Variance multiplied by the Capacity Clearing Price (as adjusted pursuant to Section III.13.2.7.3(b)) in the Forward Capacity Auction for the relevant Capacity Commitment Period or in the case of a Real-Time Emergency Generation Resource, multiplied by the Capacity Clearing Price in the Forward Capacity Auction for the relevant Capacity Commitment Period as described in Section III.13.2.3.3(f). If a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which that

offer cleared has a Monthly Capacity Variance with a negative value, the Demand Resource Performance Penalty for such a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource shall be set according to the Capacity Clearing Price applicable to the Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource (as adjusted pursuant to Section III.13.2.7.3(b)), indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31, of the year preceding the Capacity Commitment Period applicable to the Demand Resource for the particular Capacity Commitment Period or in the case of a Real-Time Emergency Generation Resource, multiplied by the Capacity Clearing Price in the Forward Capacity Auction for the relevant Capacity Commitment Period as described in Section III.13.2.3.3(f), indexed using the Handy-Whitman Index of Public Utility Construction Costs, applicable to the Demand Resource for the particular Capacity Commitment Period.

III.13.7.2.7.5.3. Positive Monthly Capacity Variances.

With the exception of a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which that offer cleared, if a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource's Monthly Capacity Variance is a positive value, then the Demand Resource shall be eligible to receive a Demand Resource Performance Incentive based on the Monthly Capacity Variance multiplied by the Capacity Clearing Price (as adjusted pursuant to Section III.13.2.7.3(b)) in the Forward Capacity Auction for the relevant Capacity Commitment Period, or in the case of a Real-Time Emergency Generation Resource, multiplied by the Capacity Clearing Price in the Forward Capacity Auction for the relevant Capacity Commitment Period as described in Section III.13.2.3.3(f), provided that the sum of the Demand Resource Performance Penalties in the month in the Capacity Zone where the Demand Resource or Real-Time Emergency Generation Resource is located is equal to or greater than the sum of the Demand Resource Performance Incentives in the same month in that Capacity Zone. If a Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which that offer cleared has a Monthly Capacity Variance with a positive value, then the Demand Resource Performance Incentive for such a Demand Resource shall be set according to the Capacity Clearing Price applicable to the Demand Resource for the particular Capacity Commitment Period (as adjusted pursuant to Section III.13.2.7.3(b)), indexed using the Handy-Whitman Index of Public Utility Construction Costs

or in the case of a Real-Time Emergency Generation Resource, multiplied by the Capacity Clearing Price in the Forward Capacity Auction for the relevant Capacity Commitment Period as described in Section III.13.2.3.3(f), indexed using the Handy-Whitman Index of Public Utility Construction Costs, applicable to the Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource for the particulate Capacity Commitment Period in effect as of December 31 of the year preceding the Capacity Commitment Period, provided that the sum of the Demand Resource Performance Penalties in the month in the Capacity Zone where the Demand Resource or Real-Time Emergency Generation Resource is located is equal to or greater than the sum of the Demand Resource Performance Incentives in the same month in that Capacity Zone.

III.13.7.2.7.5.4. Determination of Net Demand Resource Performance Penalties and Demand Resource Performance Incentives.

Demand Resource Performance Penalties and Demand Resource Performance Incentives shall be determined for each Capacity Zone as follows: if the sum of the Demand Resource Performance Penalties in a month in a Capacity Zone is less than the sum of the Demand Resource Performance Incentives in the same month in that Capacity Zone, then the total amount of Demand Resource Performance Penalties shall be paid on a pro-rata basis, based on the non-prorated Demand Resource Performance Incentives of each Demand Resource with a positive Monthly Capacity Variance. The total amount of the Demand Resource Performance Incentives in a month in a Capacity Zone cannot exceed the total amount of the Demand Resource Performance Penalties in the same month in that Capacity Zone.

The total of the Demand Resource Performance Incentives in a month in a Capacity Zone cannot exceed the total of the Demand Resource Performance Penalties in the same month in that Capacity Zone. If the total Demand Resource Performance Penalties in a month in a Capacity Zone exceeds the total Demand Resource Performance Incentives in the same month in that Capacity Zone, the difference shall not be collected from load serving entities in that Capacity Zone (the ultimate purchaser of capacity).

III.13.7.2.7.6. Self-Supplied FCA Resources.

Self-Supplied FCA Resources shall not be subject to a PER adjustment on the portion of the resource that is self-supplied, but shall be subject to the availability penalties and caps applicable to their resource types.

III.13.7.3. Charges to Market Participants with Capacity Load Obligations.

A load serving entity with a Capacity Load Obligation as of the end of the Obligation Month shall be subject to a charge equal to the product of: (a) its Capacity Load Obligation in the Capacity Zone; and (b) the applicable Net Regional Clearing Price. The Net Regional Clearing Price is defined as the sum of the total payments as defined in Section III.13.7.2 paid to resources with Capacity Supply Obligations in the Capacity Zone (excluding any capacity payments and charges made for Capacity Supply Obligation Bilaterals), less PER adjustments for resources in the zone as defined in Section 13.7.2.7.1.1, adjusted for any Demand Resource Performance Penalties in excess of Demand Resource Performance Incentives as described in Section III.13.7.2.7.5.4, and including any applicable export charges or credits as determined pursuant to Section III.13.7.2.2.A divided by the sum of all Capacity Supply Obligations (excluding (i) the quantity of capacity subject to Capacity Supply Obligation Bilaterals and (ii) the quantity of capacity clearing as Self-Supplied FCA Resources) assumed by resources in the zone. A load serving entity satisfying its Capacity Load Obligation by a Self-Supplied FCA Resource shall not receive a credit for any PER payment for its Capacity Load Obligation so satisfied.

III.13.7.3.1. Calculation of Capacity Requirement and Capacity Load Obligation.

The ISO shall assign each load serving entity a Capacity Requirement prior to the commencement of each Obligation Month for each Capacity Zone established in the Forward Capacity Auction pursuant to Section III.13.2.3.4. The Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the total of the system-wide Capacity Supply Obligations (excluding the quantity of capacity subject to Capacity Supply Obligation Bilaterals) plus HQICCs; and (ii) the ratio of the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year two years prior to the start of the Capacity Commitment Period to the system-wide sum of all load serving entities' annual coincident contributions to the system-wide annual peak load from the calendar year two years prior to the start of the Capacity Commitment Period. The following loads are assigned a peak contribution of zero for the purposes of assigning obligations and tracking load shifts: load associated with pumping of pumped hydro generators, if the resource was pumping; Station service load that is modeled as a discrete Load Asset and the Resource is complying with the maintenance scheduling procedures of the ISO; load that is modeled as an Asset Related Demand or discrete load asset and is exclusively related to an Alternative Technology Regulation Resource following AGC dispatch instructions; and transmission losses associated with delivery of energy over the Control Area tie lines.

A load serving entity's Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the Capacity Zone's Capacity Requirement as calculated above and (ii) the ratio of the sum of the

load serving entity's annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period to the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period.

A load serving entity's Capacity Load Obligation shall be its Capacity Requirement, adjusted as appropriate to account for any relevant Capacity Load Obligation Bilaterals, HQICCs, and Self-Supply FCA Resource designations. A Capacity Load Obligation can be a positive or negative value. A Market Participant that is not a load serving entity shall have a Capacity Load Obligation equal to the net obligation resulting from Capacity Load Obligation Bilaterals, HQICC, and Self-Supply FCA Resource designations.

A Demand Resource's Demand Reduction Value will not be reconstituted into the load of the Demand Resource for the purpose of determining the Capacity Requirement for the load associated with the Demand Resource.

III.13.7.3.1.1. HQICC Used in the Calculation of Capacity Requirements.

In order to treat HQICCs as a load reduction, each holder of HQICCs shall have its Capacity Requirement in the Capacity Zone in which the HQ Phase I/II external node is located as specified in Section III.13.1.3 adjusted by its share of the total monthly HQICC amount.

III.13.7.3.1.2. Charges Associated with Self-Supplied FCA Resources.

The capacity associated with a Self-Supplied FCA Resource shall be treated as a credit toward the Capacity Load Obligation of the load serving entity so designated by such resources as described in Section III.13.1.6. The amount of Self-Supplied FCA Resources shall be determined pursuant to Section III.13.1.6.

III.13.7.3.1.3. Charges Associated with Dispatchable Asset Related Demands.

Dispatchable Asset Related Demand resources will not receive Forward Capacity Market payments, but instead each Dispatchable Asset Related Demand resource will receive an adjustment to its share of the associated Coincident Peak Contribution based on the ability of the Dispatchable Asset Related Demand resource to reduce consumption. The adjustment to a load serving entity's Coincident Peak Contribution resulting from Dispatchable Asset Related Demand resource reduction in consumption shall be based on the Nominated Consumption Limit submitted for the Dispatchable Asset Related Demand resource.

The Nominated Consumption Limit value of each Dispatchable Asset Related Demand resource is subject to adjustment as further described in the ISO New England Manuals, including adjustments based on the results of Nominated Consumption Limit audits performed in accordance with the ISO New England Manuals.

III.13.7.3.2. Excess Revenues.

Revenues collected from load serving entities in excess of revenues paid by the ISO to resources shall be paid by the ISO to the holders of Capacity Transfer Rights, as detailed in Section III.13.7.3.3.

III.13.7.3.3. Capacity Transfer Rights.

III.13.7.3.3.1. Definition and Payments to Holders of Capacity Transfer Rights.

The ISO shall create Capacity Transfer Rights (“CTRs”) for each internal interface associated with a Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4). Based upon results of the Forward Capacity Auction and reconfiguration auctions, the total CTR fund will be calculated as the difference between the charges to load serving entities with Capacity Load Obligations and the payments to Capacity Resources as follows: The system-wide sum of the product of each Capacity Zone’s Net Regional Clearing Price and absolute value of each Capacity Zone’s Capacity Load Obligations, as calculated in Section III.13.7.3.1, minus the sum of the monthly capacity payments to Capacity Resources within each zone, as adjusted for PER and for Demand Resource Performance Penalties net of Demand Resource Performance Incentives.

Each Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4) will be assigned its portion of the CTR fund.

For CTRs resulting from an export constrained zone, the assignment will be calculated as the product of:

(i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between the absolute value of the total Capacity Supply Obligations obtained in the exporting Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supply FCA Resources, and the absolute value of the total Capacity Load Obligations in the exporting Capacity Zone.

For CTRs resulting from an import constrained zone, the assignment will be calculated as the product of: (i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the absolute value of the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between absolute value of the total Capacity Load Obligations in the importing Capacity Zone and the total Capacity Supply Obligations obtained in the importing Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supply FCA Resources.

The value of CTRs specifically allocated pursuant to Sections III.13.7.3.3.2(c), III.13.7.3.3.4, and III.13.7.3.3.6 shall be calculated as the product of: (i) the Capacity Clearing Price (as adjusted pursuant to Section III.13.2.7.3(b)) for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Capacity Clearing Price (as adjusted pursuant to Section III.13.2.7.3(b)) for the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the MW quantity of the specifically allocated CTRs across the applicable interface. The value of the specifically allocated CTRs will be deducted from the associated Capacity Zone's portion of the CTR fund. The balance of the CTR fund will then be allocated to the load serving entities as set forth in Section III.13.7.3.3.2.

III.13.7.3.3.2. Allocation of Capacity Transfer Rights.

For Capacity Zones established in the Forward Capacity Auction as determined pursuant to Section III.13.2.3.4, the CTR fund shall be allocated among load serving entities using their Capacity Load Obligation (net of HQICCs) described in Section III.13.7.3.1. Market Participants with CTRs specifically allocated under Section III.13.7.3.3.6 will have their specifically allocated CTR MWs netted from their Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Connecticut Import Interface.** The allocation of the CTR fund associated with the Connecticut Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the Connecticut Capacity Zone.

(b) **NEMA/Boston Import Interface.** Except as provided in Section III.13.7.3.3.6 of Market Rule 1, the allocation of the CTR fund associated with the NEMA/Boston Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the NEMA/Boston Capacity Zone.

(c) **Maine Export Interface.** Casco Bay shall receive specifically allocated CTRs of 325 MW across the Maine Export Interface for as long as Casco Bay continues to pay to support the transmission upgrades. Each municipal utility entitlement holder of a resource constructed as a Pool-Planned Unit in Maine shall receive specifically allocated CTRs across the Maine Export Interface equal to the applicable seasonal claimed capability of its ownership entitlements in such unit as described in Section III.13.7.3.3.6. The balance of the CTR fund associated with the Maine Export Interface shall be allocated to load serving entities with a Capacity Load Obligation on the import-constrained side of the Maine Export Interface.

III.13.7.3.3.3. Allocations of CTRs Resulting From Revised Capacity Zones.

The portion of the CTR fund associated with revised definitions of Capacity Zones shall be fully allocated to load serving entities after deducting the value of applicable CTRs that have been specifically allocated. Allocations of the CTR fund among load serving entities will be made using their Capacity Load Obligations (net of HQICCs) as described in Section III.13.7.3.3.1. Market Participants with CTRs specifically allocated under Section III.13.7.3.3.6 will have their specifically allocated CTR MWs netted from the Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Import Constraints.** The allocation of the CTR fund associated with newly defined import-constrained Capacity Zones restricting the transfer of capacity into a single adjacent import-constrained Capacity Zone shall be allocated to load serving entities with Capacity Load Obligations in that import-constrained Capacity Zone.

(b) **Export Constraints.** The allocation of the CTR fund associated with newly defined export-constrained Capacity Zones shall be allocated to load serving entities with Capacity Load Obligations on the import-constrained side of the interface.

III.13.7.3.3.4. Specifically Allocated CTRs Associated with Transmission Upgrades.

(a) A Market Participant that pays for transmission upgrades not funded through the Pool PTF Rate and which increase transfer capability across existing or potential Capacity Zone interfaces may request a specifically allocated CTR in an amount equal to the number of CTRs supported by that increase in transfer capability.

(b) The allocation of additional CTRs created through generator interconnections completed after February 1, 2009 shall be made in accordance with the provisions of the ISO generator interconnection or

planning standards. In the event the ISO interconnection or planning standards do not address this issue, the CTRs created shall be allocated in the same manner as described in Section III.13.7.3.3.2.

(c) Specifically allocated CTRs shall expire when the Market Participant ceases to pay to support the transmission upgrades.

(d) CTRs resulting from transmission upgrades funded through the Pool PTF Rate shall not be specifically allocated but shall be allocated in the same manner as described in Section III.13.7.3.3.2.

III.13.7.3.3.5. [Reserved.]

III.13.7.3.3.6. Specifically Allocated CTRs for Pool Planned Units.

In import-constrained Capacity Zones, in recognition of longstanding life of unit contracts, the municipal utility entitlement holder of a resource constructed as Pool-Planned Units shall receive an initial allocation of CTRs equal to the applicable seasonal claimed capability of the ownership entitlements in such unit. Municipal utility entitlements are set as shown in the table below and are not transferrable.

		Millstone 3	Seabrook	Stonybrook GT 1A	Stonybrook GT 1B	Stonybrook GT 1C	Stonybrook 2A	Stonybrook 2B	Wyman 4	Summer (MW)	Winter (MW)
Nominal Summer (MW)	1155.001	1244.275	104.000	100.000	104.000	67.400	65.300	586.725			
Nominal Winter (MW)	1155.481	1244.275	119.000	116.000	119.000	87.400	85.300	608.575			
Danvers	0.2627%	1.1124%	8.4569%	8.4569%	8.4569%	11.5551%	11.5551%	0.0000%	58.26	63.73	
Georgetown	0.0208%	0.0956%	0.7356%	0.7356%	0.7356%	1.0144%	1.0144%	0.0000%	5.04	5.55	
Ipswich	0.0608%	0.1066%	0.2934%	0.2934%	0.2934%	0.0000%	0.0000%	0.0000%	2.93	2.37	
Marblehead	0.1544%	0.1351%	2.6840%	2.6840%	2.6840%	1.5980%	1.5980%	0.2793%	15.49	15.64	
Middleton	0.0440%	0.3282%	0.8776%	0.8776%	0.8776%	1.8916%	1.8916%	0.1012%	10.40	11.07	
Peabody	0.2969%	1.1300%	13.0520%	13.0520%	13.0520%	0.0000%	0.0000%	0.0000%	57.69	60.26	
Reading	0.4041%	0.6351%	14.4530%	14.4530%	14.4530%	19.5163%	19.5163%	0.0000%	82.98	92.77	
Wakefield	0.2055%	0.3870%	3.9929%	3.9929%	3.9929%	6.3791%	6.3791%	0.4398%	30.53	32.64	
<u>Ashburnham</u>	<u>0.0307%</u>	<u>0.0652%</u>	<u>0.6922%</u>	<u>0.6922%</u>	<u>0.6922%</u>	<u>0.9285%</u>	<u>0.9285%</u>	<u>0.0000%</u>	<u>4.53</u>	<u>5.22</u>	
<u>Boylston</u>	<u>0.0264%</u>	<u>0.0849%</u>	<u>0.5933%</u>	<u>0.5933%</u>	<u>0.5933%</u>	<u>0.9120%</u>	<u>0.9120%</u>	<u>0.0522%</u>	<u>4.71</u>	<u>5.35</u>	
<u>Braintree</u>	<u>0.0000%</u>	<u>0.6134%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>7.63</u>	<u>7.63</u>	
<u>Groton</u>	<u>0.0254%</u>	<u>0.1288%</u>	<u>0.8034%</u>	<u>0.8034%</u>	<u>0.8034%</u>	<u>1.0832%</u>	<u>1.0832%</u>	<u>0.0000%</u>	<u>5.81</u>	<u>6.61</u>	
<u>Hingham</u>	<u>0.1007%</u>	<u>0.4740%</u>	<u>3.9815%</u>	<u>3.9815%</u>	<u>3.9815%</u>	<u>5.3307%</u>	<u>5.3307%</u>	<u>0.0000%</u>	<u>26.40</u>	<u>30.36</u>	
<u>Holden</u>	<u>0.0726%</u>	<u>0.3971%</u>	<u>2.2670%</u>	<u>2.2670%</u>	<u>2.2670%</u>	<u>3.1984%</u>	<u>3.1984%</u>	<u>0.0000%</u>	<u>17.01</u>	<u>19.33</u>	
<u>Holyoke</u>	<u>0.3194%</u>	<u>0.3096%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>2.8342%</u>	<u>2.8342%</u>	<u>0.6882%</u>	<u>15.34</u>	<u>16.63</u>	
<u>Hudson</u>	<u>0.1056%</u>	<u>1.6745%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.3395%</u>	<u>24.05</u>	<u>24.12</u>	

<u>Hull</u>	<u>0.0380%</u>	<u>0.1650%</u>	<u>1.4848%</u>	<u>1.4848%</u>	<u>1.4848%</u>	<u>2.1793%</u>	<u>2.1793%</u>	<u>0.1262%</u>	<u>10.70</u>	<u>12.28</u>
<u>Littleton</u>	<u>0.0536%</u>	<u>0.1093%</u>	<u>1.5115%</u>	<u>1.5115%</u>	<u>1.5115%</u>	<u>3.0607%</u>	<u>3.0607%</u>	<u>0.1666%</u>	<u>11.67</u>	<u>13.63</u>
<u>Mansfield</u>	<u>0.1581%</u>	<u>0.7902%</u>	<u>5.0951%</u>	<u>5.0951%</u>	<u>5.0951%</u>	<u>7.2217%</u>	<u>7.2217%</u>	<u>0.0000%</u>	<u>36.93</u>	<u>42.17</u>
<u>Middleborough</u>	<u>0.1128%</u>	<u>0.5034%</u>	<u>2.0657%</u>	<u>2.0657%</u>	<u>2.0657%</u>	<u>4.9518%</u>	<u>4.9518%</u>	<u>0.1667%</u>	<u>21.48</u>	<u>24.45</u>
<u>North Attleborough</u>	<u>0.1744%</u>	<u>0.3781%</u>	<u>3.2277%</u>	<u>3.2277%</u>	<u>3.2277%</u>	<u>5.9838%</u>	<u>5.9838%</u>	<u>0.1666%</u>	<u>25.58</u>	<u>29.49</u>
<u>Pascoag</u>	<u>0.0000%</u>	<u>0.1068%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>1.33</u>	<u>1.33</u>
<u>Paxton</u>	<u>0.0326%</u>	<u>0.0808%</u>	<u>0.6860%</u>	<u>0.6860%</u>	<u>0.6860%</u>	<u>0.9979%</u>	<u>0.9979%</u>	<u>0.0000%</u>	<u>4.82</u>	<u>5.53</u>
<u>Shrewsbury</u>	<u>0.2323%</u>	<u>0.5756%</u>	<u>3.9105%</u>	<u>3.9105%</u>	<u>3.9105%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.4168%</u>	<u>24.33</u>	<u>26.23</u>
<u>South Hadley</u>	<u>0.5755%</u>	<u>0.3412%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>10.89</u>	<u>10.90</u>
<u>Sterling</u>	<u>0.0294%</u>	<u>0.2044%</u>	<u>0.7336%</u>	<u>0.7336%</u>	<u>0.7336%</u>	<u>1.1014%</u>	<u>1.1014%</u>	<u>0.0000%</u>	<u>6.60</u>	<u>7.38</u>
<u>Taunton</u>	<u>0.0000%</u>	<u>0.1003%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>1.25</u>	<u>1.25</u>
<u>Templeton</u>	<u>0.0700%</u>	<u>0.1926%</u>	<u>1.3941%</u>	<u>1.3941%</u>	<u>1.3941%</u>	<u>2.3894%</u>	<u>2.3894%</u>	<u>0.0000%</u>	<u>10.67</u>	<u>12.27</u>
<u>Vermont Public Power Supply Authority</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>2.2008%</u>	<u>2.2008%</u>	<u>2.2008%</u>	<u>0.0000%</u>	<u>0.0000%</u>	<u>0.0330%</u>	<u>6.97</u>	<u>7.99</u>
<u>West Boylston</u>	<u>0.0792%</u>	<u>0.1814%</u>	<u>1.2829%</u>	<u>1.2829%</u>	<u>1.2829%</u>	<u>2.3041%</u>	<u>2.3041%</u>	<u>0.0000%</u>	<u>10.18</u>	<u>11.69</u>
<u>Westfield</u>	<u>1.1131%</u>	<u>0.3645%</u>	<u>9.0452%</u>	<u>9.0452%</u>	<u>9.0452%</u>	<u>13.5684%</u>	<u>13.5684%</u>	<u>0.7257%</u>	<u>67.51</u>	<u>77.27</u>

This allocation of CTRs shall expire on December 31, 2040. If a resource listed in the table above retires prior to December 31, 2040, however, its allocation of CTRs shall expire upon retirement. In the event that the NEMA zone either becomes or is forecast to become a separate zone for Forward Capacity Auction purposes, National Grid agrees to discuss with Massachusetts Municipal Wholesale Electric Company (“MMWEC”) and Wellesley Municipal Light Plant, Reading Municipal Light Plant and Concord Municipal Light Plant (“WRC”) any proposal by National Grid to develop cost effective transmission improvements that would mitigate or alleviate the import constraints and to work cooperatively and in good faith with MMWEC and WRC regarding any such proposal. MMWEC and WRC agree to support any proposals advanced by National Grid in the regional system planning process to construct any such transmission improvements, provided that MMWEC and WRC determine that the proposed improvements are cost effective (without regard to CTRs) and will mitigate or alleviate the import constraints.

III.13.7.3.4. Forward Capacity Market Net Charge Amount.

The Forward Capacity Market net charge amount for each Market Participant as of the end of the Obligation Month shall be equal to the sum of: (a) its Capacity Load Obligation charge; (b) its revenues from any applicable specifically allocated CTRs; (c) its share of the CTR fund; and (d) any applicable export charges.

III.13.2. Annual Forward Capacity Auction.

III.13.2.1. Timing of Annual Forward Capacity Auctions.

Except with respect to the first six Forward Capacity Auctions (as described in Section III.13.1.10), each Forward Capacity Auction will be conducted beginning on the first Monday in the February that is approximately three years and four months before the beginning of the associated Capacity Commitment Period (unless, no later than the immediately preceding December 1, an alternative date is announced by the ISO), or, where exigent circumstances prevent the start of the Forward Capacity Auction at that time, as soon as possible thereafter.

III.13.2.2. Amount of Capacity Cleared in Each Forward Capacity Auction.

The total amount of capacity cleared in each Forward Capacity Auction shall be determined using the System-Wide Capacity Demand Curve pursuant to Section III.13.2.3.3.

The System-Wide Capacity Demand Curve is defined as follows:

- (a) For quantities less than the Installed Capacity Requirement (net of HQICCs) at 0.200 LOLE, the price is max [1.6 multiplied by Net CONE, CONE];
- (b) For quantities equal to or greater than the Installed Capacity Requirement (net of HQICCs) at 0.200 LOLE, but less than 0.011 LOLE, the price will be determined by a straight line between the price at 0.200 LOLE (which shall be max [1.6 multiplied by Net CONE, CONE] and the price at 0.011 LOLE (which shall be zero);
- (c) For quantities equal to or greater than the Installed Capacity Requirement (net of HQICCs) at 0.011 LOLE, the price is zero.

III.13.2.3. Conduct of the Forward Capacity Auction.

The Forward Capacity Auction shall be a descending clock auction, which will determine, subject to the provisions of Section III.13.2.7, the Capacity Clearing Price for each Capacity Zone modeled in that Forward Capacity Auction pursuant to Section III.12.4, and the Capacity Clearing Price for certain offers from New Import Capacity Resources and Existing Import Capacity Resources pursuant to Section III.13.2.3.3(d). The Forward Capacity Auction shall determine the outcome of all offers and bids accepted during the qualification process and submitted during the auction. Each Forward Capacity Auction shall be conducted as a series of rounds, which shall continue (for up to five consecutive Business Days, with up to eight rounds per day, absent extraordinary circumstances) until the Forward Capacity Auction is concluded for all modeled Capacity Zones in accordance with the provisions of Section III.13.2.3.3. Each

round of the Forward Capacity Auction shall consist of the following steps, which shall be completed simultaneously for each Capacity Zone included in the round:

III.13.2.3.1. Step 1: Announcement of Start-of-Round Price and End-of-Round Price.

For each round, the auctioneer shall announce a single Start-of-Round Price (the highest price associated with a round of the Forward Capacity Auction) and a single (lower) End-of-Round Price (the lowest price associated with a round of the Forward Capacity Auction). In the first round, the Start-of-Round Price shall equal the Forward Capacity Auction Starting Price for all modeled Capacity Zones. In each round after the first round, the Start-of-Round Price shall equal the End-of-Round Price from the previous round.

III.13.2.3.2. Step 2: Compilation of Offers and Bids.

The auctioneer shall compile all of the offers and bids for that round, as follows:

(a) Offers from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources.

(i) The Project Sponsor for any New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource accepted in the qualification process for participation in the Forward Capacity Auction may submit an offer (a “New Capacity Offer”) indicating the quantity of capacity that the Project Sponsor would commit to provide from the resource (in the associated modeled Capacity Zone during the qualification process) during the Capacity Commitment Period at that round’s prices. A New Capacity Offer shall be defined by the submission of one to five prices, each strictly less than the Start-of-Round Price but greater than or equal to the End-of-Round Price, and an associated quantity in the associated modeled Capacity Zone. Each price shall be expressed in units of dollars per kilowatt-month to an accuracy of at most three digits to the right of the decimal point, and each quantity shall be expressed in units of MWs to an accuracy of at most three digits to the right of the decimal point. Such a New Capacity Offer shall imply a supply curve indicating quantities offered at all of that round’s prices, pursuant to the convention of Section III.13.2.3.2(a)(iii).

(ii) If the Project Sponsor of a New Generating Capacity Resource, a New Import Capacity Resource, or New Demand Resource elects to offer in a Forward Capacity Auction, the Project Sponsor must offer the resource’s full FCA Qualified Capacity at the Forward Capacity Auction

Starting Price in the first round of the auction. A New Capacity Offer for a resource may in no event be for greater capacity than the resource’s full FCA Qualified Capacity at any price. A New Capacity Offer for a resource may not be for less capacity than the resource’s Economic Minimum Limit at any price, except where the New Capacity Offer is for a capacity quantity of zero.

(iii) Let the Start-of-Round Price and End-of-Round Price for a given round be P_S and P_E , respectively. Let the m prices ($1 \leq m \leq 5$) submitted by a Project Sponsor for a modeled Capacity Zone be p_1, p_2, \dots, p_m , where $P_S > p_1 > p_2 > \dots > p_m \geq P_E$, and let the associated quantities submitted for a New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource be q_1, q_2, \dots, q_m . Then the Project Sponsor’s supply curve, for all prices strictly less than P_S but greater than or equal to P_E , shall be taken to be:

$$S(p) = \begin{cases} q_0, & \text{if } p > p_1, \\ q_1, & \text{if } p_2 < p \leq p_1, \\ q_2, & \text{if } p_3 < p \leq p_2, \\ \dots & \dots, \\ q_m, & \text{if } p \leq p_m. \end{cases}$$

where, in the first round, q_0 is the resource’s full FCA Qualified Capacity and, in subsequent rounds, q_0 is the resource’s quantity offered at the lowest price of the previous round.

(iv) [Reserved.]

(v) A New Generating Capacity Resource (except a Renewable Technology Resource), New Import Capacity Resource, or New Demand Resource may not include any capacity in a New Capacity Offer during the Forward Capacity Auction at any price below the resource’s New Resource Offer Floor Price. The amount of capacity included in each New Capacity Offer at each price shall be included in the aggregate supply curves at that price as described in Section III.13.2.3.3.

(b) **Bids from Existing Capacity Resources Accepted in Qualification.** Static De-List Bids, Permanent De-List Bids, and Export Bids from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources submitted and accepted in the qualification process

(or as directed by the Commission) shall be automatically bid into the appropriate round(s) of the Forward Capacity Auction, such that each such resource's FCA Qualified Capacity will be included in the aggregate supply curves as described in Section III.13.2.3.3. until any Static De-List Bid, Permanent De-List Bid, or Export Bid clears in the Forward Capacity Auction, as described in Section III.13.2.5.2, and is removed from the aggregate supply curves. Administrative Export De-List Bids shall be automatically entered into the first round of the Forward Capacity Auction at the Forward Capacity Auction Starting Price. If the amount of capacity associated with Export Bids for an interface exceeds the transfer limit of that interface (minus any accepted Administrative De-List Bids over that interface), then the set of Export Bids associated with that interface equal to the interface's transfer limit (minus any accepted Administrative De-List Bids over that interface) having the highest bid prices shall be included in the auction as described above; capacity for which Export Bids are not included in the auction as a result of this provision shall be entered into the auction pursuant to Section III.13.2.3.2(c).

(c) **Existing Capacity Resources Not Having Accepted De-List or Export Bids and Self-Supplied FCA Resources.** Each Existing Generating Capacity Resource, Existing Import Capacity Resource, and Existing Demand Resource that did not submit a Static De-List Bid, a Permanent De-List Bid, an Export Bid, or an Administrative Export De-List Bid in its Existing Capacity Qualification Package, or an Existing Generating Capacity Resource, Existing Import Capacity Resource, or Existing Demand Resource that did not have any such bid accepted in the qualification process, and each existing Self-Supplied FCA Resource shall be automatically entered into each round of the Forward Capacity Auction at its FCA Qualified Capacity, such that the resource's FCA Qualified Capacity will be included in the aggregate supply curves as described in Section III.13.2.3.3, except where such resource, if permitted, submits an appropriate Dynamic De-List Bid, as described in Section III.13.2.3.2(d). Each new Self-Supplied FCA Resource shall be automatically entered into each round of the Forward Capacity Auction at its designated self-supplied quantity at prices at or above the resource's New Resource Offer Floor Price, such that the resource's designated self-supply quantity will be included in the aggregate supply curves as described in Section III.13.2.3.3.

(d) **Dynamic De-List Bids.** In any round of the Forward Capacity Auction in which prices are below the Dynamic De-List Bid Threshold, any Existing Generating Capacity Resource, Existing Import Capacity Resource, or Existing Demand Resource (but not any Self-Supplied FCA Resources) may submit a Dynamic De-List Bid at prices below the Dynamic De-List Bid Threshold. Such a bid shall be defined by the submission of one to five prices, each less than the Dynamic De-List Bid Threshold (or the Start-of-Round Price, if lower than the Dynamic De-List Bid Threshold) but greater than or equal to

the End-of-Round Price, and a single quantity associated with each price. Such a bid shall be expressed in the same form as specified in Section III.13.2.3.2(a)(i) and shall imply a curve indicating quantities at all of that round's relevant prices, pursuant to the convention of Section III.13.2.3.2(a)(iii). The curve may in no case increase the quantity offered as the price decreases. A dynamic De-List Bid may not offer less capacity than the resource's Economic Minimum Limit at any price, except where the amount of capacity offered is zero. All Dynamic De-List Bids are subject to a reliability review as described in Section III.13.2.5.2.5, and if not rejected for reliability reasons, shall be included in the round in the same manner as Static De-List Bids as described in Section III.13.2.3.2(b). Where a resource elected pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5 to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which the offer clears, the capacity associated with any resulting Capacity Supply Obligation may not be subject to a Dynamic De-List Bid in subsequent Forward Capacity Auctions for Capacity Commitment Periods for which the Project Sponsor elected to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply. Where a Lead Market Participant submits any combination of Dynamic De-List Bid, Static De-List Bid, Export Bid, and Administrative Export De-List Bid for a single resource, none of the prices in a set of price-quantity pairs associated with a bid may be the same as any price in any other set of price-quantity pairs associated with another bid for the same resource.

(e) **Repowering.** Offers and bids associated with a resource participating in the Forward Capacity Auction as a New Generating Capacity Resource pursuant to Section III.13.1.1.1.2 (resources previously counted as capacity resources) shall be addressed in the Forward Capacity Auction in accordance with the provisions of this Section III.13.2.3.2(e). The Project Sponsor shall offer such a New Generating Capacity Resource into the Forward Capacity Auction in the same manner and pursuant to the same rules as other New Generating Capacity Resources, as described in Section III.13.2.3.2(a). As long as any capacity is offered from the New Generating Capacity Resource, the amount of capacity offered is the amount that the auctioneer shall include in the aggregate supply curve at the relevant prices, and the quantity of capacity offered from the associated Existing Generating Capacity Resource shall not be included in the aggregate supply curve. If any portion of the New Generating Capacity Resource clears in the Forward Capacity Auction, the associated Existing Generating Capacity Resource shall be permanently de-listed as of the start of the associated Capacity Commitment Period. If at any price, no capacity is offered from the New Generating Capacity Resource, then the auctioneer shall include capacity from the associated Existing Generating Capacity Resource at that price, subject to any bids submitted and accepted in the qualification process for that Existing Generating Capacity Resource pursuant to Section III.13.1.2.5.

Bids submitted and accepted in the qualification process for an Existing Generating Capacity Resource pursuant to Section III.13.1.2.5 shall only be entered into the Forward Capacity Auction after the associated New Generating Capacity Resource is fully withdrawn (that is, the Forward Capacity Auction reaches a price at which the resource's New Capacity Offer is zero capacity), and shall only then be subject to the reliability review described in Section III.13.2.5.2.5.

(f) **Conditional Qualified New Generating Capacity Resources.** Offers associated with a resource participating in the Forward Capacity Auction as a Conditional Qualified New Generating Capacity Resource pursuant to Section III.13.1.1.2.3(f) shall be addressed in the Forward Capacity Auction in accordance with the provisions of this Section III.13.2.3.2(f). The Project Sponsor shall offer such a Conditional Qualified New Generating Capacity Resource into the Forward Capacity Auction in the same manner and pursuant to the same rules as other New Generating Capacity Resources, as described in Section III.13.2.3.2(a). An offer from at most one resource at a Conditional Qualified New Generating Capacity Resource's location will be permitted to clear (receive a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction. As long as a positive quantity is offered at the End-of-Round Price in the final round of the Forward Capacity Auction by the resource having a higher queue priority at the Conditional Qualified New Generating Capacity Resource's location, as described in Section III.13.1.1.2.3(f), then no capacity from the Conditional Qualified New Generating Capacity Resource shall clear. If at any price greater than or equal to the End-of-Round Price in the final round of the Forward Capacity Auction, zero quantity is offered from the resource having higher queue priority at the Conditional Qualified New Generating Capacity resource's location, as described in Section III.13.1.1.2.3(f), then the auctioneer shall consider capacity offered from the Conditional Qualified New Generating Capacity Resource in the determination of clearing, including the application of Section III.13.2.7.

(g) **Mechanics.** Offers and bids that may be submitted during a round of the Forward Capacity Auction must be received between the starting time and ending time of the round, as announced by the auctioneer in advance. The ISO at its sole discretion may authorize a participant in the auction to complete or correct its submission after the ending time of a round, but only if the participant can demonstrate to the ISO's satisfaction that the participant was making reasonable efforts to complete a valid offer submission before the ending time of the round, and only if the ISO determines that allowing the completion or correction will not unreasonably disrupt the auction process. All decisions by the ISO concerning whether or not a participant may complete or correct a submission after the ending time of a round are final.

III.13.2.3.3. Step 3: Determination of the Outcome of Each Round.

The auctioneer shall use the offers and bids for the round as described in Section III.13.2.3.2 to determine the aggregate supply curves for the New England Control Area and for each modeled Capacity Zone included in the round. The aggregate supply curve for the New England Control Area (the “Total System Capacity”) shall reflect at each price the sum of (the amount of capacity offered in all Capacity Zones modeled as import-constrained Capacity Zones at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources)) plus (the amount of capacity offered in the Rest-of-Pool Capacity Zone at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources)) plus (for each Capacity Zone modeled as an export-constrained Capacity Zone, the lesser of the amount of capacity offered in the Capacity Zone at that price (excluding capacity offered from New Import Capacity Resources and Existing Import Capacity Resources) or the Capacity Zone’s Maximum Capacity Limit) plus (for each interface between the New England Control Area and an external Control Area, the lesser of that interface’s approved capacity transfer limit (net of tie benefits) or the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources). In computing the Total System Capacity, capacity associated with any New Capacity Offer at any price greater than the Forward Capacity Auction Starting Price will not be included in the tally of total capacity at the Forward Capacity Auction Starting Price for that Capacity Zone. In no event shall the Capacity Clearing Price for a Capacity Zone be greater than the Forward Capacity Auction Starting Price for that Capacity Zone. On the basis of these aggregate supply curves, the auctioneer shall determine the outcome of the round for each modeled Capacity Zone as follows:

(a) Import-Constrained Capacity Zones.

For a Capacity Zone modeled as an import-constrained Capacity Zone, if either of the following two conditions is met during the round:

- (1) the aggregate supply curve for the import-constrained Capacity Zone, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the Capacity Zone’s Local Sourcing Requirement; or

(2) the Total System Capacity, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the amount of capacity determined by the System-Wide Capacity Demand Curve;

then the Forward Capacity Auction for that Capacity Zone is concluded and such Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for that Capacity Zone shall be set at the highest price at which either of the two conditions above are satisfied, subject to the other provisions of this Section III.13.2. If neither of the two conditions above are met in the round, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the amount of capacity determined by the System-Wide Capacity Demand Curve at the End-of-Round Price) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and that Capacity Zone will be included in the next round of the Forward Capacity Auction.

(b) **Rest-of-Pool Capacity Zone.** For the Rest-of-Pool Capacity Zone, if the Total System Capacity adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the amount of capacity determined by the System-Wide Capacity Demand Curve, then the Forward Capacity Auction for the Rest-of-Pool Capacity Zone is concluded and the Rest-of-Pool Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for the Rest-of-Pool Capacity Zone shall be set at the highest price at which the Total System Capacity is less than or equal to the amount of capacity determined by the System-Wide Capacity Demand Curve, subject to the other provisions of this Section III.13.2. If the Total System Capacity exceeds the amount of capacity determined by the System-Wide Capacity Demand Curve at the End-of-Round Price, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the amount of capacity determined by the System-Wide Capacity Demand Curve at the End-of-Round Price) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and the Rest-of-Pool Capacity Zone will be included in the next round of the Forward Capacity Auction.

(c) **Export-Constrained Capacity Zones.** For a Capacity Zone modeled as an export-constrained Capacity Zone, if both of the following two conditions are met during the round:

(i) the aggregate supply curve for the export-constrained Capacity Zone, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), is equal to or below the Capacity Zone's Maximum Capacity Limit; and

(ii) the Total System Capacity, adjusted as necessary in accordance with Section III.13.2.6 (Capacity Rationing Rule), equals or is less than the amount of capacity determined by the System-Wide Capacity Demand Curve;

then the Forward Capacity Auction for that Capacity Zone is concluded and such Capacity Zone will not be included in further rounds of the Forward Capacity Auction. The Capacity Clearing Price for that Capacity Zone shall be set at the highest price at which both of the conditions above are satisfied, subject to the other provisions of this Section III.13.2. If it is not the case that both of the two conditions above are satisfied in the round, then the auctioneer shall publish the quantity of system-wide excess supply at the End-of-Round Price (the amount of capacity offered at the End-of-Round Price in all modeled Capacity Zones minus the amount of capacity determined by the System-Wide Capacity Demand Curve) and the quantity of excess supply in the export-constrained Capacity Zone (the amount of capacity offered at the End-of-Round Price in the export-constrained Capacity Zone minus the Maximum Capacity Limit of the export-constrained Capacity Zone) and the quantity of capacity from Demand Resources by type at the End-of-Round Price, and that Capacity Zone will be included in the next round of the Forward Capacity Auction.

(d) **Treatment of Import Capacity.** Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is less than or equal to that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the capacity offers from those resources shall be treated as capacity offers in the modeled Capacity Zone associated with that interface. Where the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between the New England Control Area and an external Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the following provisions shall apply (separately for each such interface):

(i) For purposes of determining which capacity offers from the New Import Capacity Resources and Existing Import Capacity Resources over the interface shall clear and at what price, the offers over the interface shall be treated in the descending-clock auction as if they comprised a separately-modeled export-constrained capacity zone, with an aggregate supply curve consisting of the offers from the New Import Capacity Resources and Existing Import Capacity Resources over the interface.

(ii) The amount of capacity offered over the interface that will be included in the aggregate supply curve of the modeled Capacity Zone associated with the interface shall be the lesser of the following two quantities: the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over the interface; and the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF).

(iii) The Forward Capacity Auction for New Import Capacity Resources and Existing Import Capacity Resources over the interface is concluded when the following two conditions are both satisfied: the amount of capacity offered from New Import Capacity Resource and Existing Import Capacity Resources over the interface is less than or equal to the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF); and the Forward Capacity Auction is concluded in the modeled Capacity Zone associated with the interface.

(e) **Treatment of Export Capacity.** Any Export Bid or any Administrative Export De-List Bid that is used to export capacity through an export interface connected to an import-constrained Capacity Zone from another Capacity Zone, or through an export interface connected to the Rest-of-Pool Capacity Zone from an export-constrained Capacity Zone in the Forward Capacity Auction will be modeled in the Capacity Zone where the export interface that is identified in the Existing Capacity Qualification Package is located. The Export Bid or Administrative Export De-List Bid clears against the Capacity Clearing Price in the Capacity Zone where the Export Bid or Administrative Export De-List Bid is modeled.

(i) Then the MW quantity equal to the relevant Export Bid or Administrative Export De-List Bid from the resource associated with the Export Bid or Administrative Export De-List Bid will be de-listed in the Capacity Zone where the resource is located. If the export interface is connected to an import-constrained Capacity Zone, the MW quantity procured will be in addition to the Local Sourcing Requirement of the import-constrained Capacity Zone.

(ii) If the Export Bid or Administrative Export De-List Bid does not clear, then the resource associated with the Export Bid or Administrative Export De-List Bid will not be de-listed in the Capacity Zone where the resource is located.

(f) **Treatment of Real-Time Emergency Generation Resources.** In determining when the Forward Capacity Auction is concluded, no more than 600 MW of capacity from Real-Time Emergency Generation Resources shall be counted towards meeting the cleared amount of capacity determined by the System-Wide Capacity Demand Curve. If the sum of the Capacity Supply Obligations of Real-Time Emergency Generation Resources exceeds 600 MW, the Capacity Clearing Price, or in the case of Inadequate Supply or Insufficient Competition, the payment as described in Section III.13.2.8, (as adjusted pursuant to Section III.13.2.7.3(b)) paid to all Real-Time Emergency Generation Resources shall be adjusted by the ratio of 600 MW divided by the total of the final Capacity Supply Obligations of Real-Time Emergency Generation Resources. The acceptance of a Real-Time Emergency Generation Resource Static De-list Bid, Dynamic De-list Bid, or Permanent De-list Bid shall be based on the effective Capacity Clearing Price as described in Section III.13.2.7.

III.13.2.3.4. Determination of Final Capacity Zones.

(a) For all Forward Capacity Auctions up to and including the sixth Forward Capacity Auction (for the Capacity Commitment Period beginning June 1, 2015), after the Forward Capacity Auction is concluded for all modeled Capacity Zones, the final set of distinct Capacity Zones that will be used for all purposes associated with the relevant Capacity Commitment Period, including for the purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals, shall be those having distinct Capacity Clearing Prices as a result of constraints between modeled Capacity Zones binding in the running of the Forward Capacity Auction. Where a modeled constraint does not bind in the Forward Capacity Auction, and as a result adjacent modeled Capacity Zones clear at the same Capacity Clearing Price, those modeled Capacity Zones shall be a single Capacity Zone used for all purposes of the relevant Capacity Commitment Period, including for the purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals.

(b) For all Forward Capacity Auctions beginning with the seventh Forward Capacity Auction (for the Capacity Commitment Period beginning June 1, 2016) the final set of distinct Capacity Zones that will be used for all purposes associated with the relevant Capacity Commitment Period, including for the

purposes of reconfiguration auctions and Capacity Supply Obligation Bilaterals, shall be those described in Section III.12.4.

III.13.2.4. Forward Capacity Auction Starting Price and the Cost of New Entry.

The Forward Capacity Auction Starting Price is max [1.6 multiplied by Net CONE, CONE]. References in this Section III.13 to the Forward Capacity Auction Starting Price shall mean the Forward Capacity Auction Starting Price for the Forward Capacity Auction associated with the relevant Capacity Commitment Period.

CONE for the Forward Capacity Auction for the Capacity Commitment Period beginning on June 1, 2018 is \$14.04/kW-month

Net CONE for the Forward Capacity Auction for the Capacity Commitment Period beginning on June 1, 2018 is \$11.08/kW-month

CONE and Net CONE shall be recalculated using updated data coincident with the recalculation of Offer Review Trigger Prices pursuant to Section III.A.21.1.2. Whenever these values are recalculated, the ISO will review the results of the recalculation with stakeholders and the new values will be filed with the Commission prior to the Forward Capacity Auction in which the new value is to apply

Between recalculations, CONE and Net CONE will be adjusted for each Forward Capacity Auction pursuant to Section III.A.21.1.2(e), except that the energy and ancillary services offset will be adjusted using publicly available data for Mass Hub On-Peak electricity futures through the commitment period of the FCA and will not be adjusted based on natural gas prices. The adjusted CONE and Net CONE values will be published on the ISO's web site.

III.13.2.5. Treatment of Specific Offer and Bid Types in the Forward Capacity Auction.

III.13.2.5.1. Offers from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources.

A New Capacity Offer (other than one from a Conditional Qualified New Generating Capacity Resource) clears (receives a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction if the Capacity Clearing Price is greater than or equal to the price specified in

the offer, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6. An offer from a Conditional Qualified New Generating Capacity Resource clears (receives a Capacity Supply Obligation for the associated Capacity Commitment Period) in the Forward Capacity Auction, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6, if all of the following conditions are met: (i) the Capacity Clearing Price is greater than or equal to the price specified in the offer; (ii) capacity from that resource is considered in the determination of clearing as described in Section III.13.2.3.2(f); and (iii) such offer minimizes the costs for the associated Capacity Commitment Period, subject to Section III.13.2.7.7(c).

The amount of capacity that receives a Capacity Supply Obligation through the Forward Capacity Auction shall not exceed the quantity of capacity offered from the New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource at the Capacity Clearing Price.

III.13.2.5.2. Bids and Offers from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources.

III.13.2.5.2.1. Permanent De-List Bids.

Except as provided in Section III.13.2.5.2.5 and Section III.13.2.5.2.7, a Permanent De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6.

III.13.2.5.2.2. Static De-List Bids and Export Bids.

Except as provided in Section III.13.2.5.2.5 and Section III.13.2.5.2.7, a Static De-List Bid or an Export Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6.

III.13.2.5.2.3. Dynamic De-List Bids.

A Dynamic De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) if the Capacity Clearing Price is less than or equal to the price specified in the bid, except possibly as a result of the Capacity Rationing Rule described in Section III.13.2.6. If more Dynamic De-List Bids are submitted at a price than are needed to clear the

market, such Dynamic De-List Bids shall be cleared pro-rata, but in no case less than a resource's Economic Minimum Limit.

III.13.2.5.2.4. Administrative Export De-List Bids.

An Administrative Export De-List Bid clears in the Forward Capacity Auction (does not receive a Capacity Supply Obligation for the associated Capacity Commitment Period) regardless of the Capacity Clearing Price and regardless of whether there is Inadequate Supply or Insufficient Competition in the Capacity Zone.

III.13.2.5.2.5. Bids Rejected for Reliability Reasons.

The ISO shall review each Non-Price Retirement Request, Permanent De-List Bid, Static De-List Bid, Export Bid, Administrative Export De-List Bid, and Dynamic De-List Bid entered into the Forward Capacity Auction to determine whether the capacity associated with that Non-Price Retirement Request or de-list bid is needed for reliability reasons during the Capacity Commitment Period associated with the Forward Capacity Auction. The capacity shall be deemed needed for reliability reasons if the absence of the capacity would result in the violation of any NERC or NPCC criteria, or ISO New England System Rules. Non-Price Retirement Requests and de-list bids shall only be rejected pursuant to this Section III.13.2.5.2.5 for the sole purpose of addressing a local reliability issue, and shall not be rejected solely on the basis that acceptance of the Non-Price Retirement Request or de-list bid may result in the procurement of less capacity than the Local Sourcing Requirement for Capacity Zones. Where a Non-Price Retirement Request would otherwise be accepted, or a Permanent De-List Bid, Static De-List Bid, Export Bid, Administrative Export De-List Bid, or Dynamic De-List Bid would otherwise clear in the Forward Capacity Auction, but the ISO has determined that some or all of the capacity associated with the Non-Price Retirement Request or de-list bid is needed for reliability reasons, then the de-list bid having capacity needed for reliability will not clear in the Forward Capacity Auction and the Non-Price Retirement Request will not be approved as described in Section III.13.1.2.3.1.5.3, and the following provisions will apply:

- (a) The Lead Market Participant shall be notified that its de-list bid did not clear for reliability reasons at the later of: (i) immediately after the end of the Forward Capacity Auction round in which the auction price reaches the price of the de-list bid; or (ii) as soon as practicable after the time at which the ISO has determined that the de-list bid must be rejected for reliability reasons. In no event, however, shall a Lead Market Participant be notified that a bid submitted pursuant to Section III.13.1.2.5 and accepted in the qualification process for an Existing Generating Capacity Resource did not clear for reliability reasons

if the associated New Generating Capacity Resource remains in the Forward Capacity Auction. In such a case, the Lead Market Participant shall be notified that its bid did not clear for reliability reasons at the later of: (i) immediately after the end of the Forward Capacity Auction round in which the auction price reaches the price of the bid; (ii) immediately after the end of the Forward Capacity Auction round in which the associated New Generating Capacity Resource is fully withdrawn (that is, the Forward Capacity Auction reaches a price at which the resource's New Capacity Offer is zero capacity); or (iii) as soon as practicable after the time at which the ISO has determined that the bid must be rejected for reliability reasons.

(i) In the case of Non-Price Retirement Request, the Lead Market Participant will be notified whether or not the request has been rejected for reliability reasons within 90 days of the submission of the request.

(b) A resource that has a de-list bid rejected pursuant to this Section III.13.2.5.2.5 shall be compensated pursuant to the terms set out in Section III.13.2.5.2.5.1. An Existing Generating Capacity Resource or Existing Demand Resource that has a Non-Price Retirement Request rejected pursuant to this Section III.13.2.5.2.5 shall have the option to retire pursuant to Section III.2.5.2.5.3(a)(iii) or to continue operation and be compensated pursuant to Section III.13.2.5.2.5.1. A resource receiving payment under this Section III.13.2.5.2.5 and Section III.13.2.5.2.5.1 shall have Capacity Supply Obligations as described in Section III.13.6.1.

(c) The ISO shall review the results of each annual reconfiguration auction and determine whether the reliability need which prevented the de-listing of the resource has been met through the annual reconfiguration auction. The ISO may also attempt to address the reliability concern through other reasonable means (including transmission enhancements).

(d) If the reliability need that prevented the de-listing of the resource is met through a reconfiguration auction or other means, the resource shall be de-listed, be relieved of its Capacity Supply Obligation and no longer be eligible to receive the compensation specified in Section III.13.2.5.2.5(b). The ISO shall enter bids at the Forward Capacity Auction Starting Price to replace the capacity on behalf of load in subsequent annual reconfiguration auctions associated with the Capacity Commitment Period (and subsequent Capacity Commitment Periods, in the case of a Permanent De-List Bid).

(e) If a Permanent De-List Bid that would otherwise clear in a Forward Capacity Auction or a Non-Price Retirement Request is rejected for reliability reasons, that resource, or portion thereof, as applicable, is no longer eligible to participate as an Existing Generating Capacity Resource in any reconfiguration auction, Forward Capacity Auction or Capacity Supply Obligation Bilateral for that and subsequent Capacity Commitment Periods. If the resource, or portion thereof, continues to be needed for reliability reasons, it shall be counted as capacity in the Forward Capacity Auction and shall be compensated as described in Section III.13.2.5.2.5.1 until such time as it is no longer needed for reliability reasons.

(f) [Reserved.]

(g) The ISO shall review with the Reliability Committee (i) the status of any prior rejected delist bids reported to the Commission in an FCA results filing pursuant to Section 13.8.2, and (ii) the status of any Non-Price Retirement Request that has been rejected for reliability reasons and has elected to continue to operate, prior to the New Capacity Qualification Deadline in accordance with Section 4.1(c) of Attachment K of the ISO OATT.

In instances where an identified reliability need results in the rejection of a Non-Price Retirement Request, or the rejection of a Permanent De-List Bid, Export Bid, Administrative Export De-List Bid, Static De-List Bid, or Dynamic De-List Bid while executing an FCA, the ISO shall (i) review each specific reliability need with the Reliability Committee in accordance with the timing provided for in the ISO New England Operating Documents and, (ii) update the current system Needs Assessments pursuant to Section 4.1(c) of Attachment K of the ISO OATT. For de-list bids, this review and update will follow ISO's filing of the FCA results with the Commission pursuant to Section 13.8.2. System needs associated with Non-Price Retirement Requests that are rejected for reliability reasons will be reviewed with the Reliability Committee prior to the notification of the Lead Market Participant that has submitted the Non-Price Retirement Request consistent with Section 13.2.5.2.5(a)(i).

III.13.2.5.2.5.1. Compensation for Bids Rejected for Reliability Reasons.

(a)(i) In cases where a Static De-List Bid, Export Bid, Administrative Export De-List Bid, Dynamic De-List Bid, or partial Permanent De-List Bid would otherwise clear in the Forward Capacity Auction but the de-list bid has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource qualifies for payment under Section III.13.2.5.2.5.1(a)(ii), the resource will be paid by the ISO in the same manner as all other capacity resources, except that payment shall be made on the basis of its de-list bid as accepted for the Forward Capacity Auction for the relevant Capacity Commitment Period instead

of the Forward Capacity Market Clearing Price. Under this Section, accepted Dynamic De-list Bids filed with the Commission as part of the FCA results filing are subject to review and approval by the Commission pursuant to the “just and reasonable” standard of Section 205 of the Federal Power Act.

(a)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(a)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the de-list bid was rejected. Once qualified under this Section III.13.2.5.2.5.1(a)(ii), the resource will have a Capacity Supply Obligation for the 12-month Capacity Commitment Period for which the de-list bid was rejected.

(b)(i) In cases where a Permanent De-List Bid for the capacity of an entire resource would otherwise clear in the Forward Capacity Auction but the Permanent De-List Bid has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource qualifies for payment under Section III.13.2.5.2.5.1(b)(ii), the resource will be paid either (i) in the same manner as all other capacity resources, except that payment shall be made on the basis of its de-list bid as accepted for the Forward Capacity Auction for the relevant Capacity Commitment Period instead of the Forward Capacity Market Clearing Price or (ii) under the terms of a cost-of-service agreement pursuant to Section III, Appendix I. Resources must notify the ISO of their election within six months after the ISO files the results of the relevant Forward Capacity Auction with the Commission. A resource that has had a Permanent De-List Bid rejected for reliability reasons and does not notify the ISO of its election as described in this paragraph will be paid on the basis of the resource’s Permanent De-List Bid as accepted for the Forward Capacity Auction. Cost-of-service agreements must be filed with and approved by the Commission, and cost-of-service compensation may not commence until the Commission has approved the use of cost-of-service rates for the unit in question or has accepted the use of the cost-of-service rates subject to refund while the rate is reviewed. In no event will payment under the cost-of-service agreement start prior to the start of the relevant Capacity Commitment Period for which the Permanent De-List Bid was submitted. Resources that elect payment based on the accepted Permanent De-List Bid may file with the Commission pursuant to Section 205 of the Federal Power Act to update its Permanent De-List Bid if the unit is retained for reliability for a period longer than the Capacity Commitment Period for which the Permanent De-List Bid was originally submitted.

(b)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(b)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the Permanent De-List Bid

was rejected. Once qualified under this Section III.13.2.5.2.5.1(b)(ii), the resource will have a Capacity Supply Obligation for the 12-month Capacity Commitment Period for which the Permanent De-List Bid was rejected. If a resource continues to be needed for reliability in Capacity Commitment Periods following the Capacity Commitment Period for which the Permanent De-List Bid was rejected, payment pursuant to Section III.13.2.5.2.5.1(b)(i) will continue and will terminate upon 120 day notice from the ISO to the resource that it is no longer needed for reliability.

(c)(i) In cases where a Non-Price Retirement Request for less than the entire resource has been submitted and the request has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource has not elected to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), the resource will continue to be paid in the same manner as other listed capacity resources until such time as the resource is no longer needed for reliability. In cases where a Non-Price Retirement Request for the entire resource has been submitted and the request has been rejected for reliability reasons pursuant to Section III.13.2.5.2.5 and the resource has not elected to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), the resource may elect to either (i) continue to be paid in the same manner as other listed capacity resources until such time as the resource is no longer needed for reliability, or (ii) the resource may elect to receive cost-of-service compensation pursuant to Section III, Appendix I. Resources must notify the ISO of their election within six months after the ISO files the results of the relevant Forward Capacity Auction with the Commission. A resource that has had a Non-Price Retirement Request rejected for reliability reasons and does not notify the ISO of its election as described in this paragraph will be paid in the same manner as other listed capacity resources. Cost-of-service agreements must be filed with and approved by the Commission, and cost-of-service compensation may not commence until the Commission has approved the use of cost-of-service rates for the unit in question or has accepted subject to refund while the rate is reviewed. In no event will compensation under the cost-of-service agreement start prior to the start of the relevant Capacity Commitment Period for which the Non-Price Retirement Request was rejected.

(c)(ii) A resource will qualify for payment under Section III.13.2.5.2.5.1(c)(i) if the ISO has not notified the resource that it is no longer needed for reliability reasons by 12:00 a.m. on June 1 of the year preceding the commencement of the Capacity Commitment Period for which the Non-Price Retirement Request was rejected. Once qualified under this Section III.13.2.5.2.5.1(c)(ii), compensation will be provided for the 12-month Capacity Commitment Period for which the Non-Price Retirement Request was rejected. If a resource continues to be needed for reliability in Capacity Commitment Periods following the Capacity Commitment Period for which the Non-Price Retirement Request was rejected,

payment pursuant to Section III.13.2.5.2.5.1 will continue and will terminate upon 120 day notice from the ISO to the resource that it is no longer needed for reliability.

(d) The difference between payments based on resource de-list bids or cost-of-service compensation as detailed in this Section III.13.2.5.2.5.1 and payments based on the market clearing price for the Forward Capacity Market under this Section III.13.2.5.2.5.1 shall be allocated to Regional Network Load within the affected Reliability Region.

(e) **Compensation for Existing Generating Capacity Resources at Stations with Common Costs that are Retained for Reliability.** If a Static De-List Bid or Permanent De-List Bid from an Existing Generating Capacity Resource that is associated with a Station having Common Costs is rejected for reliability reasons, the Existing Generating Capacity Resource will be paid as follows: (i) if one or more Existing Generating Capacity Resources at the Station assume a Capacity Supply Obligation through the normal clearing of the Forward Capacity Auction and one or more Existing Generating Capacity Resources are retained for reliability, then the Existing Generating Capacity Resources retained for reliability will be paid the sum of the Asset-Specific Going Forward Costs for the assets comprising that Existing Generating Capacity Resource; or (ii) if no Existing Generating Capacity Resources at the Station assumes a Capacity Supply Obligation through the normal clearing of the Forward Capacity Auction and one or more Existing Generating Capacity Resources are retained for reliability, then each Existing Generating Capacity Resource retained for reliability will be paid the sum of the Asset-Specific Going Forward Costs for the assets associated with that Existing Generating Capacity Resource plus a portion of the Station Going Forward Common Costs (such that the full amount of Station Going Forward Common Costs are allocated to the Existing Generating Capacity Resources retained for reliability).

III.13.2.5.2.5.2. Incremental Cost of Reliability Service From Non-Price Retirement Request Resources:

In cases where an Existing Generating Capacity Resource or Existing Demand Resource has had a Non-Price Retirement Request for the entire resource rejected for reliability reasons pursuant to Section III.13.2.5.2.5, does not elect to retire pursuant to Section III.13.2.5.2.5.3(a)(iii), and must make a capital improvement to the unit to remain in operation in order to continue to operate to meet the reliability need identified by the ISO, the resource may make application to the Commission pursuant to Section 205 of the Federal Power Act to receive just and reasonable compensation of the capital investment pursuant to the following:

(a) **Notice to State Utility Commissions, the ISO and Stakeholder Committees of Expectation that a Capital Expense will be Necessary to Meet the Reliability Need Identified by the ISO:** A resource seeking to avail itself of the recovery mechanism provided in this Section must notify the state utility commissions in the states where rate payers will fund the capital improvement, the ISO, and the Participants Committee of its intent to make the capital expenditure and the need for the expenditure. This notification must be made at least 120 days prior to the resource making the capital expenditure.

(b) **Required Showing Made to the Federal Energy Regulatory Commission:** In order to receive just and reasonable compensation for a capital expenditure under this Section, a resource must file an explanation of need with the Commission that explains why the capital expenditure is necessary in order to meet the reliability need identified by the ISO. This showing must demonstrate that the expenditure is reasonably determined to be the least-cost commercially reasonable option consistent with Good Utility Practice to meet the reliability need identified by the ISO. If the resource elects cost-of-service treatment pursuant to Section III.13.2.5.2.5.1(c), the Incremental Cost of Reliability Service filing described in this Section must be made separately from and may be made in advance of the resource's cost-of-service filing.

(c) **Allocation:** Costs of capital expenditures approved by the Commission under this provision shall be allocated to Regional Network Load within the affected Reliability Region.

III.13.2.5.2.5.3. Retirement of Resources

(a)(i) A resource, or portion thereof, that submits a Non-Price Retirement Request pursuant to Section III.13.1.2.3.1.5 will be retired coincident with the commencement of the Capacity Commitment Period for which the Non-Price Retirement Request is submitted if the request is approved, or if not approved the resource nonetheless elects to retire pursuant to Section III.13.2.5.2.5.3(a)(iii). If the Non-Price Retirement Request is approved after the resource has a Capacity Supply Obligation for the Capacity Commitment Period for which the Non-Price Retirement Request was submitted, the resource, or portion thereof, will be retired coincident with the end of Capacity Supply Obligation under Section III.13.2.5.2.5.1(c)(ii). The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(a)(ii) An Existing Generating Capacity Resource or Existing Demand Resource with an approved Non-Price Retirement Request may retire the resource, or portion thereof, earlier than the Capacity

Commitment Period for which its Non-Price Retirement Request has been approved if it is able to transfer the relevant Capacity Supply Obligation of the resource to another resource through one or more approved Capacity Supply Obligation Bilateral transactions as described in Section III.13.5.1 or reconfiguration auctions as described in Section III.13.4.1. A resource, or portion thereof, electing to retire pursuant to this provision must notify the ISO in writing of its election to retire and the date of retirement. The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(a)(iii) In cases where an Existing Generating Capacity Resource or Existing Demand Resource has submitted a Non-Price Retirement Request and the request is not approved because the resource is determined to be needed for reliability pursuant to Section III.13.2.5.2.5, the portion of the resource subject to the Non-Price Retirement Request may nonetheless retire as permitted by applicable law coincident with the commencement of the Capacity Commitment Period for which the Non-Price Retirement Request is submitted by notifying ISO no later than 15 days prior to commencement of the relevant Forward Capacity Auction. A resource making an election pursuant to this Section III.13.2.5.2.5.3(a)(iii) will not be eligible for compensation pursuant to Sections III.13.2.5.2.5.1 or III.13.2.5.2.5.2. The interconnection rights, or relevant portion thereof, for the resource will terminate and the status of the resource, or portion thereof, will be converted to retired on the date of retirement, consistent with the provisions of Schedules 22 and 23 of the OATT.

(b)(i) A resource that has submitted a non-partial Permanent De-List Bid that has cleared in the Forward Capacity Auction may retire the resource as of the Capacity Commitment Period for which its Permanent De-List Bid has cleared or earlier as described in Section III.13.2.5.2.5.3(b)(ii) by notifying the ISO in writing of its election to retire and the date of retirement. The date specified for retirement is subject to the limit for resource inactivity set out in Section III.13.2.5.2.5.3(d). The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date of retirement.

(b)(ii) A resource with a cleared non-partial Permanent De-List Bid may retire the resource earlier than the Capacity Commitment Period for which its Permanent De-List Bid has cleared if it is able to transfer the entire Capacity Supply Obligation of the resource to another resource through one or more approved Capacity Supply Obligation Bilateral transactions as described in Section III.13.5.1 or reconfiguration auctions as described in Section III.13.4. A resource electing to retire pursuant to this provision must

notify ISO in writing of its election to retire and the date of retirement. The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date on retirement.

(c) A resource that has never been counted as a capacity resource may retire the asset by notifying the ISO in writing of its election to retire and the date of retirement. The date specified for retirement is subject to the limit for resource inactivity set out in Section III.13.2.5.2.5.3(d). The interconnection rights for the resource will terminate and the status of the resource will be converted to retired on the date of retirement.

(d) A resource that does not operate commercially for a period of three calendar years will be deemed by the ISO to be retired. The interconnection rights for the unit will terminate and the status of the unit will be converted to retired on the date of retirement. Where a generator has submitted an application to repower under Schedule 22 or 23 of the OATT, the current interconnection space will be maintained beyond the three years unless the application under Schedule 22 or 23 is withdrawn voluntarily or by the operation of those provisions. Where an application is withdrawn under Schedule 22 or 23, the three year period will be calculated from the last day of commercial operation of the resource.

III.13.2.5.2.6. [Reserved.]

III.13.2.5.2.7. Treatment of De-List and Export Bids When the Capacity Clearing Price is Set Administratively.

Where the Capacity Clearing Price is set pursuant to Section III.13.2.7.9 (Capacity Carry Forward Rule), or where payments are set pursuant to Section III.13.2.8 (Inadequate Supply and Insufficient Competition), and as a result a Permanent De-List Bid, Static De-List Bid, or Export Bid clears that would not otherwise have cleared, then the de-listed or exported capacity will not be replaced in the current Forward Capacity Auction (that is, the amount of capacity procured in the Forward Capacity Auction shall be the Local Sourcing Requirement, as appropriate, minus the amount of the de-listed or exported capacity that results from the application of administratively determined prices) and shall be included in subsequent annual reconfiguration auctions (that is, the amount of capacity procured in subsequent annual reconfiguration auctions shall be increased by the amount of the de-listed or exported capacity).

III.13.2.6. Capacity Rationing Rule.

Except for Dynamic De-List Bids, Export Bids, and offers from New Import Capacity Resources and Existing Import Capacity Resources, offers and bids in the Forward Capacity Auction must clear or not clear in whole, unless the offer or bid specifically indicates that it may be rationed. A resource may elect to be rationed to either its Economic Minimum Limit or a level above its Economic Minimum Limit. These levels are submitted pursuant to Section III.13.1.1.2.2.3. Offers from New Import Capacity Resources and Existing Import Capacity Resources are subject to rationing, except where such rationing would violate any applicable physical minimum flow requirements on the associated interface. Export Bids may elect to be rationed generally, but regardless of such election will always be subject to potential rationing where the associated external interface binds. If more Dynamic De-List Bids are submitted at a price than are needed to clear the market, the bids shall be cleared pro-rata, subject to honoring the Economic Minimum Limit of the resources. Where an offer or bid may be rationed, such rationing may not result in procuring an amount of capacity that is below the associated resource's Economic Minimum Limit.

III.13.2.7. Determination of Capacity Clearing Prices.

The Capacity Clearing Price in each Capacity Zone shall be the price established by the descending clock Forward Capacity Auction as described in Section III.13.2.3, subject to the other provisions of this Section III.13.2.

III.13.2.7.1. Import-Constrained Capacity Zone Capacity Clearing Price Floor.

The Capacity Clearing Price in an import-constrained Capacity Zone shall not be lower than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone. If after the Forward Capacity Auction is conducted, the Capacity Clearing Price in an import-constrained Capacity Zone is less than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone, all resources clearing in the import-constrained Capacity Zone shall be paid based on the Capacity Clearing Price in the Rest-of-Pool Capacity Zone during the associated Capacity Commitment Period.

III.13.2.7.2. Export-Constrained Capacity Zone Capacity Clearing Price Ceiling.

The Capacity Clearing Price in an export-constrained Capacity Zone shall not be higher than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone. If after the Forward Capacity Auction is conducted, the Capacity Clearing Price in an export-constrained Capacity Zone is higher than the Capacity Clearing Price in the Rest-of-Pool Capacity Zone, all resources clearing in the export-constrained Capacity Zone shall be paid based on the Capacity Clearing Price in the Rest-of-Pool Capacity Zone during the associated Capacity Commitment Period.

III.13.2.7.3. Capacity Clearing Price Floor.

In the Forward Capacity Auctions for the Capacity Commitment Periods beginning on June 1, 2013, June 1, 2014, June 1, 2015, and June 1, 2016 only, the following additional provisions regarding the Capacity Clearing Price shall apply in all Capacity Zones (and in the application of Section III.13.2.3.3(d)(iii)):

(a) [Reserved.]

(b) The Capacity Clearing Price shall not fall below 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 below \$3.15). Where the Capacity Clearing Price reaches 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 reaches \$3.15), offers shall be prorated such that no more than the Installed Capacity Requirement (net of HQICCs) is procured in the Forward Capacity Auction, as follows:

(i) The total payment to all listed capacity resources during the associated Capacity Commitment Period shall be equal to 0.6 times CONE (or in the case of the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2016 shall be equal to \$3.15) times the Installed Capacity Requirement (net of HQICCs) applicable in the Forward Capacity Auction.

(ii) Payments to individual listed resources shall be prorated based on the total number of MWs of capacity clearing in the Forward Capacity Auction (receiving a Capacity Supply Obligation for the associated Capacity Commitment Period).

(iii) Suppliers may instead prorate their bid MWs of participation in the Forward Capacity Market by partially de-listing one or more resources. Regardless of any such proration, the full amount of capacity that cleared in the Forward Capacity Auction will be ineligible for treatment as new capacity in subsequent Forward Capacity Auctions (except as provided under Section III.13.1.1.1.2).

(iv) Any proration shall be subject to reliability review. Where proration is rejected for reliability reasons, the resource's payment shall not be prorated as described in subsection (ii) above, and the difference between its actual payment based on the Capacity Clearing Price and

what its payment would have been had prorationing not been rejected for reliability reasons shall be allocated to Regional Network Load within the affected Reliability Region. In this case, the total payment described in subsection (i) above will increase accordingly.

(v) Any election to prorate bid MWs associated with a New Capacity Offer that clears in the Forward Capacity Auction shall also apply in subsequent Forward Capacity Auctions for Capacity Commitment Periods for which the Project Sponsor elected to have the Capacity Supply Obligation and Capacity Clearing Price continue to apply pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5.

III.13.2.7.3A Treatment of Imports.

At the Capacity Clearing Price, if the amount of capacity offered from New Import Capacity Resources and Existing Import Capacity Resources over an interface between an external Control Area and the New England Control Area is greater than that interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF):

(a) the full amount of capacity offered at that price from Existing Import Capacity Resources associated with contracts listed in Section III.13.1.3.3(c) shall clear, unless that amount of capacity is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), in which case the capacity offered at that price from Existing Import Capacity Resources associated with contracts listed in Section III.13.1.3.3(c) shall be rationed such that the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) is not exceeded; and

(b) if there is space remaining over the interface after the allocation described in subsection (a) above, then the capacity offered at that price from New Import Capacity Resources and Existing Import Capacity Resources other than Existing Import Capacity Resources associated with the contracts listed in Section III.13.1.3.3(c) will be rationed such that the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) is not exceeded. If the capacity offered at that price by any single New Import Capacity Resource or Existing Import Capacity Resource that is not associated with the contracts listed in Section III.13.1.3.3(c) is greater than the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF), then the capacity offered

by that resource that is above the interface's approved capacity transfer limit (net of tie benefits, or net of HQICC in the case of the Phase I/II HVDC-TF) shall not be included in the rationing.

III.13.2.7.4. Effect of Capacity Rationing Rule on Capacity Clearing Price.

Where the requirement that offers and bids clear or not clear in whole (Section III.13.2.6) prohibits the descending clock auction in its normal progression from clearing a Capacity Zone at the precise amount of capacity required, then the auctioneer shall analyze the aggregate supply curve to determine cleared capacity offers and Capacity Clearing Prices that result in procuring at least the amount of capacity required while seeking to maximize social surplus for the associated Capacity Commitment Period. In an import-constrained Capacity Zone, the clearing algorithm will not consider blocks of capacity not needed to meet the import-constrained Capacity Zone's Local Sourcing Requirement when price separation occurs between the import-constrained Capacity Zone and the Rest-of-Pool Capacity Zone. The clearing algorithm may result in offers below the Capacity Clearing Price not clearing, and in de-list bids below the Capacity Clearing Price clearing.

III.13.2.7.5. Effect of Decremental Repowerings on the Capacity Clearing Price.

Where the effect of accounting for certain repowering offers and bids (as described in Section III.13.2.3.2(e)) results in the auction not clearing at the lowest price for the required quantity of capacity, then the auctioneer will conduct additional auction rounds of the Forward Capacity Auction as necessary to minimize capacity costs.

III.13.2.7.6. Minimum Capacity Award.

Each offer (excluding offers from Conditional Qualified New Generating Capacity Resources that do not satisfy the conditions specified in Sections III.13.2.5.1(i)-(iii)) clearing in the Forward Capacity Auction shall be awarded a Capacity Supply Obligation at least as great as the amount of capacity offered at the End-of-Round Price in the final round of the Forward Capacity Auction. For Intermittent Power Resources and Intermittent Settlement Only Resources, the Capacity Supply Obligation for months in the winter period (as described in Section III.13.1.5) shall be adjusted based on its winter Qualified Capacity as determined pursuant to Section III.13.1.1.2.2.6 and Section III.13.1.2.2.2.

III.13.2.7.7. Tie-Breaking Rules.

Where the provisions in this Section III.13.2 for clearing the Forward Capacity Auction (system-wide or in a single Capacity Zone) result in a tie – that is, where two or more resources offer sufficient capacity at

prices that would clear the auction at the same minimum costs – the auctioneer shall apply the following rules (in sequence, as necessary) to determine clearing:

- (a) [Reserved.]
- (b) If multiple projects may be rationed, they will be rationed proportionately.
- (c) Where clearing either the offer associated with a resource with a higher queue priority at a Conditional Qualified New Generating Capacity Resource’s location or the offer associated with the Conditional Qualified New Generating Capacity Resource would result in equal costs, the offer associated with the resource with the higher queue priority shall clear.
- (d) The offer associated with the Project Sponsor having the lower market share in the capacity auction (including Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources) shall be cleared.

III.13.2.7.8. [Reserved.]

III.13.2.7.9 Capacity Carry Forward Rule.

III.13.2.7.9.1. Trigger.

The capacity carry forward rule shall be triggered in an import-constrained Capacity Zone if all of the following conditions are met:

- (a) the sum of the amount of New Capacity Required plus the amount of Permanent De-List Bids clearing in the Forward Capacity Auction in the Capacity Zone is less than or equal to zero;
- (b) there is not Inadequate Supply in the Forward Capacity Auction in the Capacity Zone; and
- (c) at the Capacity Clearing Price, the sum of the amount of New Capacity Required plus the amount of Permanent De-List Bids clearing in the Forward Capacity Auction plus the amount of capacity carried forward due to rationing is greater than zero. The amount of capacity carried forward due to rationing shall equal the amount of capacity above the Local Sourcing Requirement procured

in that Capacity Zone in the previous Forward Capacity Auction as a result of the Capacity Rationing Rule.

III.13.2.7.9.2. Pricing.

If the capacity carry forward rule is triggered, then the Capacity Clearing Price for the Capacity Zone shall be the lesser of: (1) \$0.01 below the price at which the last New Generating Capacity Resource, New Import Capacity Resource, or New Demand Resource in the Capacity Zone to withdraw withdrew from the Forward Capacity Auction; or (2) the applicable Net CONE value; provided, however, that if in the Capacity Zone there is Insufficient Competition and no capacity offered from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources has been withdrawn from the Forward Capacity Auction, then the Capacity Clearing Price shall equal the applicable Net CONE value.

III.13.2.8. Inadequate Supply and Insufficient Competition.

In the case of either Inadequate Supply or Insufficient Competition, as defined in this Section III.13.2.8, the Forward Capacity Auction shall still be used to the extent possible; that is, the remedy for Inadequate Supply or Insufficient Competition shall be limited to import-constrained Capacity Zones having Inadequate Supply or Insufficient Competition.

III.13.2.8.1. Inadequate Supply.

III.13.2.8.1.1. Inadequate Supply in an Import-Constrained Capacity Zone.

An import-constrained Capacity Zone will be considered to have Inadequate Supply if at the Forward Capacity Auction Starting Price the amount of capacity offered in the import-constrained Capacity Zone through New Capacity Offers is less than the amount of New Capacity Required in that Capacity Zone. In an import-constrained Capacity Zone, “New Capacity Required” shall mean the Capacity Zone’s Local Sourcing Requirement, minus the total amount of capacity of Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources in the Capacity Zone (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated in the Capacity Zone for the Capacity Commitment Period.

(a) Where an import-constrained Capacity Zone has Inadequate Supply, Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (other than those still subject to a multi-year Capacity Commitment Period election as described in Sections

III.13.1.1.2.2.4 and III.13.1.4.2.2.5) in that Capacity Zone, other than such resources, or portions thereof, that have no Capacity Supply Obligation or are designated as Self-Supplied FCA Resources for the Capacity Commitment Period, shall be paid the max [applicable Net CONE value, Capacity Clearing Price for the Rest-of-Pool Capacity Zone] during the associated Capacity Commitment Period, and New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources in the Forward Capacity Auction in that Capacity Zone shall be paid the Forward Capacity Auction Starting Price during the associated Capacity Commitment Period (and subsequent Capacity Commitment Periods, as elected pursuant to Section III.13.1.1.2.2.4 or Section III.13.1.4.2.2.5).

(b) In an import-constrained Capacity Zone having Inadequate Supply, the difference between the amount of capacity offered in the Capacity Zone through New Capacity Offers and the amount of New Capacity Required in that Capacity Zone shall be included in subsequent annual reconfiguration auctions.

(c) Inadequate Supply in one or more import-constrained Capacity Zones shall not affect Capacity Zones having adequate supply.

(d) Any availability penalty assessed during the associated Capacity Commitment Period pursuant to Section III.13.7.2.7.1.2 on a resource in an import-constrained Capacity Zone having Inadequate Supply will be assessed at a rate equal to \$7.025/kW-month.

III.13.2.8.1.2. [Reserved.]

III.13.2.8.2. Insufficient Competition.

The Forward Capacity Auction shall be considered to have Insufficient Competition in an import-constrained Capacity Zone if there is not Inadequate Supply and the following two conditions are both satisfied:

(a) at the Forward Capacity Auction Starting Price, the amount of capacity offered from Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (that is not permanently de-listed for the Capacity Commitment Period), minus capacity otherwise obligated for the Capacity Commitment Period, is less than the Local Sourcing Requirement; and

(b) at the Forward Capacity Auction Starting Price:

- (i) less than 300 MW of capacity is offered from New Generating Capacity Resources and New Demand Resources (the ISO shall revisit the appropriateness of the 300 MW threshold in the case of an import-constrained Capacity Zone having a Local Sourcing Requirement of less than 5000 MW);
- (ii) the amount of capacity offered from New Generating Capacity Resources and New Demand Resources is less than twice the amount of New Capacity Required; or
- (iii) any Market Participant's total capacity from New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources is pivotal. For purposes of this Section III.13.2.8.2, a Market Participant shall be considered pivotal if, at the Forward Capacity Auction Starting Price, some capacity from that Market Participant's potential New Generating Capacity Resources, New Import Capacity Resources, or New Demand Resources is required to satisfy the Local Sourcing Requirement.

If the Forward Capacity Auction has Insufficient Competition, New Generating Capacity Resources, New Import Capacity Resources, and New Demand Resources shall be paid the Capacity Clearing Price during the associated Capacity Commitment Period, and Existing Generating Capacity Resources, Existing Import Capacity Resources, and Existing Demand Resources (other than those still subject to a multi-year Capacity Commitment Period election as described in Sections III.13.1.1.2.2.4 and III.13.1.4.2.2.5) shall be paid the lower of: (1) the Capacity Clearing Price; or (2) max [applicable Net CONE value, the Capacity Clearing Price for the Rest-of-Pool Capacity Zone] during the associated Capacity Commitment Period. Any availability penalty assessed during the associated Capacity Commitment Period pursuant to Section III.13.7.2.7.1.2 on a resource in an import-constrained Capacity Zone having Insufficient Competition will be assessed at a rate equal to the lower of: (1) the Capacity Clearing Price; or (2) \$7.025/kW-month.

III.13.2.9. [Reserved.]

III.13.5. Bilateral Contracts in the Forward Capacity Market.

Market Participants shall be permitted to enter into Capacity Supply Obligation Bilaterals, Capacity Load Obligation Bilaterals and Supplemental Availability Bilaterals in accordance with this Section III.13.5, with the ISO serving as Counterparty in each such transaction. Market Participants may not offset a Capacity Load Obligation with a Capacity Supply Obligation.

III.13.5.1. Capacity Supply Obligation Bilaterals.

A resource having a Capacity Supply Obligation seeking to shed that obligation (“Capacity Transferring Resource”) may enter into a bilateral transaction to transfer its Capacity Supply Obligation, in whole or in part (“Capacity Supply Obligation Bilateral”), to a resource, or portion thereof, having Qualified Capacity for that Capacity Commitment Period that is not already obligated (“Capacity Acquiring Resource”), subject to the following limitations

- (a) A monthly Capacity Supply Obligation Bilateral must be coterminous with a calendar month, and an annual Capacity Supply Obligation Bilateral must be coterminous with a Capacity Commitment Period.
- (b) A Capacity Supply Obligation Bilateral may not transfer a Capacity Supply Obligation amount that is greater than the lowest monthly Capacity Supply Obligation of the Capacity Transferring Resource during the period covered by the Capacity Supply Obligation Bilateral. A Capacity Supply Obligation Bilateral may not transfer a Capacity Supply Obligation amount that is greater than the lowest monthly amount of unobligated Qualified Capacity (that is, Qualified Capacity as determined in the most recent Forward Capacity Auction or reconfiguration auction qualification process that is not subject to a Capacity Supply Obligation for the relevant time period) of the Capacity Acquiring Resource during the period covered by the Capacity Supply Obligation Bilateral, as determined in the qualification process for the most recent Forward Capacity Auction or annual reconfiguration auction prior to the submission of the Capacity Supply Obligation Bilateral to the ISO.
- (c) A Capacity Supply Obligation Bilateral may not transfer a Capacity Supply Obligation to a Capacity Acquiring Resource where that Capacity Acquiring Resource’s unobligated Qualified Capacity is unobligated as a result of an Export Bid or Administrative Export De-List Bid that cleared in the Forward Capacity Auction.

(d) A Real-Time Emergency Generation Resource may participate in a Capacity Supply Obligation Bilateral as either a Capacity Transferring Resource or a Capacity Acquiring Resource, provided, however, that where a Real-Time Emergency Generation Resource participates in a Capacity Supply Obligation Bilateral as a Capacity Acquiring Resource, the Capacity Transferring Resource must also be a Real-Time Emergency Generation Resource.

(e) [Reserved.]

(f) [Reserved.]

(g) Prior to April 1, 2015, if the Capacity Acquiring Resource is an Import Capacity Resource, then the Capacity Transferring Resource must also be an Import Capacity Resource on the same external interface.

(h) A resource, or a portion thereof, that has been designated as a Self-Supplied FCA Resource may transfer the self-supplied portion of its Capacity Supply Obligation by means of Capacity Supply Obligation Bilateral. In such a case, however, the Capacity Acquiring Resource shall not become a Self-Supplied FCA Resource as a result of the transaction.

(i) A monthly Capacity Supply Obligation may not be acquired by any resource on an approved outage for the relevant Capacity Commitment Period month.

(j) A resource that has not achieved Commercial Operation by the submission deadline for a monthly Capacity Supply Obligation Bilateral may not submit a transaction as a Capacity Acquiring Resource for that Capacity Commitment Period month, unless the resource has a negative Capacity Supply Obligation, in which case it may submit a Capacity Supply Obligation Bilateral in an amount up to the absolute value of its Capacity Supply Obligation.

III.13.5.1.1. Process for Approval of Capacity Supply Obligation Bilaterals.

III.13.5.1.1.1. Timing of Submission.

The Lead Market Participant or Project Sponsor for either the Capacity Transferring Resource or the Capacity Acquiring Resource may submit a Capacity Supply Obligation Bilateral to the ISO during submittal windows, as defined in the ISO New England Manuals and ISO New England Operating Procedures. The ISO will issue a schedule of the submittal windows for annual and monthly Capacity

Supply Obligation Bilaterals as soon as practicable after the issuance of Forward Capacity Auction results. A Capacity Supply Obligation Bilateral must be confirmed by the party other than the party submitting the Capacity Supply Obligation Bilateral to the ISO no later than the end of the relevant submittal window.

III.13.5.1.1.2. Application.

The submission of a Capacity Supply Obligation Bilateral to the ISO shall include the following: (i) the resource identification number of the Capacity Transferring Resource; (ii) the amount of the Capacity Supply Obligation being transferred in MW amounts up to three decimal places; (iii) the term of the transaction; and (iv) the resource identification number of the Capacity Acquiring Resource. If the parties to a Capacity Supply Obligation Bilateral so choose, they may also submit a price, in \$/kW-month, to be used by the ISO in settling the Capacity Supply Obligation Bilateral. If no price is submitted, the ISO shall use a default price of \$0.00/kW-month.

III.13.5.1.1.3. ISO Review.

(a) The ISO shall review the information provided in support of the Capacity Supply Obligation Bilateral, and shall reject the Capacity Supply Obligation Bilateral if any of the provisions of this Section III.13.5.1 are not met. For a Capacity Supply Obligation Bilateral submitted before the relevant submittal window opens, this review shall occur once the submittal window opens. For a Capacity Supply Obligation Bilateral submitted after the submittal window opens, this review shall occur upon submission.

(b) After the close of the relevant submittal window, each Capacity Supply Obligation Bilateral shall be subject to a reliability review by the ISO to determine whether the transaction would result in a violation of any NERC or NPCC (or their successors) criteria, or ISO New England System Rules, during the Capacity Commitment Period associated with the transaction. Capacity Supply Obligation Bilaterals shall be reviewed by the ISO to ensure the regional and local adequacy achieved through the Forward Capacity Auction and other reliability needs are maintained. The ISO's review will consider the location and operating and rating limitations of resources associated with the Capacity Supply Obligation Bilateral to ensure reliability standards will remain satisfied if the capacity associated with the Capacity Transferring Resource is withdrawn and the capacity associated with the Capacity Acquiring Resource is accepted. The ISO's reliability reviews will assess transactions based on operable capacity needs while considering any approved or interim approved transmission outage information and any approved generation or Demand Response Resource outage information, and will include transmission security studies. The ISO will review all confirmed monthly Capacity Supply Obligation Bilaterals for each

upcoming Obligation Month for reliability needs immediately preceding the monthly reconfiguration auction. For a monthly Capacity Supply Obligation Bilateral, the ISO shall obtain and consider information from the Local Control Center regarding whether the Capacity Supply Obligation of the Capacity Transferring Resource is needed for local system conditions and whether it is adequately replaced by the Acquiring Resource.

The ISO will review the net impact of all annual Capacity Supply Obligation Bilaterals to ensure that the regional and local adequacy and other reliability needs achieved through the Forward Capacity Auction are maintained in the Capacity Transferring Resource's Capacity Zone and the Capacity Acquiring Resource's Capacity Zone or across the external interface.

If after its review of the net impact of all annual Capacity Supply Obligation Bilaterals the ISO determines that the regional and local adequacy and other reliability needs achieved through the Forward Capacity Auction are not maintained, and for all monthly Capacity Supply Obligation Bilaterals, the ISO will approve or reject Capacity Supply Obligation Bilaterals based on the order in which they are confirmed. If multiple Capacity Supply Obligation Bilaterals are submitted between the same resources, they may be reviewed together as one transaction and the most recent confirmation time among the related transactions will be used to determine the review order of the grouped transaction. Transactions that cannot meet the applicable reliability needs will only be accepted or rejected in their entirety and the resources will not be accepted or rejected in part for purposes of that transaction. Where the ISO has determined that a Capacity Supply Obligation Bilateral must be rejected for reliability reasons the Lead Market Participant or Project Sponsor, as appropriate, for the Capacity Transferring Resource and the Capacity Acquiring Resource shall be notified as soon as practicable of the rejection and of the reliability need prompting such rejection.

(c) Each Capacity Supply Obligation Bilateral shall be subject to a financial assurance review by the ISO. If the Capacity Transferring Resource and the Capacity Acquiring Resource are not both in compliance with all applicable provisions of the ISO New England Financial Assurance Policy, including those regarding Capacity Supply Obligation Bilaterals, the ISO shall reject the Capacity Supply Obligation Bilateral.

III.13.5.1.1.4. Approval.

Upon approval of a Capacity Supply Obligation Bilateral, the Capacity Supply Obligation of the Capacity Transferring Resource shall be reduced by the amount set forth in the Capacity Supply Obligation

Bilateral, and the Capacity Supply Obligation of the Capacity Acquiring Resource shall be increased by the amount set forth in the Capacity Supply Obligation Bilateral.

III.13.5.2. Capacity Load Obligations Bilaterals.

A Market Participant having a Capacity Load Obligation seeking to shed that obligation (“Capacity Load Obligation Transferring Participant”) may enter into a bilateral transaction to transfer all or a portion of its Capacity Load Obligation in a Capacity Zone (“Capacity Load Obligation Bilateral”) to any Market Participant seeking to acquire a Capacity Load Obligation (“Capacity Load Obligation Acquiring Participant”). A Capacity Load Obligation Bilateral must be in whole calendar month increments, may not exceed one year in duration, and must begin and end within the same Capacity Commitment Period. A Capacity Load Obligation Transferring Participant will be permitted to transfer, and a Capacity Load Obligation Acquiring Participant will be permitted to acquire, a Capacity Load Obligation if after entering into a Capacity Load Obligation Bilateral and submitting related information to the ISO within the specified submittal time period, the ISO approves such Capacity Load Obligation Bilateral.

III.13.5.2.1. Process for Approval of Capacity Load Obligation Bilaterals.

III.13.5.2.1.1. Timing.

Either the Capacity Load Obligation Transferring Participant or the Capacity Load Obligation Acquiring Participant may submit a Capacity Load Obligation Bilateral to the ISO. All Capacity Load Obligation Bilaterals must be submitted to the ISO in accordance with resettlement provisions as described in ISO New England Manuals. However, to be included in the initial settlement of payments and charges associated with the Forward Capacity Market for the first month of the term of the Capacity Load Obligation Bilateral, a Capacity Load Obligation Bilateral must be submitted to the ISO no later than 12:00 pm on the second Business Day after the end of that month (though a Capacity Load Obligation Bilateral submitted at that time may be revised by the parties to the transaction throughout the resettlement process). A Capacity Load Obligation Bilateral must be confirmed by the party other than the party submitting the Capacity Load Obligation Bilateral to the ISO no later than the same deadline that applies to submission of the Capacity Load Obligation Bilateral.

III.13.5.2.1.2. Application.

The submission of a Capacity Load Obligation Bilateral to the ISO shall include the following : (i) the amount of the Capacity Load Obligation being transferred in MW amounts up to three decimal places; (ii) the term of the transaction; (iii) identification of the Capacity Load Obligation Transferring Participant

and the Capacity Load Obligation Acquiring Participant; and (iv) the Capacity Zone in which the Capacity Load Obligation is being transferred is located.

III.13.5.2.1.3. ISO Review.

The ISO shall review the information provided in support of the Capacity Load Obligation Bilateral and shall reject the Capacity Load Obligation Bilateral if any of the provisions of this Section II.13.5.2 are not met.

III.13.5.2.1.4. Approval.

Upon approval of a Capacity Load Obligation Bilateral, the Capacity Load Obligation of the Capacity Load Obligation Transferring Participant in the Capacity Zone specified in the submission to the ISO shall be reduced by the amount set forth in the Capacity Load Obligation Bilateral and the Capacity Load Obligation of the Capacity Load Obligation Acquiring Participant in the specified Capacity Zone shall be increased by the amount set forth in the Capacity Load Obligation Bilateral.

III.13.5.3. Supplemental Availability Bilaterals.

A resource's availability score during a Shortage Event may be supplemented by entering into a Supplemental Availability Bilateral as described in this Section III.13.5.3.

III.13.5.3.1. Designation of Supplemental Capacity Resources.

III.13.5.3.1.1. Eligibility.

Demand Response Capacity Resources and Generating Capacity Resources that are not Intermittent Power Resources or Settlement Only Resources may be designated as Supplemental Capacity Resources. A Generating Capacity Resource may be designated as a Supplemental Capacity Resource in a MW amount up to the difference between the resource's CNR Capability (reduced by the hourly integrated delivered MW for any External Transaction sale or sales submitted in accordance with Section III.1.10.7(f) from that resource and its Capacity Supply Obligation in each day of the term in which it is designated to be a Supplemental Capacity Resource. A Demand Response Capacity Resource may be designated as a Supplemental Capacity Resource in a MW amount up to the difference between the resource's Qualified Capacity from the Forward Capacity Auction for the current Capacity Commitment Period pursuant to Section III.13.1.4.1 and its Capacity Supply Obligation in each day of the term in which it is designated to be a Supplemental Capacity Resource.

III.13.5.3.1.2. Designation.

The designation of a Supplemental Capacity Resource must be made by the resource's Lead Market Participant. The designation shall indicate the term for which the resource is designated as a Supplemental Capacity Resource, which shall be in Operating Day increments, no less than one Operating Day, and no greater than one calendar month. Such designation shall indicate the MW amount being designated as a Supplemental Capacity Resource, and the Capacity Zone in which the resource is located. Such designation must be submitted to the ISO no later than the deadline for the submission of Supply Offers in the Day-Ahead Energy Market for the first Operating Day of the indicated term.

III.13.5.3.1.3. ISO Review.

The ISO shall review the information provided in submission of the designation as a Supplemental Capacity Resource, and shall reject the designation for any of the hours in which any of the provisions of this Section III.13.5.3.1 are not met.

III.13.5.3.1.4. Effect of Designation.

Regardless of whether it ever becomes subject to a Supplemental Availability Bilateral as described in Section III.13.5.3.2, the portion of a resource designated as a Supplemental Capacity Resource is subject to the same energy market offer requirements applicable to a resource having a Capacity Supply Obligation as described in Sections III.13.6.1.1.1 and III.13.6.1.1.2 for Generating Capacity Resources and as described in Sections III.13.6.1.5.1. and III.13.6.1.5.2. for Demand Response Capacity Resources for the entire term indicated in the designation described in Section III.13.5.3.1.2.

III.13.5.3.2. Submission of Supplemental Availability Bilaterals.

The Lead Market Participant for a resource previously designated as a Supplemental Capacity Resource in accordance with the provisions of Section III.13.5.3.1 for a term that included a Shortage Event may submit a Supplemental Availability Bilateral to the ISO assigning all or a portion of its available capability up to its designated supplemental capacity in each hour of that Shortage Event to a Generating Capacity Resource or Demand Response Capacity Resource having a Capacity Supply Obligation during that Shortage Event ("Supplemented Capacity Resource"). No other Market Participant may submit a Supplemental Availability Bilateral. The Supplemental Capacity Resource and the Supplemented Capacity Resource must either: (i) be located in the same Reserve Zone (although in no case may a Supplemental Capacity Resource located in an export-constrained Capacity Zone provide supplemental availability outside of that export-constrained Capacity Zone); or (ii) be located in different Reserve Zones such that direction of flow between the Supplemental Capacity Resource and the Supplemented

Capacity Resource is counter to any Reserve Zone or Capacity Zone constraint. For purposes of this Section III.13.5.3.2, a Reserve Zone having a locational reserve requirement (established pursuant to Section III.9.2.2) that is less than or equal to zero shall be considered to be unconstrained with respect to the neighboring Reserve Zone. A Supplemental Capacity Resource may submit Supplemental Availability Bilaterals with multiple Supplemented Capacity Resources, but each MW of supplemental capacity may only be assigned to one Supplemented Capacity Resource. No Supplemental Capacity Resource may itself be a Supplemented Capacity Resource for an hour.

III.13.5.3.2.1. Timing.

A Supplemental Availability Bilateral must be submitted in accordance with resettlement provisions as described in ISO New England Manuals. However, to be included in the initial settlement of payments and charges associated with the Forward Capacity Market for the month associated with the Supplemental Availability Bilateral, a Supplemental Availability Bilateral must be submitted to the ISO no later than 12:00 pm on the second Business Day after the end of that month, or at such later deadline as specified by the ISO upon notice to Market Participants (though a Supplemental Availability Bilateral may be revised by the parties to the transaction throughout the resettlement process). A Supplemental Availability Bilateral must be confirmed by the Lead Market Participant for the Supplemented Capacity Resource no later than the same deadline that applies to submission of the Supplemental Availability Bilateral.

III.13.5.3.2.2. Application.

The submission of a Supplemental Availability Bilateral to the ISO shall include the following: (i) the resource identification number for the Supplemental Capacity Resource; (ii) the resource identification number for the Supplemented Capacity Resource; (iii) the MW amount of capacity being assigned from the Supplemental Capacity Resource to the Supplemented Capacity Resource; (iv) the term of the transaction, which shall be in hourly increments coinciding with hourly boundaries, no less than one hour, and no greater than one calendar month.

III.13.5.3.2.3. ISO Review.

The ISO shall review the information provided in submission of the Supplemental Availability Bilateral, and shall reject the Supplemental Availability Bilateral if any of the provisions of this Section III.13.5.3 are not met. The ISO shall reject the applicability of a Supplemental Availability Bilateral in any hour of a Shortage Event unless: (i) the Supplemental Capacity Resource was on-line and following ISO dispatch instructions during that hour of the Shortage Event and the MW amount of capacity being assigned from the Supplemental Capacity Resource is (a) less than or equal to the difference between the Generating

Capacity Resource's Economic Maximum Limit as submitted or redeclared by the Lead Market Participant and the Supplemental Capacity Resource's Capacity Supply Obligation or (b) less than or equal to the difference between (the greater of the Demand Response Capacity Resource's Real-Time Demand Reduction Obligation plus Net Supply or the lesser of ((the Demand Response Capacity Resource's Demand Response Baseline as adjusted pursuant to Section III.8B.5, plus the Economic Maximum Limit for any associated available Net Supply Generator Assets), the Hourly Adjusted Audited Demand Reduction, or (the Maximum Reduction as submitted or redeclared by the Lead Market Participant plus the Economic Maximum Limit of associated Net Supply Generator Assets))), adjusted for average avoided peak transmission and distribution losses as addressed in Section III.13.7.1.5.10, and the Supplemental Capacity Resource's Capacity Supply Obligation; or (ii) the Supplemental Capacity Resource was offline for the hour of the Shortage Event and the MW amount of capacity being assigned from the Supplemental Capacity Resource is less than or equal to the difference between the sum of the Supplemental Capacity Resource's Real-Time Reserve Designations of TMNSR and TMOR and the Supplemental Capacity Resource's Capacity Supply Obligation.

III.13.5.3.2.4. Effect of Supplemental Availability Bilateral.

A Supplemental Availability Bilateral does not affect in any way either party's Capacity Supply Obligation or the rights and obligations associated therewith. The sole effect of a Supplemental Availability Bilateral is to modify the Supplemental Capacity Resource's availability score as described in Section III.13.7.1.1.4.

III.13.7. Performance, Payments and Charges in the FCM.

During each month within each Capacity Commitment Period (“Obligation Month”), each resource that acquired or shed a Capacity Supply Obligation for that Capacity Commitment Period (or any portion thereof) will be subject to payments, charges, penalties and adjustments for such activity. In addition, all resources with a Capacity Supply Obligation as of the beginning of the Obligation Month shall have their performance measured throughout the month, based on the resource’s availability during any Shortage Events in the Obligation Month.

In the event of a change in the Lead Market Participant for a resource that has a Capacity Supply Obligation, the Capacity Supply Obligation shall remain associated with the resource and the new Lead Market Participant for the resource shall be bound by all provisions of this Section III.13 arising from such Capacity Supply Obligation. The Lead Market Participant for the resource at the start of an Obligation Month shall be responsible for all payments and charges associated with that resource in that Obligation Month.

III.13.7.1. Performance Measures.

III.13.7.1.1. Generating Capacity Resources.

During each Capacity Commitment Period, each Generating Capacity Resource having a Capacity Supply Obligation for that Capacity Commitment Period (or any portion thereof) will have its performance measured during each Obligation Month based on the resource’s availability during any Shortage Events during the month.

III.13.7.1.1.1. Definition of Shortage Events.

(a) In all Capacity Zones, any period of thirty or more contiguous minutes of Reserve Constraint Penalty Factor activation for Ten-Minute Non-Spinning Reserves shall be a Shortage Event.

(b) Prior to June 1, 2017, in any Capacity Zone, any period of thirty or more contiguous minutes of Reserve Constraint Penalty Factor activation for the “minimum TMOR” requirement sub-category of the system-wide Thirty-Minute Operating Reserves requirement (described in Section III.2.7A(c)) when Action 2 under Operating Procedure No. 4 has also been implemented for the entire Capacity Zone shall also be a Shortage Event. Beginning on June 1, 2017, in any Capacity Zone, any period of thirty or more contiguous minutes of Reserve Constraint Penalty Factor activation for the “minimum TMOR”

requirement sub-category of the system-wide Thirty-Minute Operating Reserves requirement (described in Section III.2.7A(c)) shall also be a Shortage Event.

(c) Prior to June 1, 2017, in an import-constrained Capacity Zone, as determined pursuant to Section III.13.2.3.4, a Shortage Event shall also be Action 2 under Operating Procedure No. 4, or any Operating Procedure No. 7 event, that is declared for the entire import-constrained Capacity Zone for thirty or more contiguous minutes and that is not also declared for the entire Rest-of-Pool Capacity Zone. Beginning on June 1, 2017, in an import-constrained Capacity Zone, as determined pursuant to Section III.13.2.3.4, a Shortage Event shall also be any period of thirty or more contiguous minutes of Reserve Constraint Penalty Factor activation for the local Thirty-Minute Operating Reserves requirement (described in Section III.2.7A(c)) that is declared for the entire import-constrained Capacity Zone.

(d) In all cases, to be considered discrete Shortage Events, such events must be separated by at least 2.5 hours. Events that would satisfy the definition of Shortage Events except that they are separated by less than 2.5 hours shall be considered a single Shortage Event with a duration equal to the sum of the lengths of the underlying events. There shall be no more than two Shortage Events per Capacity Zone per day. If there are more than two Shortage Events in a day, only the first two Shortage Events that occur will be recognized.

(e) For the purposes of Section III.13.7.1.1.1(d), Shortage Events that cross daily boundaries will be considered to occur on the day in which the Shortage Event was triggered. Availability during Shortage Events that cross monthly boundaries will be applied to the Obligation Month in which the Shortage Event was triggered.

III.13.7.1.1.1.A Shortage Event Availability Score.

For each Shortage Event, the ISO shall calculate a Shortage Event Availability Score for each resource, as follows: For each hour containing any portion of the Shortage Event, the ISO shall multiply the resource's hourly availability score by the number of minutes of the Shortage Event in that hour, and then divide the product by the total number of minutes in the Shortage Event. The resulting values for each hour shall then be added together to determine the resource's Shortage Event Availability Score.

III.13.7.1.1.2. Hourly Availability Scores.

The ISO shall calculate an availability score for each resource for each hour that contains any portion of a Shortage Event. A resource's availability score for an hour, expressed as a percentage which may not

exceed 100 percent, shall be the sum of the resource's available MW in that hour plus any adjustments pursuant to Section III.13.7.1.1.4 divided by the resource's Capacity Supply Obligation. In the event that there are no Shortage Event hours during a month, no availability penalties will be assessed.

III.13.7.1.1.3. Hourly Available MW.

A resource's available MW in each hour that contains any portion of a Shortage Event shall be determined pursuant to the provisions of this Section III.13.7.1.1.3, provided, however, that in no case shall a resource's available MW in an hour exceed that resource's CNR Capability (reduced by the hourly integrated delivered MW for any External Transaction sale or sales from that resource).

(a) For a resource that is on-line with a metered output greater than zero and following ISO dispatch instructions, the available MW in an hour shall be the resource's Economic Maximum Limit, as submitted or redeclared by the Lead Market Participant.

(b) For a resource that is off-line with a metered output equal to zero and available for dispatch and following ISO dispatch instructions and has a cold notification time plus cold start time of thirty minutes or less, the available MW in an hour shall be the resource's Economic Maximum Limit, as submitted or redeclared by the Lead Market Participant.

(c) For a resource that is off-line with a metered output equal to zero and available for dispatch and following ISO dispatch instructions and has a cold notification plus cold start-up time of less than or equal to 12 hours (16 hours, during the first five Capacity Commitment Periods for resources with notification plus start-up times greater than 12 hours as of June 16, 2006) and the output, up to the Capacity Supply Obligation, was competitively offered into the Energy Market (i.e., capacity from the listed portion of the resource was offered at or below the appropriate Reference Level plus applicable conduct thresholds) but was not committed by the ISO and was consequently unavailable within 30 minutes, the available MW in an hour shall be the resource's Economic Maximum Limit, as submitted or redeclared by the Lead Market Participant.

(d) For a resource that is off-line but not meeting the requirements of either Section III.13.7.1.1.3(b) or Section III.13.7.1.1.3(c), the available MW in an hour shall be zero.

(e) For a resource that is on-line but not able to follow ISO dispatch instructions, the available MW in an hour shall be the resource's metered output for the hour.

(f) Where a resource is not committed due to an outage or derate of transmission equipment within the New England Control Area, other than an outage or de-rate of transmission equipment that is controlled by the owner of the resource or that constitutes a radial lead to a resource in the New England Control Area (other than radial leads to Wyman 4 and Stony Brook), that resource's available MW in an hour shall not be reduced as result. Maine Independence Station shall be considered available when derated or not committed because of a transmission constraint.

(g) Where a resource is denied a self-schedule request by the ISO and therefore was not available in the Real-Time Energy Market, that resource's available MW in an hour shall not be reduced as a result.

(h) Where a New Generating Capacity Resource that has cleared in the Forward Capacity Auction has completed construction but due to a planned transmission facility (e.g., a radial interconnection) not being in service is not able to achieve Commercial Operation and cannot conduct its capability audit by the first day of the Obligation Month, that resource's available MW in an hour shall not be reduced as a result (i.e., the resource shall not be subject to an availability penalty as a result).

(i) Where a New Generating Capacity Resource that has cleared in the Forward Capacity Auction has completed construction but due to a planned transmission facility (e.g., a radial interconnection) not being in service is not able to achieve Commercial Operation, and is able to conduct a capability audit, that resource's available MW in an hour shall not be reduced as a result (i.e., the resource shall not be subject to an availability penalty as a result).

(j) Where a resource is associated with one or more External Transaction sales submitted in accordance with Section III.1.10.7(f), that resource will have its hourly available MW reduced by the hourly integrated delivered MW for the External Transaction sale or sales.

III.13.7.1.1.4. Availability Adjustments.

(a) A resource's hourly availability score may be increased using a Supplemental Availability Bilateral as described in Section III.13.5.3. Where all of the requirements of Section III.13.5.3 are met, the amount of available MW from the Supplemented Capacity Resource during each hour of the Shortage Event will be increased by the amount of supplemental capacity specified in the Supplemental Availability Bilateral, provided, however, that only available capacity above the Supplemental Capacity

Resource's Capacity Supply Obligation, if any, during each hour of the Shortage Event may be counted as supplemental capacity for the Supplemented Capacity Resource. The sum of these amounts will be counted in determining the availability score of the Supplemented Availability Resource for the Shortage Event.

(b) A resource's hourly availability score may be increased when an asset associated with the resource is on a planned outage that was approved in the ISO's annual maintenance scheduling process. Market Participants may indicate when submitting a planned outage request that the outage is to be considered exempt as described in ISO New England Operating Procedure No. 5. In such cases the associated resource's hourly available MWs may be increased by an amount up to the outage MWs requested, provided that the resource has not exceeded the maintenance allotment hour limit regarding exempt approved planned outages at the time of the Shortage Event as described in the ISO New England Manuals. In the case of a Settlement Only Resource, a planned outage scheduled in either December or January or during the period June 1 through September 15 may not be used to increase the resource's hourly availability score as described in this subsection.

III.13.7.1.1.5. Poorly Performing Resources.

Prior to the Forward Capacity Auction qualification process, the ISO shall determine whether a resource meets the following two criteria: in the most recent four consecutive Capacity Commitment Periods or the most recent 4 years in which the resource assumed a Capacity Supply Obligation: (a) the resource received 3 annual availability scores of less than or equal to 40 percent; and (b) the resource has failed to be available in its entirety during ten or more Shortage Events during that same period. The annual availability score for each Capacity Commitment Period shall be equal to the average of all availability scores as calculated for each hour during each Shortage Event. If both of these criteria are met, the resource shall be considered a Poorly Performing Resource and shall not be eligible to participate in any subsequent Forward Capacity Auctions, and may not assume an obligation through the reconfiguration auctions, or Capacity Supply Obligation Bilaterals until it either achieves an availability score of 60 percent or higher in three consecutive Capacity Commitment Periods or 3 consecutive years, or demonstrates to the ISO that the reasons for the inadequate availability scores have been remedied. For the purposes of determining whether a resource is a Poorly Performing Resource, its availability score while it is de-listed shall not be considered. For the purposes of returning from poorly performing status, the ISO, at the request of the resource owner, may consider performance while de-listed, but in no case shall the ISO use non-consecutive years for evaluating a resource's performance.

III.13.7.1.2. Import Capacity.

The performance of an Import Capacity Resource with a Capacity Supply Obligation will be measured during Shortage Events as defined in Section III.13.7.1.1.1. An Import Capacity Resource's Shortage Event Availability Score and hourly availability score shall be calculated in the manner described in Section III.13.7.1.1.1.A and III.13.7.1.1.2, respectively (with the hourly availability score adjusted pursuant to Section III.13.7.1.2.1, as appropriate). An Import Capacity Resource's available MW in each hour that contains any portion of a Shortage Event shall be determined as follows:

(a) Where the corresponding External Transactions are delivering energy in accordance with ISO dispatch instructions, the resource's available MW in the hour shall be equal to the MW associated with the External Transactions, as submitted by the Market Participant.

(b) Where the corresponding External Transactions have been offered in accordance with the provisions of Section III.13.6.1.2 and is not delivering energy during the hour because the ISO has not requested dispatch of the transaction, the resource's available MW in the hour shall be equal to the MW associated with the External Transactions, as submitted by the Market Participant.

(c) Where the corresponding External Transactions have not been offered in accordance with the provisions of Section III.13.6.1.2 or have been offered in accordance with the provisions of Section III.13.6.1.2 and are not delivering energy during the hour despite ISO requested dispatch of the transaction, the resource's available MW in the hour shall be zero.

(d) Where the Import Capacity Resource was offered in accordance with the provisions of Section III.13.6.1.2 but cannot make Real-Time deliveries of energy because the relevant external interface is already flowing at its Total Transfer Capability into New England in Real-Time, the resource's available MW in the hour shall be equal to the MW associated with the External Transactions, as submitted by the Market Participant.

III.13.7.1.2.1. Availability Adjustments.

The hourly availability score of an Import Capacity Resource that qualified as being backed by a single External Resource may be increased when the associated External Resource is on a planned outage in the same manner as described in Section III.13.7.1.1.4(b).

III.13.7.1.3. Intermittent Power Resources.

The performance measure for Intermittent Power Resources, including Intermittent Settlement Only Resources will be included in the determination of their summer and winter Qualified Capacity as described in Section III.13.1.1.2.2.6 and Section III.13.1.2.2.2.

III.13.7.1.4. Settlement Only Resources.

III.13.7.1.4.1. Non-Intermittent Settlement Only Resources.

A Non-Intermittent Settlement Only Resource's Shortage Event Availability Score and hourly availability score shall be calculated in the manner described in Section III.13.7.1.1.1.A and III.13.7.1.1.2, respectively. Its available MW in an hour of a Shortage Event shall be the resource's metered output for the hour.

III.13.7.1.4.2. Intermittent Settlement Only Resources.

The performance measure for Intermittent Settlement Only Resources will be included in the determination of their summer and winter Qualified Capacity as described in Section III.13.1.1.2.2.6 and Section III.13.1.2.2.2.

III.13.7.1.5. Demand Resources.

III.13.7.1.5.1. Capacity Values of Demand Resources.

The Capacity Value of a Demand Resource for an Obligation Month shall be its Demand Reduction Value for the month as determined pursuant to Section III.13.7.1.5.3 multiplied by the summer Installed Capacity Requirement divided by the 50/50 summer system peak load forecast as determined by the ISO for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears, multiplied by one plus the percent average avoided peak transmission and distribution losses used by the ISO in its calculations of the Installed Capacity Requirement for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears. Beginning with the Capacity Commitment Period starting June 1, 2012 the Capacity Value of a Demand Resource for an Obligation Month shall be its Demand Reduction Value for the month as determined pursuant to Section III.13.7.1.5.3 multiplied by one plus the percent average avoided peak transmission and distribution losses used to calculate the Installed Capacity Requirement for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears. For the first Forward Capacity Auction, the value of the Installed Capacity Requirement

divided by the 50/50 summer system peak load forecast shall be 1.143, and one plus the percent average avoided peak transmission and distribution losses shall be 1.08.

III.13.7.1.5.1.1. Special Provisions for Demand Resources that Cleared in the First through Seventh Forward Capacity Auctions in which Project Sponsor Elected to have its Capacity Supply Obligation and Capacity Clearing Price Apply for Multiple Capacity Commitment Periods.

For a Demand Resource that cleared in the Forward Capacity auction for the Capacity Commitment Period beginning June 1, 2010 in which the Project Sponsor elected to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period beginning June 1, 2010, the Capacity Value of that Demand Resource for an Obligation Month shall be its Demand Reduction Value for the month as determined pursuant to Section III.13.7.1.5.3 multiplied by the product of 1.143 and 1.08. For a Demand Resource that cleared in the Forward Capacity Auction for the Capacity Commitment Period beginning June 1, 2011 in which the Project Sponsor elected to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period beginning June 1, 2011, the Capacity Value of that Demand Resource for an Obligation Month shall be its Demand Reduction Value for the month as determined pursuant to Section III.13.7.1.5.3 multiplied by the product of 1.161 and 1.08. For a Demand Resource that cleared in the Forward Capacity Auction for any of the Capacity Commitment Periods beginning June 1, 2012 through the Capacity Commitment Period beginning in which the Project Sponsor elected to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply in a future Capacity Commitment Period, the Capacity Value of that Demand Resource for an Obligation Month shall be its Demand Reduction Value for the month as determined pursuant to Section III.13.7.1.5.3 multiplied by the product of 1.08. This special provision shall cease to apply once the period elected by the Project Sponsor to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which its Demand Resource offer cleared has expired.

III.13.7.1.5.2. Capacity Values of Certain Distributed Generation.

For those Distributed Generation resource assets that are capable of generating energy in excess of the facility load and capable of delivering the excess generation to the power grid, if across Demand Resource On-Peak Hours, Demand Resource Seasonal Peak Hours, Real-Time Demand Response Event Hours, or Real-Time Emergency Generation Event Hours, as appropriate, a Distributed Generation resource asset's monthly average hourly output is greater than the monthly average hourly load of the

end-use customer to which the resource is directly connected, the Capacity Value of the portion of output exceeding the customer's load for the month will be the Demand Reduction Value for that portion of the output. No average avoided peak transmission and distribution losses shall be applied to Net Supply associated with a Demand Response Asset, Demand Response Resource, or Demand Response Capacity Resource.

III.13.7.1.5.3. Demand Reduction Values.

A Demand Reduction Value is a quantity of reduced demand produced by a Demand Resource and is calculated pursuant to Section III.13.7.1.5.4, III.13.7.1.5.5, III.13.7.1.5.6, III.13.7.1.5.7 and III.13.7.1.5.8.

III.13.7.1.5.4. Calculation of Demand Reduction Values for On-Peak Demand Resources.

Monthly Demand Reduction Values shall be established for the months of June, July, August, December, and January and seasonal Demand Reduction Values for the remaining calendar months. The monthly Demand Reduction Value of On-Peak Demand Resources shall be equal to its Average Hourly Load Reduction or Average Hourly Output over Demand Resource On-Peak Hours in the month.

III.13.7.1.5.4.1. Summer Seasonal Demand Reduction Value.

The summer seasonal Demand Reduction Value of On-Peak Demand Resources shall be equal to the simple average of its monthly Demand Reduction Values in the most recent months of June, July and August. The summer seasonal Demand Reduction Value shall apply to the months of September, October, November, April and May.

III.13.7.1.5.4.2. Winter Seasonal Demand Reduction Value.

The winter seasonal Demand Reduction Value of On-Peak Demand Resources shall be equal to the simple average of its monthly Demand Reduction Values in the most recent months of December and January. The winter seasonal Demand Reduction Value shall apply to the months of February and March.

III.13.7.1.5.5. Calculation of Demand Reduction Values for Seasonal Peak Demand Resources.

Monthly Demand Reduction Values shall be established for the months of June, July, August, December, and January and seasonal Demand Reduction Values for the remaining calendar months. The monthly Demand Reduction Value of Seasonal Peak Demand Resources shall be equal to its Average Hourly Load Reduction or Average Hourly Output over Demand Resource Seasonal Peak Hours in the month. If there are no Demand Resource Seasonal Peak Hours in the months of July, August, or January, the Demand

Reduction Value for those months shall be equal to: (i) the Demand Reduction Value established for the previous month if the previous month's Demand Reduction Value was calculated using Seasonal Peak Hours or (ii) the Seasonal DR Audit results if the Demand Reduction Value for the previous month was not calculated using Seasonal Peak Hours. If there are no Demand Resource Seasonal Peak Hours in the months of June or December, the Demand Reduction Value of that resource for those months shall be equal to (i) the first applicable seasonal audit, if conducted in that month, or (ii) where there was no audit conducted in the month, the applicable previous seasonal Demand Reduction Value.

III.13.7.1.5.5.1. Summer Seasonal Demand Reduction Value.

The summer seasonal Demand Reduction Value of Seasonal Peak Demand Resources shall be equal to the simple average of its monthly Demand Reduction Values in the most recent months of June, July and August. This summer seasonal Demand Reduction Value will apply to the months of September, October, November, April and May.

III.13.7.1.5.5.2. Winter Seasonal Demand Reduction Value.

The winter seasonal Demand Reduction Value of Seasonal Peak Demand Resources shall be equal to the simple average of its monthly Demand Reduction Values in the most recent months of December and January. This winter seasonal Demand Reduction Value will apply to the months of February and March.

III.13.7.1.5.6. [Reserved.]

III.13.7.1.5.6.1. [Reserved.]

III.13.7.1.5.6.2. [Reserved.]

III.13.7.1.5.7. Demand Reduction Values for Real-Time Demand Response Resources.

Demand Reduction Values are determined on a monthly basis. For the months of June, July, August, December, and January, the Demand Reduction Value of a Real-Time Demand Response Resource is the simple average of its Hourly Calculated Demand Resource Performance Values in the month.

If there are no Real-Time Demand Response Event Hours for a Real-Time Demand Response Resource in the months of July, August, or January, the Demand Reduction Value of that resource for those months shall be equal to (i) the Demand Reduction Value established for the previous month if the previous month's Demand Reduction Value was calculated using Real-Time Demand Response Event Hours or (ii)

the sum of the audit values of the assets mapped to the Real-Time Demand Response Resource in that month if the Demand Reduction Value for the previous month was not calculated using Real-Time Demand Response Event Hours. If there are no Real-Time Demand Response Event Hours for a Real-Time Demand Response Resource in the months of June or December the Demand Reduction Value of that resource for those months shall be equal to (i) the first applicable seasonal audit, if conducted in that month, or (ii) the sum of the audit values of the assets mapped to the Real-Time Demand Response Resource in that month.

III.13.7.1.5.7.1. Summer Seasonal Demand Reduction Value.

The summer seasonal Demand Reduction Value of a Real-Time Demand Response Resource for September, October, November, April and May shall be equal to (i) the simple average of its Demand Reduction Values in the most recent months of June, July and August if there are no Real-Time Demand Response Event Hours in the month or (ii) the simple average of (a) the simple average of its Demand Reduction Values in the most recent months of June, July and August and (b) its Demand Reduction Value, established using the method specified in Section III.13.7.1.5.7, across the Real-Time Demand Response Event Hours in the month if there are Real-Time Demand Response Event Hours in the month.

III.13.7.1.5.7.2. Winter Seasonal Demand Reduction Value.

The winter seasonal Demand Reduction Value of a Real-Time Demand Response Resource for February and March shall be equal to (i) the simple average of its Demand Reduction Values in the most recent months of December and January if there are no Real-Time Demand Response Event Hours in the month or (ii) the simple average of (a) the simple average of its Demand Reduction Value in the most recent months of December and January and (b) its Demand Reduction Value, established using the method specified in Section III.13.7.1.5.7, across the Real-Time Demand Response Event Hours in the month if there are Real-Time Demand Response Event Hours in the month.

III.13.7.1.5.7.3. Determination of Hourly Calculated Demand Resource Performance Values for Real-Time Demand Response Resources.

The Hourly Calculated Demand Resource Performance Value shall be computed for each Real-Time Demand Response Resource receiving a Dispatch Instruction for a Real-Time Demand Response Event Hour. The Hourly Calculated Demand Resource Performance Value shall be computed as (i) the Real-Time Demand Response Resource's Capacity Supply Obligation, divided by (ii) the summer Installed Capacity Requirement divided by the 50/50 summer system peak load forecast as determined by the ISO for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the

Demand Resource clears, divided by (iii) one plus the percent average avoided peak transmission and distribution losses used in the calculation of the Installed Capacity Requirement for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears, and multiplied by (iv) one plus the quotient of Hourly Real-Time Demand Response Resource Deviation and the amount of load reduction or output that the Market Participant with the resource was instructed to produce from that resource pursuant to Dispatch Instructions.

III.13.7.1.5.7.3.1. Determination of the Hourly Real-Time Demand Response Resource Deviation.

An Hourly Real-Time Demand Response Resource Deviation shall be calculated for each Real-Time Demand Response Resource as the difference between the Average Hourly Load Reduction or Average Hourly Output of the Real-Time Demand Response Resource and the amount of load reduction or output that the Market Participant with the resource was instructed in the Dispatch Instruction to produce in the Real-Time Demand Response Event Hour. The calculation of the Hourly Real-Time Demand Response Resource Deviation shall be determined in a manner that reflects that Real-Time Demand Response Resources are allowed 30 minutes from the beginning of the first Real-Time Demand Response Event Hour in consecutive Real-Time Demand Response Event Hours in a Dispatch Instruction for the same Operating Day to achieve the load reduction amount indicated in the Dispatch Instruction when such resources are dispatched in response to Real-Time Demand Resource Dispatch Hours. The Total Negative Hourly Demand Resource Deviations for each hour shall be calculated as the absolute value of the sum of the negative Hourly Real-Time Demand Response Resource Deviations and negative Hourly Real-Time Emergency Generation Deviations from all Real-Time Demand Response Resources and Real-Time Emergency Generation Resources receiving Dispatch Instructions in the same hour in the same Load Zone or, starting on June 1, 2011, in the same Dispatch Zone. The Total Positive Hourly Demand Resource Deviations for each hour shall be calculated as the sum of the positive Hourly Real-Time Demand Response Resource Deviations and positive Hourly Real-Time Emergency Generation Deviations from all Real-Time Demand Response Resources and Real-Time Emergency Generation Resources receiving Dispatch Instructions in the same hour in the same Load Zone or, starting on June 1, 2011, in the same Dispatch Zone. If the Hourly Real-Time Demand Response Resource Deviation is greater than zero in any Real-Time Demand Response Event Hour, the Hourly Real-Time Demand Response Resource Deviation shall be multiplied by the lesser of: (i) one, or; (ii) the ratio of the Total Negative Hourly Demand Resource Deviations divided by the Total Positive Demand Resource Deviations in the same Load Zone in the hour or, starting on June 1, 2011, in the same Dispatch Zone in the hour.

III.13.7.1.5.8. Demand Reduction Values for Real-Time Emergency Generation Resources.

Demand Reduction Values shall be determined on a monthly basis. For the months of June, July, August, December, and January, the Demand Reduction Value of a Real-Time Emergency Generation Resource shall be the simple average of its Hourly Calculated Demand Resource Performance Values in the month.

If there are no Real-Time Emergency Generation Event Hours for a Real-Time Emergency Generation Resource in the months of July, August, or January, the Demand Reduction Value for those months shall be equal to (i) the Demand Reduction Value established for the previous month if the previous months Demand Reduction Value was calculated using Real-Time Emergency Generation Event Hours or (ii) the sum of the audit values of the assets mapped to the Real-Time Emergency Generation Resource in that month if the Demand Reduction Value for the previous month was not calculated using Real-Time Emergency Generation Event Hours. If there are no Real-Time Emergency Generation Event Hours for a Real-Time Emergency Generation Resource in the months of June or December, the Demand Reduction Value of that resource for those months shall be equal to (i) the first applicable seasonal audit, if conducted in that month, or (ii) the sum of the audit values of the assets mapped to the Real-Time Emergency Generation Resource in that month.

III.13.7.1.5.8.1. Summer Seasonal Demand Reduction Value.

The summer seasonal Demand Reduction Value for the months of September, October, November, April and May shall be equal to the simple average of the Demand Reduction Values in the most recent months of June, July and August if there are no Real-Time Emergency Generation Event Hours in the month. If there are Real-Time Emergency Generation Event Hours in the months of September, October, November, April or May, the Demand Reduction Value shall be equal to the Demand Reduction Value, established using the method specified in Section III.13.7.1.5.8, during all the Real-Time Emergency Generation Event Hours in the month.

III.13.7.1.5.8.2. Winter Seasonal Demand Reduction Value.

The winter seasonal Demand Reduction Value for the months of February and March shall be equal to the simple average of the Demand Reduction Values in the most recent months of December and January if there are no Real-Time Emergency Generation Event Hours in the month. If there are Real-Time Emergency Generation Event Hours in the months of February or March, the Demand Reduction Value shall be equal to the Demand Reduction Value, established using the method specified in Section III.13.7.1.5.8 during all the Real-Time Emergency Generation Event Hours in the month.

III.13.7.1.5.8.3. Determination of Hourly Calculated Demand Resource Performance Values for Real-Time Emergency Generation Resources.

The Hourly Calculated Demand Resource Performance Value shall be computed for each Real-Time Emergency Generation Resource receiving a Dispatch Instruction for a Real-Time Emergency Generation Event Hour. The Hourly Calculated Demand Resource Performance Value shall be computed as (i) the Real-Time Emergency Generation Resource's Capacity Supply Obligation, divided by (ii) the summer Installed Capacity Requirement divided by the 50/50 summer system peak load forecast for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears, divided by (iii) one plus the percent average avoided peak transmission and distribution losses used in the calculation of the Installed Capacity Requirement for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears, and multiplied by (iv) one plus the quotient of Hourly Real-Time Emergency Generation Resource Deviation and the amount of load reduction or output that the Market Participant with the resource was instructed to produce from that resource pursuant to Dispatch Instructions.

III.13.7.1.5.8.3.1. Determination of the Hourly Real-Time Emergency Generation Resource Deviation.

An Hourly Real-Time Emergency Generation Resource Deviation shall be calculated for each Real-Time Emergency Generation Resource as the difference between the Average Hourly Output or Average Hourly Load Reduction of the Real-Time Emergency Generation Resource and the amount of output that the Market Participant with the resource was instructed in the Dispatch Instruction to produce in the Real-Time Emergency Generation Event Hour. The calculation of the Hourly Real-Time Emergency Generation Resource Deviation shall be determined in a manner that reflects that Real-Time Emergency Generation Resources are allowed 30 minutes from the beginning of the first Real-Time Emergency Generation Event Hour in consecutive Real-Time Emergency Generation Event Hours in a Dispatch Instruction for the same Operating Day to achieve the load reduction amount indicated in a Dispatch Instruction. The Total Negative Hourly Demand Resource Deviations for each hour shall be calculated as the absolute value of the sum of the negative Hourly Real-Time Demand Response Resource Deviations and negative Hourly Real-Time Emergency Generation Deviations from all Real-Time Demand Response Resources and Real-Time Emergency Generation Resources receiving Dispatch Instructions in the same hour in the same Load Zone or, starting on June 1, 2011, in the same Dispatch Zone. The Total Positive Hourly Demand Resource Deviations for each hour shall be calculated as the sum of the positive Hourly Real-Time Demand Response Resource Deviations and positive Hourly Real-Time Emergency

Generation Deviations from all Real-Time Demand Response Resources and Real-Time Emergency Generation Resources receiving Dispatch Instructions in the same hour in the same Load Zone or, starting on June 1, 2011, in the same Dispatch Zone. If the Hourly Real-Time Emergency Generation Resource Deviation is greater than zero in any Real-Time Emergency Generation Event Hour, the Hourly Real-Time Emergency Generation Resource Deviation shall be multiplied by the lesser of: (i) one, or; (ii) the ratio of the Total Negative Hourly Demand Resource Deviations divided by the Total Positive Demand Resource Deviations in the same Dispatch Zone in the hour.

III.13.7.1.5.9. Determination of Hourly Calculated Demand Resource Performance Values for Real-Time Demand Response Resources and Real-Time Emergency Generation Resources Starting with the Capacity Commitment Period beginning June 1, 2012.

Starting with the Capacity Commitment Period beginning June 1, 2012, the divisor described in (ii) of Sections III.13.7.1.5.7.3 and III.13.7.1.5.8.3, which is equal to the summer Installed Capacity Requirement divided by the 50/50 summer system peak load forecast as determined by the ISO for the Forward Capacity Auction immediately preceding the Forward Capacity Auction in which the Demand Resource clears, shall be eliminated from the determination of Hourly Calculated Demand Resource Performance Values, with the exception of Demand Resources that cleared in the Forward Capacity Auctions for the Capacity Commitment Periods beginning June 1, 2010 and June 1, 2011 in which the Project Sponsor elected to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which its Demand Resource offer cleared. For Demand Resources with such multi-year Capacity Supply Obligations the divisor described in (ii) of Sections III.13.7.1.5.7.3 and III.13.7.1.5.8.3 shall continue to apply until the period elected by the Project Sponsor to have its Capacity Supply Obligation and Capacity Clearing Price continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which its Demand Resource offer cleared has expired.

III.13.7.1.5.10. Demand Response Capacity Resources.

The performance of a Demand Response Capacity Resource with a Capacity Supply Obligation will be measured during Shortage Events as defined in Section III.13.7.1.1.1. A Demand Response Capacity Resource's Shortage Event Availability Score and hourly availability score shall be calculated in the manner described in Section III.13.7.1.1.1.A and III.13.7.1.1.2, respectively (with the hourly availability score adjusted pursuant to Section III.13.7.1.2.1). For the portion associated with the ability to reduce demand, availability for Demand Response Capacity Resources would be adjusted for average avoided

peak transmission and distribution losses as described in Section III.13.7.1.5.1 and Section III.13.7.1.5.1.1. For the portion associated with the ability to provide Net Supply, availability for Demand Response Capacity Resources would not be adjusted for average avoided peak transmission and distribution losses.

III.13.7.1.5.10.1 Hourly Available MW.

A Demand Response Capacity Resource's available MW in each hour that contains any portion of a Shortage Event shall be determined based upon the sum of its associated Demand Response Resources as follows, provided, that in no case shall a Demand Response Capacity Resource's available MW in an hour exceed that resource's Qualified Capacity from the Forward Capacity Auction for the current Capacity Commitment Period per Section III.13.1.4.1. For purposes of the following calculations, when the output of a Real-Time Emergency Generation Asset exceeds the Demand Response Baseline, adjusted pursuant to Section III.8B.5, of a Demand Response Asset located at the same Retail Delivery Point and Net Supply is produced, any Net Supply of a Net Supply Generator Asset located at the same Retail Delivery Point, hourly Desired Dispatch Point and Economic Maximum Limit of the Net Supply Generator Asset, shall be reduced by the difference between the Real-Time Emergency Generation Asset's output and the adjusted Demand Response Baseline of the Demand Response Asset.

- (a) For a Demand Response Resource that reduces demand and is following Dispatch Instructions and for any associated Net Supply Generator Assets that are following Dispatch Instructions where the total Desired Dispatch Point for the Demand Response Resource and the associated Net Supply Generator Assets is less than (the Maximum Reduction plus the Economic Maximum Limit for any associated available Net Supply Generator Assets) and greater than or equal to the Minimum Reduction, the available MW in an hour shall be the greater of (the resource's Real-Time Demand Reduction Obligation plus the Net Supply for any associated available Net Supply Generator Assets) and the lesser of (the resource's Demand Response Baseline as adjusted pursuant to Section III.8B.5 plus the Economic Maximum Limit for any associated available Net Supply Generator Assets), the resource's Hourly Adjusted Audited Demand Reduction, or (the resource's Maximum Reduction as submitted or redeclared by the Lead Market Participant for the resource plus the Economic Maximum Limit for any associated available Net Supply Generator Assets as submitted or redeclared by the Lead Market Participant).
- (b) For a Demand Response Resource that reduces demand and is following Dispatch Instructions and for any associated Net Supply Generator Assets that are following Dispatch Instruction where the total Desired Dispatch Point for the Demand Response Resource and the associated Net Supply Generator

Assets is equal to Maximum Reduction plus the Economic Maximum Limit for any associated available Net Supply Generator Assets) or (Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets equals Minimum Reduction plus Economic Minimum Limit for any associated available Net Supply Generator Assets) or total Desired Dispatch Point for the Demand Response Resource and the associated Net Supply Generator Assets is less than the Minimum Reduction plus Economic Minimum Limit for any associated available Net Supply Generator Assets, the available MW in an hour shall be the resource's Real-Time Demand Reduction Obligation plus any associated Net Supply.

(c) For a Demand Response Resource that has reduced demand or any associated Net Supply Generator Assets have been dispatch but are not responding to Dispatch Instructions where the Real-Time Demand Reduction Obligation plus any associated Net Supply is less than the total Desired Dispatch Point for the Demand Response Resource and the associated Net Supply Generator Assets, the available MW in an hour shall be the resource's Real-Time Demand Reduction Obligation plus any associated Net Supply for the hour.

(d) For a Demand Response Resource that has reduced demand or any associated Net Supply Generator Assets that have been dispatch but are not responding to Dispatch Instructions where the Real-Time Demand Reduction Obligation is greater than the total Desired Dispatch Point for the Demand Response Resource and the associated Net Supply Generator Assets, the available MW in an hour shall be the lesser of the resource's Real-Time Demand Reduction Obligation plus any associated Net Supply and Hourly Adjusted Audited Demand Reduction for the hour.

(e) For a Demand Response Resource that is not reducing demand, is available for dispatch and is able to respond to Dispatch Instructions, and has an Offered Full Reduction Time (adjusted for the Audited Demand Reduction) and an Audited Full Reduction Time (adjusted for the Maximum Reduction and Economic Maximum Limit for any associated available Net Supply Generator Assets) of thirty minutes or less, the available MW in an hour shall be the lesser of (the lesser of (the resource's Maximum Reduction, as submitted or redeclared by the Lead Market Participant, and Actual Load) plus the sum of the Economic Maximum Limits for any associated available Net Supply Generator Assets as submitted or redeclared by the Lead market Participant) or Hourly Adjusted Audited Demand Reduction.

(f) For a Demand Response Resource that is not reducing demand, is available for dispatch and is able to respond to Dispatch Instructions, and has an Audited Full Reduction Time (adjusted for the

Maximum Reduction and Economic Maximum Limit for any associated available Net Supply Generator Assets as submitted or redeclared by the Lead Market Participant) or Offered Full Reduction Time (adjusted for the Audited Demand Reduction) greater than thirty minutes and less than or equal to 12 hours, the available MW shall be zero unless the duration of the Shortage Event exceeds the Audited Full Reduction Time (adjusted for the Maximum Reduction and Economic Maximum Limit for any associated available Net Supply Generator Assets) and Offered Full Reduction Time (adjusted for the Audited Demand Reduction), in which case the available MW in an hour shall be the lesser of (the lesser of (the resource's Maximum Reduction, as submitted or redeclared by the Lead Market Participant, the resource's Actual Load plus Economic Maximum Limits for any associated available Net Supply Generator Assets as submitted or redeclared by the Lead Market Participant or the resource's Hourly Adjusted Audited Demand Reduction time weighted to reflect the portion of the hour in which the Demand Response Resource Notification Time and Demand Response Resource Start-Up Time exceeded the Shortage Event duration.

(g) For a Demand Response Resource that (i) is not reducing demand, is available for dispatch and is able to respond to Dispatch Instructions, and has an Audited Full Reduction Time (adjusted for the Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets) or Offered Full Reduction Time (adjusted for the Audited Demand Reduction) greater than 12 hours or (ii) is unavailable to reduce demand, the available MW shall be zero.

III.13.7.1.5.10.1.1 Adjusted Audited Demand Reduction.

A Demand Response Resource's Adjusted Audited Demand Reduction shall be determined as follows. For purposes of these calculations, when the output of a Real-Time Emergency Generation Asset exceeds the Demand Response Baseline, adjusted pursuant to Section III.8B.5 of a Demand Response Asset located at the same Retail Delivery Point and Net Supply is produced, the Economic Maximum Limit of the Net Supply Generator Asset at the same location shall be reduced by the difference between the Real-Time Emergency Generation Asset's output and the adjusted Demand Response Baseline of the Demand Response Asset:

(a) A Demand Response Resource that has an Offered Full Reduction Time (adjusted for the Audited Demand Reduction) equal to its Audited Full Reduction Time (adjusted for the Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets) shall have its Adjusted Audited Demand Reduction set equal to the resource's Audited Demand Reduction.

(b) A Demand Response Resource that has an Offered Full Reduction Time (adjusted for the Audited Demand Reduction) greater than its Audited Full Reduction Time (adjusted for the Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets) shall have its Adjusted Audited Demand Reduction calculated as:

((the Audited Full Reduction Time adjusted for the (Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets)) divided by (the Offered Full Reduction Time adjusted for the Audited Demand Reduction)) multiplied by the lesser of (the Audited Demand Reduction or (Maximum Reduction as submitted or redeclared by the Lead Market Participant plus Economic Maximum Limit for any associated available Net Supply Generator Assets)).

(c) A Demand Response Resource that has an Offered Full Reduction Time (adjusted for the Audited Demand Reduction) less than its Audited Full Reduction Time (adjusted for the Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets) shall have its Adjusted Audited Demand Reduction calculated as:

((the Offered Full Reduction Time adjusted for the Audited Demand Reduction) divided by (the Audited Full Reduction Time adjusted for the (Maximum Reduction plus Economic Maximum Limit for any associated available Net Supply Generator Assets))) multiplied by the lesser of (the Audited Demand Reduction or (Maximum Reduction as submitted or redeclared by the Lead Market Participant plus Economic Maximum Limit for any associated available Net Supply Generator Assets)).

III.13.7.1.5.10.1.2 Hourly Adjusted Audited Demand Reduction.

The Hourly Adjusted Audited Demand Reduction shall be calculated as the time weighted average of the Adjusted Audited Demand Reduction and Audited Demand Reduction for the period the resource was dispatched.

III.13.7.1.5.10.2 Availability Adjustments.

The hourly availability score of a Demand Response Capacity Resource shall be increased in the same manner as described in Section III.13.7.1.1.4(a). The hourly availability score of a Demand Response Capacity Resource comprised of an aggregation of one or more Demand Response Resources shall be adjusted as described in Section III.13.7.1.1.4(b). In the case of Demand Response Resources comprised of an aggregation of one or more Demand Response Assets with a demand reduction and any Net Supply

of less than 5 MW achieved by the asset in the most recent seasonal audit of the associated Demand Response Capacity Resource, a planned outage of the equipment used to produce the demand reduction scheduled in either December or January or during the period June 1 through September 15 may not be used to increase the resource's hourly availability score as described in Section III.13.7.1.1.4(b).

In addition, the hourly availability score of a Demand Response Capacity Resource shall be increased as described in this subsection:

(a) A Demand Response Capacity Resource's hourly availability score shall be increased, subject to verification by the ISO, when one or more Demand Response Assets of a Demand Response Resource associated with the Demand Response Capacity Resource is on a forced curtailment or scheduled reduction.

(i) A forced reduction can be submitted to the ISO as described in the ISO New England Manuals for any reductions in demand that occur as a result of actions outside the control of the Demand Response Asset that is subject to the forced reduction. The forced reduction can be submitted or revised during the resettlement process and cannot exceed the demand reduction achieved by the Demand Response Asset in the most recent seasonal audit of the associated Demand Response Capacity Resource.

(ii) A scheduled reduction must be submitted to the ISO at least 15 days ahead of the start of the reduction to be eligible for an adjustment for any reductions in load that are the result of a scheduled plant shutdown or maintenance of energy consuming equipment. The scheduled reduction cannot exceed the demand reduction achieved by the Demand Response Asset in the most recent seasonal audit of the associated Demand Response Capacity Resource. Scheduled deductions must be a minimum of a single calendar day, and shall not exceed a total of 14 calendar days per Capacity Commitment Period.

(b) The sum of the availability adjustments for an hour may not exceed:

(i) for a Demand Response Resource that has received a Dispatch Instruction to reduce its demand, the lesser of the resource's Demand Response Baseline as adjusted pursuant to Section III.8B.5 plus Economic Maximum Limit for any associated available Net Supply Generator Assets) and Audited Demand Reduction adjusted down by the greater of (the Maximum Reduction, as submitted or redeclared by the Lead Market Participant plus Economic Maximum

Limit for any associated available Net Supply Generator Assets), or (Real-Time Demand Reduction Obligation plus Net Supply for any associated Net Supply Generator Assets). For purposes of this calculation, when the output of a Real-Time Emergency Generation Asset at the same location exceeds the Demand Response Baseline, adjusted pursuant to Section III.8B.5, of a Demand Response Asset located at the same Retail Delivery Point, any Net Supply and the Economic Maximum Limit of the Net Supply Generator Asset at the same location shall be reduced by the difference between the Real-Time Emergency Generation Asset's output and adjusted Demand Response Baseline of the Demand Response Asset.

(ii) for a Demand Response Resource that as not received a Dispatch Instruction to reduce its demand, the lesser of the resource's Actual Load plus Economic Maximum Limit for any associated available Net Supply Generator Assets, as submitted or redeclared by the Lead Market Participant), and the Audited Demand Reduction adjusted down by (the Maximum Reduction, as submitted or redeclared by the Lead Market Participant plus Economic Maximum Limit for any associated available Net Supply Generator Assets, as submitted or redeclared by the Lead Market Participant).

III.13.7.1.6. Self-Supplied FCA Resources.

Self-Supplied FCA Resources are subject to the availability penalties and credits as defined by their resource type.

III.13.7.2. Payments and Charges to Resources.

Resources acquiring or shedding a Capacity Supply Obligation shall be subject to payments and charges in accordance with this Section III.13.7.2. Such resources will also be subject to adjustments as detailed in Section III.13.7.2.7.

III.13.7.2.1. Generating Capacity Resources.

III.13.7.2.1.1. Monthly Capacity Payments.

Each resource that has: (i) cleared in a Forward Capacity Auction, except for the portion of resources designated as Self-Supplied FCA Resources or for resources not commercial during an Obligation Month pursuant to Section III.13.7.1.1.3(h); (ii) cleared in a reconfiguration auction; or (iii) entered into a Capacity Supply Obligation Bilateral shall be entitled to a monthly payment (subject to the adjustments in Section III.13.7.2.7) or charge during the Capacity Commitment Period as follows:

(a) **Forward Capacity Auction.** For a resource whose offer has cleared in a Forward Capacity Auction, the monthly capacity payment shall equal the product of its cleared capacity (or in the case described in Section III.13.7.1.1.3(i), the lesser of the resource's Capacity Supply Obligation or its audited amount) and the Capacity Clearing Price in the appropriate Capacity Zone in the New England Control Area as adjusted pursuant to Section III.13.2.7.3(b) and as adjusted by applicable indexing for resources with additional Capacity Commitment Period elections pursuant to Section III.13.1.1.2.2.4 in the manner described below (the "FCA Payment"). For a resource that has elected to have the Capacity Clearing Price and the Capacity Supply Obligation apply for more than one Capacity Commitment Period, payments associated with the Capacity Supply Obligation and Capacity Clearing Price (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) shall continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which the offer clears, for up to four additional and consecutive Capacity Commitment Periods, in whole Capacity Commitment Period increments only.

(b) **Reconfiguration Auctions.** For a resource whose offer or bid has cleared in an annual or monthly reconfiguration auction, the monthly capacity payment or charge shall be equal to the product of its cleared capacity and the appropriate reconfiguration auction clearing price in the Capacity Zone in which the resource cleared.

(c) **Capacity Supply Obligation Bilaterals.** For resources that have acquired or shed a Capacity Supply Obligation through a Capacity Supply Obligation Bilateral, the monthly capacity payment or charge shall be equal to the product of the Capacity Supply Obligation being assumed or shed and price associated with the Capacity Supply Obligation Bilateral.

III.13.7.2.2. Import Capacity.

Import Capacity Resources shall receive monthly capacity payments utilizing the same methodology as that used for Generating Capacity Resources set forth in Section III.13.7.2.1.

III.13.7.2.2.A. Export Capacity.

If there are any Export Bids or Administrative Export De-list Bids from resources located in an export-constrained Capacity Zone or in the Rest-of-Pool Capacity Zone that have cleared in the Forward Capacity Auction and if the resource is exporting capacity at an export interface that is connected to an import-constrained Capacity Zone or the Rest-of-Pool Capacity Zone that is different than the Capacity

Zone in which the resource is located, then charges and credits are applied as follows (for the following calculation, the Capacity Clearing Price will be the value prior to PER adjustments).

Charge Amount to Resource Exporting = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-List Bid]

Credit Amount to Capacity Load Obligations in the Capacity Zone where the export interface is located = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-list Bid]

Credits and charges to load in the applicable Capacity Zones, as set forth above, shall be allocated in proportion to each LSE's Capacity Load Obligation as calculated in Section III.13.7.3.1.

III.13.7.2.3. Intermittent Power Resources.

An Intermittent Power Resource shall be entitled to monthly payments during the Capacity Commitment Period calculated in the same manner as that used for Generating Capacity Resources as described in Section 13.7.2.1, except that any reduction in the Capacity Supply Obligation of an Intermittent Power Resource made pursuant to Section III.13.4.2.1.2.2.3 shall be at the same payment rate applicable to the reduced MW, such that there is a net zero payment for the reduced MW.

III.13.7.2.4. Settlement Only Resources.

III.13.7.2.4.1. Non-Intermittent Settlement Only Resources.

Non-Intermittent Settlement Only Resources shall be entitled to monthly payments during the Capacity Commitment Period calculated in the same manner as that used for Generating Capacity Resources as described in Section III.13.7.2.1.

III.13.7.2.4.2. Intermittent Settlement Only Resources.

Intermittent Settlement Only Resources shall be entitled to monthly payments during the Capacity Commitment Period calculated in the same manner as that used for Generating Capacity Resources as described in Section III.13.7.2.1, except that any reduction in the Capacity Supply Obligation of an Intermittent Settlement Only Resource made pursuant to Section III.13.4.2.1.2.2.3 shall be at the same payment rate applicable to the reduced MW, such that there is a net zero payment for the reduced MW.

III.13.7.2.5. Demand Resources.

III.13.7.2.5.1. Monthly Capacity Payments for All Resources Except Real-Time Emergency Generation Resources.

For all Demand Resources except for Real-Time Emergency Generation Resources, the monthly payment shall be calculated in the same manner as for Generating Capacity Resources as described in Section III.13.7.2.1.1.

III.13.7.2.5.2. Monthly Capacity Payments for Real-Time Emergency Generation Resources.

For Real-Time Emergency Generation Resources, monthly payments shall be calculated in the same manner as for Generating Capacity Resources as described in Section III.13.7.2.1.1, except that such payments may also be adjusted as described in Section III.13.2.3.3(f).

III.13.7.2.5.3. Energy Settlement for Real-Time Demand Response Resources

A Market Participant with Real-Time Demand Response Assets associated with a Real-Time Demand Response Resource that is dispatched or audited pursuant to Section III.13 shall be paid or charged for demand reductions, adjusted for net supply as described in Section III.E1.8.3 and for the percent average avoided peak distribution losses, at the Real-Time LMP for the Load Zone in which the Real-Time Demand Response Resource is located. The demand reduction paid or charged shall be net of the Real-Time Demand Reduction Obligation of Real-Time Demand Response Assets that are part of the Real-Time Demand Response Resource that received payment pursuant to Sections III.E1.9.2.1 or III.E1.9.2.2 for the same dispatch or audit period. Demand reductions eligible for payments or charges pursuant to this section shall be those produced during Real-Time Demand Response Event Hours or, in the case of an audit, for the period during which the ISO has requested the resource to audit.

III.13.7.2.5.4. Energy Settlement for Real-Time Emergency Generation Resources

A Market Participant with Real-Time Emergency Generation Assets associated with a Real-Time Emergency Generation Resource that is dispatched or audited pursuant to Section III.13 shall be paid or charged for demand reductions or generator output, adjusted as described in Section III.E1.8.3 or III.13.7.2.5.4.1 and for the percent average avoided peak distribution losses for the portion of the asset reducing demand, at the Real-Time LMP for the Load Zone in which the Real-Time Emergency Generation Resource is located for Capacity Commitment Periods commencing prior to June 1, 2017, and

at the Real-Time LMP for the Dispatch Zone in which the Real-Time Emergency Generation Resource is located for Capacity Commitment Periods commencing on or after June 1, 2017. Demand reductions or generator output eligible for payments or charges pursuant to this section shall be those produced during Real-Time Emergency Generation Event Hours or, in the case of an audit, for the period during which the ISO has requested the resource to audit.

III.13.7.2.5.4.1 Adjustment for Net Supply Generator Assets

For Capacity Commitment Periods commencing on or after June 1, 2017, when the output of a Real-Time Emergency Generation Asset exceeds the Demand Response Baseline, adjusted pursuant to Section 8B.5, of a Demand Response Asset located at the same Retail Delivery Point and Net Supply is produced, the output eligible for payments will be set equal the adjusted Demand Response Baseline of the Demand Response Asset.

III.13.7.2.6. Self-Supplied FCA Resources.

Self-Supplied FCA Resources shall not receive monthly capacity payments for the portion of the resource designated as a Self-Supplied FCA Resource. Charges to load associated with Self-Supplied FCA Resources are calculated pursuant to Section III.13.7.3.

III.13.7.2.7. Adjustments to Monthly Capacity Payments.

Monthly capacity payments to resources with a Capacity Supply Obligation as of the beginning of the Obligation Month will be adjusted as described in Section III.13.7.2.7.1.

III.13.7.2.7.1. Adjustments to Monthly Capacity Payments of Generating Capacity Resources.

III.13.7.2.7.1.1. Peak Energy Rents.

Payments to New Generating Capacity Resources and Existing Generating Capacity Resources with Capacity Supply Obligations, except for resources not commercial as described in Section III.13.7.1.1.3(h) or Section III.13.7.1.1.3(i), shall be decreased by Peak Energy Rents (“PER”) calculated in each Capacity Zone, as determined pursuant to Section III.13.2.3.4 in the Forward Capacity Auction, as provided below. The PER calculation shall utilize hourly integrated Real-Time LMPs. For each Capacity Zone in the Forward Capacity Auction, as determined pursuant to Section III.13.2.3.4, PER shall be computed based on the load-weighted Real-Time LMPs for each Capacity Zone, using the Real-Time Hub Price for the Rest-of-Pool Capacity Zone.

III.13.7.2.7.1.1.1. Hourly PER Calculations.

(a) For hours with a positive difference between the hourly Real-Time energy price and a strike price, the ISO shall compute PER for each hour ("Hourly PER") equal to this positive difference in accordance with the following formula, which includes scaling adjustments for system load and availability:

$$\text{Hourly PER}(\$/\text{kW}) = [(\text{LMP} - \text{Strike Price}) * [\text{Scaling Factor}] * [\text{Availability Factor}]]$$

Where:

Strike Price = the heat rate x fuel cost of the PER Proxy Unit described below.

Scaling Factor = the ratio of actual hourly integrated system load (calculated as the sum of Real-Time Load Obligations for the system as calculated in the settlement of the Real-Time Energy Market and adjusted for losses and including imports delivered in the Real-Time Energy Market) and the 50/50 predicted peak system load reduced appropriately for Demand Resources, used in the most recent calculation of the Installed Capacity Requirement for that Capacity Commitment Period, capped at an hourly ratio of 1.0.

Availability Factor = 0.95

(b) PER Proxy Unit characteristics shall be as follows:

(i) The PER Proxy Unit shall be indexed to the marginal fuel, which shall be the higher of ultra low-sulfur No. 2 oil measured at New York Harbor plus a seven percent markup for transportation or day-ahead gas measured at the Algonquin City Gate, as determined on a daily basis;

(ii) The PER Proxy Unit shall be assumed to have no start-up, ramp rate or minimum run time constraints;

(iii) The PER Proxy Unit shall have a 22,000 Btu/kWh heat rate. This assumption shall be periodically reviewed after the first Capacity Commitment Period by the ISO to ensure that the heat rate continues to reflect a level slightly higher than the marginal generating unit in the region

that would be dispatched as the system enters a scarcity condition. Any changes to the heat rate of the PER Proxy Unit shall be considered in the stakeholder process in consultation with the state utility regulatory agencies, shall be filed pursuant to Section 205 of the Federal Power Act, and shall be applied prospectively to the settlement of future Forward Capacity Auctions.

III.13.7.2.7.1.1.2. Monthly PER Application.

(a) The Hourly PER shall be summed for each calendar month to determine the total PER for that month ("Monthly PER"). The ISO shall then calculate the Average Monthly PER earned by the proxy unit. The Average Monthly PER shall be equal to the average of the Monthly PER values for the 12 months prior to the Obligation Month. The PER deduction for each resource shall be calculated as follows:

PER Adjustment = the minimum of: (i) the PER cap or (ii) the Average Monthly PER x PER Capacity Supply Obligation.

Where the PER cap for each resource equals the FCA Payment, plus the product of the net value of any other Capacity Supply Obligations assumed or shed after the Forward Capacity Auction for the same Capacity Commitment Period multiplied by the Capacity Clearing Price applicable to that resource's location from that Forward Capacity Auction. Where the calculation results in a PER cap value less than zero, the PER cap will be revised to zero.

Where the PER Capacity Supply Obligation is equal to the minimum of the Capacity Supply Obligation or the Capacity Supply Obligation less any Capacity Supply Obligation MW from any portion of a Self-Supplied FCA Resource. However, if the Capacity Supply Obligation less any Capacity Supply Obligation from any portion of a Self-Supplied FCA Resource is less than zero, it will be zero for purposes of comparing it to the Capacity Supply Obligation in the PER Capacity Supply Obligation calculation.

(b) PER shall be deducted from capacity payments independently of availability penalties.

(c) FCA Payment minus PER may not be negative for any month.

III.13.7.2.7.1.2. Availability Penalties.

Availability penalties shall be assessed for each resource with a Capacity Supply Obligation as of the beginning of the Obligation Month. The penalty will be based on the Capacity Clearing Price (as adjusted pursuant to Section III.13.2.7.3(b) or as described in Section III.13.2.8) in the Capacity Zone in which the resource is located for the relevant Capacity Commitment Period, regardless of whether the resource assumed the Capacity Supply Obligation through a Forward Capacity Auction, a reconfiguration auction, or a Capacity Supply Obligation Bilateral.

For capacity resources that are partially or fully unavailable during a Shortage Event:

(a) Penalties shall be determined and assessed on a resource-specific basis. Penalties shall be calculated for each Shortage Event during an Obligation Month and assessed on a monthly basis, subject to the availability penalty caps outlined in Section III.13.7.2.7.1.3.

(b) The penalty per resource for each Shortage Event shall be equal to:

$$\text{Penalty} = [\text{Resource's Annualized FCA Payment}] * \text{PF} * [1 - \text{Shortage Event Availability Score}]$$

Where:

Annualized FCA Payment = the relevant Capacity Clearing Price, or in the case of Inadequate Supply or Insufficient Competition, the payment as described in Section III.13.2.8, (as adjusted pursuant to Section III.13.2.7.3(b)) multiplied by the resource's Capacity Supply Obligation as of the beginning of the Obligation Month multiplied by 12.

PF = .05 for Shortage Events of 5 hours or less. PF is increased by .01 for each additional hour above 5 hours.

III.13.7.2.7.1.3. Availability Penalty Caps.

The following caps will apply to the total availability penalties assessed to a resource. If a resource with a Capacity Supply Obligation sheds or acquires an obligation outside the relevant Obligation Month, the Annualized FCA Payment shall not be prorated. Caps are resource-specific and partial year assumption or transfer of a Capacity Supply Obligation through Capacity Supply Obligation Bilaterals or reconfiguration auctions does not affect the application of the cap to each resource independently.

(a) **Per Day.** In no case shall the total penalties for all Shortage Events in an Operating Day exceed 10 percent of a resource's Annualized FCA Payment for that Capacity Commitment Period.

(b) **Per Month.** The sum of a resource's penalties arising from unavailability during an Obligation Month may not exceed two and one-half times the Annualized FCA Payment, divided by twelve, for that Obligation Month. The sum of a resource's penalties arising from unavailability due to a single outage of four days or less but spanning two calendar months may not exceed two and one-half times the average of the Annualized FCA Payments, divided by twelve, for both months.

(c) **Per Capacity Commitment Period.** In determining the availability penalties for the Obligation Month, a resource's cumulative availability penalties for a Capacity Commitment Period may not exceed its Annualized FCA Payment (less PER adjustments) for that Capacity Commitment Period.

III.13.7.2.7.1.4. Availability Credits for Capacity Demand Response Capacity Resources, Generating Capacity Resources, Import Capacity Resources and Self-Supplied FCA Resources.

On a monthly basis, penalties received from unavailable resources shall be redistributed to Demand Response Capacity Resources, Generating Capacity Resources and Import Capacity Resources with Capacity Supply Obligations and to designated Supplemental Capacity Resources without a Capacity Supply Obligation that have a valid Supplemental Availability Bilateral (pursuant to Section III.13.5.3.2) that were available (pursuant to Section III.13.7.1.1.3, Section III.13.7.1.5.10.1) in the respective hours on a Capacity Zone basis as follows: For each Obligation Month, the penalties assessed for the Shortage Events during the month will be credited to those resources identified above that were available, in whole or in part, during the Shortage Events, pro-rata by hourly available MW in the relevant Capacity Zones. Self-Supplied FCA Resources shall be eligible to receive their pro rata share of availability penalties paid by other capacity resources.

III.13.7.2.7.2. Import Capacity.

In addition to the adjustment in this section, Import Capacity Resources shall also be subject to the same adjustments as Generating Capacity Resources as described in Section III.13.7.2.7.1.

III.13.7.2.7.2.1. External Transaction Offer and Delivery Performance Adjustments.

In the event that the conditions in Section III.13.6.1.2.1 are not met in any hour of an Operating Day, the Import Capacity Resource will be subject to the following:

(a) If in any hour of an Operating Day a priced External Transaction associated with an Import Capacity Resource with a Capacity Supply Obligation is offered above both the offer threshold for the Operating Day and the offer threshold of the prior Operating Day, and for any priced External Transactions from the New York Control Area also is offered above the corresponding hourly day-ahead energy price (NYISO Location-Based Marginal Price) at the source interface, the Market Participant with the Import Capacity Resource will pay a penalty equal to the product of the Import Capacity Resource's Capacity Supply Obligation and the corresponding interface Capacity Clearing Price as adjusted in Section III.13.2.7.3(b), divided by the number of days in the month.

(b) For every hour of an Operating Day that the total amount offered from all External Transactions associated with an Import Capacity Resource is less than the Import Capacity Resource's Capacity Supply Obligation, the Market Participant with the Import Capacity Resource will pay a penalty equal to the product of the difference between the Capacity Supply Obligation and the total amount of energy offered for that hour and the corresponding interface Capacity Clearing Price as adjusted in Section III.13.2.7.3(b), divided by the number of hours in the month. For each Operating Day only the greater of the total penalties in either the Day-Ahead Energy Market or Real-Time Energy Market will be assessed. For the purposes of this section the total energy offered will be adjusted in accordance with Section III.13.7.1.1.4(b) for any amount that was unavailable due to an outage approved in the ISO's annual maintenance scheduling process.

(c) Except as specified in Section III.13.7.2.7.2.2, for every hour the total energy from an External Transaction associated with an Import Capacity Resource delivered in real-time to the New England Control Area is less than the energy requested, the Market Participant with the Import Capacity Resource will pay a penalty equal to the product of the difference between the quantity requested and the quantity delivered and the corresponding interface Capacity Clearing Price as adjusted in Section III.13.2.7.3(b), divided by the number of hours in the month.

Any External Transaction associated with an Import Capacity Resource that is determined to be in economic merit during the next-hour scheduling process will be considered a requested transaction and the ISO may request all or a portion of each transaction.

A Market Participant's total penalty amount for a single Operating Day for each Import Capacity Resource shall be no more than the product of the Import Capacity Resource's Capacity Supply

Obligation and the corresponding interface Capacity Clearing Price as adjusted in Section III.13.2.7.3(b), divided by the number of days in the month.

Each Obligation Month the penalty amounts from all Market Participants with Import Capacity Resources will be allocated to all Market Participants based on their pro-rata share of Capacity Load Obligation within each Capacity Zone in the Obligation Month, with each Capacity Zone allocated an amount based on the pro-rata share of total capacity credits within each Capacity Zone.

III.13.7.2.7.2.2. Exceptions.

- a) No penalty will be assessed if the applicable external interface is fully loaded and the energy from an External Transaction that would otherwise be requested cannot flow. If the transfer capability of the applicable external interface is zero in the import direction it will be considered fully loaded for the purpose of this section.

- b) No penalty will be assessed if the delivered energy from a priced External Transaction associated with the New York Control Area is less than requested when the Real-Time Energy Market price at the source location (NYISO Location-Based Marginal Price) is higher than the Real-Time LMP at the associated External Node, provided that Operating Procedure No. 4 has not been declared due to a system-wide capacity deficiency.

- c) No penalty will be assessed during periods when the ISO has taken action to reduce import transactions due to a Minimum Generation Emergency condition or due to ramping constraints.

- d) No penalty will be assessed on the affected external interface during periods when minimum-flow or directional-flow constraints have occurred, when the ISO was unable to utilize the automated check-out processes for the external interface, or when in-hour curtailments have occurred.

III.13.7.2.7.3. Intermittent Power Resources.

Monthly capacity payments to Intermittent Power Resources are subject to PER adjustments but are not subject to any additional availability penalties.

III.13.7.2.7.4. Settlement Only Resources.

III.13.7.2.7.4.1. Non-Intermittent Settlement Only Resources.

Non-Intermittent Settlement Only Resources are subject to the same PER adjustments and availability penalties as Generating Capacity Resources as described in Section III.13.7.2.7.1.

III.13.7.2.7.4.2. Intermittent Settlement Only Resources.

Monthly capacity payments to Intermittent Power Resources are subject to PER adjustments but are not subject to any additional availability penalties.

III.13.7.2.7.5. Demand Resources.

Demand Response Capacity Resources shall be subject to the same adjustments as Generating Capacity Resources as described in Section III.13.7.2.7.1.

III.13.7.2.7.5.1. Calculation of Monthly Capacity Variances.

For each month, the Monthly Capacity Variance of a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource shall be calculated by subtracting the Demand Resource's Capacity Supply Obligation for the month from the Demand Resource's monthly Capacity Value. If a Demand Resource's Monthly Capacity Variance is zero, the Demand Resource will not be subject to Demand Resource Performance Penalties or Demand Resource Performance Incentives.

III.13.7.2.7.5.2. Negative Monthly Capacity Variances.

With the exception of a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which that offer cleared, if a Demand Resource's Monthly Capacity Variance is a negative value, the Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource shall be subject to a Demand Resource Performance Penalty equal to the absolute value of the Monthly Capacity Variance multiplied by the Capacity Clearing Price (as adjusted pursuant to Section III.13.2.7.3(b)) in the Forward Capacity Auction for the relevant Capacity Commitment Period or in the case of a Real-Time Emergency Generation Resource, multiplied by the Capacity Clearing Price in the Forward Capacity Auction for the relevant Capacity Commitment Period as described in Section III.13.2.3.3(f). If a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which that

offer cleared has a Monthly Capacity Variance with a negative value, the Demand Resource Performance Penalty for such a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource shall be set according to the Capacity Clearing Price applicable to the Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource (as adjusted pursuant to Section III.13.2.7.3(b)), indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31, of the year preceding the Capacity Commitment Period applicable to the Demand Resource for the particular Capacity Commitment Period or in the case of a Real-Time Emergency Generation Resource, multiplied by the Capacity Clearing Price in the Forward Capacity Auction for the relevant Capacity Commitment Period as described in Section III.13.2.3.3(f), indexed using the Handy-Whitman Index of Public Utility Construction Costs, applicable to the Demand Resource for the particular Capacity Commitment Period.

III.13.7.2.7.5.3. Positive Monthly Capacity Variances.

With the exception of a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which that offer cleared, if a Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource's Monthly Capacity Variance is a positive value, then the Demand Resource shall be eligible to receive a Demand Resource Performance Incentive based on the Monthly Capacity Variance multiplied by the Capacity Clearing Price (as adjusted pursuant to Section III.13.2.7.3(b)) in the Forward Capacity Auction for the relevant Capacity Commitment Period, or in the case of a Real-Time Emergency Generation Resource, multiplied by the Capacity Clearing Price in the Forward Capacity Auction for the relevant Capacity Commitment Period as described in Section III.13.2.3.3(f), provided that the sum of the Demand Resource Performance Penalties in the month in the Capacity Zone where the Demand Resource or Real-Time Emergency Generation Resource is located is equal to or greater than the sum of the Demand Resource Performance Incentives in the same month in that Capacity Zone. If a Demand Resource that has elected to have the Capacity Supply Obligation and the Capacity Clearing Price applicable to an offer that cleared in the Forward Capacity Auction continue to apply after the Capacity Commitment Period associated with the Forward Capacity Auction in which that offer cleared has a Monthly Capacity Variance with a positive value, then the Demand Resource Performance Incentive for such a Demand Resource shall be set according to the Capacity Clearing Price applicable to the Demand Resource for the particular Capacity Commitment Period (as adjusted pursuant to Section III.13.2.7.3(b)), indexed using the Handy-Whitman Index of Public Utility Construction Costs

or in the case of a Real-Time Emergency Generation Resource, multiplied by the Capacity Clearing Price in the Forward Capacity Auction for the relevant Capacity Commitment Period as described in Section III.13.2.3.3(f), indexed using the Handy-Whitman Index of Public Utility Construction Costs, applicable to the Real-Time Emergency Generation, Real-Time Demand Response, On-Peak and Seasonal Peak Demand Resource for the particulate Capacity Commitment Period in effect as of December 31 of the year preceding the Capacity Commitment Period, provided that the sum of the Demand Resource Performance Penalties in the month in the Capacity Zone where the Demand Resource or Real-Time Emergency Generation Resource is located is equal to or greater than the sum of the Demand Resource Performance Incentives in the same month in that Capacity Zone.

III.13.7.2.7.5.4. Determination of Net Demand Resource Performance Penalties and Demand Resource Performance Incentives.

Demand Resource Performance Penalties and Demand Resource Performance Incentives shall be determined for each Capacity Zone as follows: if the sum of the Demand Resource Performance Penalties in a month in a Capacity Zone is less than the sum of the Demand Resource Performance Incentives in the same month in that Capacity Zone, then the total amount of Demand Resource Performance Penalties shall be paid on a pro-rata basis, based on the non-prorated Demand Resource Performance Incentives of each Demand Resource with a positive Monthly Capacity Variance. The total amount of the Demand Resource Performance Incentives in a month in a Capacity Zone cannot exceed the total amount of the Demand Resource Performance Penalties in the same month in that Capacity Zone.

The total of the Demand Resource Performance Incentives in a month in a Capacity Zone cannot exceed the total of the Demand Resource Performance Penalties in the same month in that Capacity Zone. If the total Demand Resource Performance Penalties in a month in a Capacity Zone exceeds the total Demand Resource Performance Incentives in the same month in that Capacity Zone, the difference shall not be collected from load serving entities in that Capacity Zone (the ultimate purchaser of capacity).

III.13.7.2.7.6. Self-Supplied FCA Resources.

Self-Supplied FCA Resources shall not be subject to a PER adjustment on the portion of the resource that is self-supplied, but shall be subject to the availability penalties and caps applicable to their resource types.

III.13.7.3. Charges to Market Participants with Capacity Load Obligations.

A load serving entity with a Capacity Load Obligation as of the end of the Obligation Month shall be subject to a charge equal to the product of: (a) its Capacity Load Obligation in the Capacity Zone; and (b) the applicable Net Regional Clearing Price. The Net Regional Clearing Price is defined as the sum of the total payments as defined in Section III.13.7.2 paid to resources with Capacity Supply Obligations in the Capacity Zone (excluding any capacity payments and charges made for Capacity Supply Obligation Bilaterals), less PER adjustments for resources in the zone as defined in Section 13.7.2.7.1.1, adjusted for any Demand Resource Performance Penalties in excess of Demand Resource Performance Incentives as described in Section III.13.7.2.7.5.4, and including any applicable export charges or credits as determined pursuant to Section III.13.7.2.2.A divided by the sum of all Capacity Supply Obligations (excluding (i) the quantity of capacity subject to Capacity Supply Obligation Bilaterals and (ii) the quantity of capacity clearing as Self-Supplied FCA Resources) assumed by resources in the zone. A load serving entity satisfying its Capacity Load Obligation by a Self-Supplied FCA Resource shall not receive a credit for any PER payment for its Capacity Load Obligation so satisfied.

III.13.7.3.1. Calculation of Capacity Requirement and Capacity Load Obligation.

The ISO shall assign each load serving entity a Capacity Requirement prior to the commencement of each Obligation Month for each Capacity Zone established in the Forward Capacity Auction pursuant to Section III.13.2.3.4. The Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the total of the system-wide Capacity Supply Obligations (excluding the quantity of capacity subject to Capacity Supply Obligation Bilaterals) plus HQICCs; and (ii) the ratio of the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year two years prior to the start of the Capacity Commitment Period to the system-wide sum of all load serving entities' annual coincident contributions to the system-wide annual peak load from the calendar year two years prior to the start of the Capacity Commitment Period. The following loads are assigned a peak contribution of zero for the purposes of assigning obligations and tracking load shifts: load associated with pumping of pumped hydro generators, if the resource was pumping; Station service load that is modeled as a discrete Load Asset and the Resource is complying with the maintenance scheduling procedures of the ISO; load that is modeled as an Asset Related Demand or discrete load asset and is exclusively related to an Alternative Technology Regulation Resource following AGC dispatch instructions; and transmission losses associated with delivery of energy over the Control Area tie lines.

A load serving entity's Capacity Requirement for each month and Capacity Zone shall equal the product of: (i) the Capacity Zone's Capacity Requirement as calculated above and (ii) the ratio of the sum of the

load serving entity's annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period to the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period.

A load serving entity's Capacity Load Obligation shall be its Capacity Requirement, adjusted as appropriate to account for any relevant Capacity Load Obligation Bilaterals, HQICCs, and Self-Supply FCA Resource designations. A Capacity Load Obligation can be a positive or negative value. A Market Participant that is not a load serving entity shall have a Capacity Load Obligation equal to the net obligation resulting from Capacity Load Obligation Bilaterals, HQICC, and Self-Supply FCA Resource designations.

A Demand Resource's Demand Reduction Value will not be reconstituted into the load of the Demand Resource for the purpose of determining the Capacity Requirement for the load associated with the Demand Resource.

III.13.7.3.1.1. HQICC Used in the Calculation of Capacity Requirements.

In order to treat HQICCs as a load reduction, each holder of HQICCs shall have its Capacity Requirement in the Capacity Zone in which the HQ Phase I/II external node is located as specified in Section III.13.1.3 adjusted by its share of the total monthly HQICC amount.

III.13.7.3.1.2. Charges Associated with Self-Supplied FCA Resources.

The capacity associated with a Self-Supplied FCA Resource shall be treated as a credit toward the Capacity Load Obligation of the load serving entity so designated by such resources as described in Section III.13.1.6. The amount of Self-Supplied FCA Resources shall be determined pursuant to Section III.13.1.6.

III.13.7.3.1.3. Charges Associated with Dispatchable Asset Related Demands.

Dispatchable Asset Related Demand resources will not receive Forward Capacity Market payments, but instead each Dispatchable Asset Related Demand resource will receive an adjustment to its share of the associated Coincident Peak Contribution based on the ability of the Dispatchable Asset Related Demand resource to reduce consumption. The adjustment to a load serving entity's Coincident Peak Contribution resulting from Dispatchable Asset Related Demand resource reduction in consumption shall be based on the Nominated Consumption Limit submitted for the Dispatchable Asset Related Demand resource.

The Nominated Consumption Limit value of each Dispatchable Asset Related Demand resource is subject to adjustment as further described in the ISO New England Manuals, including adjustments based on the results of Nominated Consumption Limit audits performed in accordance with the ISO New England Manuals.

III.13.7.3.2. Excess Revenues.

Revenues collected from load serving entities in excess of revenues paid by the ISO to resources shall be paid by the ISO to the holders of Capacity Transfer Rights, as detailed in Section III.13.7.3.3.

III.13.7.3.3. Capacity Transfer Rights.

III.13.7.3.3.1. Definition and Payments to Holders of Capacity Transfer Rights.

The ISO shall create Capacity Transfer Rights (“CTRs”) for each internal interface associated with a Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4). Based upon results of the Forward Capacity Auction and reconfiguration auctions, the total CTR fund will be calculated as the difference between the charges to load serving entities with Capacity Load Obligations and the payments to Capacity Resources as follows: The system-wide sum of the product of each Capacity Zone’s Net Regional Clearing Price and absolute value of each Capacity Zone’s Capacity Load Obligations, as calculated in Section III.13.7.3.1, minus the sum of the monthly capacity payments to Capacity Resources within each zone, as adjusted for PER and for Demand Resource Performance Penalties net of Demand Resource Performance Incentives.

Each Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4) will be assigned its portion of the CTR fund.

For CTRs resulting from an export constrained zone, the assignment will be calculated as the product of: (i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between the absolute value of the total Capacity Supply Obligations obtained in the exporting Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supply FCA Resources, and the absolute value of the total Capacity Load Obligations in the exporting Capacity Zone.

For CTRs resulting from an import constrained zone, the assignment will be calculated as the product of: (i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the absolute value of the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between absolute value of the total Capacity Load Obligations in the importing Capacity Zone and the total Capacity Supply Obligations obtained in the importing Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supply FCA Resources.

The value of CTRs specifically allocated pursuant to Sections III.13.7.3.3.2(c), III.13.7.3.3.4, and III.13.7.3.3.6 shall be calculated as the product of: (i) the Capacity Clearing Price (as adjusted pursuant to Section III.13.2.7.3(b)) for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Capacity Clearing Price (as adjusted pursuant to Section III.13.2.7.3(b)) for the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the MW quantity of the specifically allocated CTRs across the applicable interface. The value of the specifically allocated CTRs will be deducted from the associated Capacity Zone's portion of the CTR fund. The balance of the CTR fund will then be allocated to the load serving entities as set forth in Section III.13.7.3.3.2.

III.13.7.3.3.2. Allocation of Capacity Transfer Rights.

For Capacity Zones established in the Forward Capacity Auction as determined pursuant to Section III.13.2.3.4, the CTR fund shall be allocated among load serving entities using their Capacity Load Obligation (net of HQICCs) described in Section III.13.7.3.1. Market Participants with CTRs specifically allocated under Section III.13.7.3.3.6 will have their specifically allocated CTR MWs netted from their Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Connecticut Import Interface.** The allocation of the CTR fund associated with the Connecticut Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the Connecticut Capacity Zone.

(b) **NEMA/Boston Import Interface.** Except as provided in Section III.13.7.3.3.6 of Market Rule 1, the allocation of the CTR fund associated with the NEMA/Boston Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the NEMA/Boston Capacity Zone.

(c) **Maine Export Interface.** Casco Bay shall receive specifically allocated CTRs of 325 MW across the Maine Export Interface for as long as Casco Bay continues to pay to support the transmission upgrades. Each municipal utility entitlement holder of a resource constructed as a Pool-Planned Unit in Maine shall receive specifically allocated CTRs across the Maine Export Interface equal to the applicable seasonal claimed capability of its ownership entitlements in such unit as described in Section III.13.7.3.3.6. The balance of the CTR fund associated with the Maine Export Interface shall be allocated to load serving entities with a Capacity Load Obligation on the import-constrained side of the Maine Export Interface.

III.13.7.3.3.3. Allocations of CTRs Resulting From Revised Capacity Zones.

The portion of the CTR fund associated with revised definitions of Capacity Zones shall be fully allocated to load serving entities after deducting the value of applicable CTRs that have been specifically allocated. Allocations of the CTR fund among load serving entities will be made using their Capacity Load Obligations (net of HQICCs) as described in Section III.13.7.3.3.1. Market Participants with CTRs specifically allocated under Section III.13.7.3.3.6 will have their specifically allocated CTR MWs netted from the Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Import Constraints.** The allocation of the CTR fund associated with newly defined import-constrained Capacity Zones restricting the transfer of capacity into a single adjacent import-constrained Capacity Zone shall be allocated to load serving entities with Capacity Load Obligations in that import-constrained Capacity Zone.

(b) **Export Constraints.** The allocation of the CTR fund associated with newly defined export-constrained Capacity Zones shall be allocated to load serving entities with Capacity Load Obligations on the import-constrained side of the interface.

III.13.7.3.3.4. Specifically Allocated CTRs Associated with Transmission Upgrades.

(a) A Market Participant that pays for transmission upgrades not funded through the Pool PTF Rate and which increase transfer capability across existing or potential Capacity Zone interfaces may request a specifically allocated CTR in an amount equal to the number of CTRs supported by that increase in transfer capability.

(b) The allocation of additional CTRs created through generator interconnections completed after February 1, 2009 shall be made in accordance with the provisions of the ISO generator interconnection or

planning standards. In the event the ISO interconnection or planning standards do not address this issue, the CTRs created shall be allocated in the same manner as described in Section III.13.7.3.3.2.

(c) Specifically allocated CTRs shall expire when the Market Participant ceases to pay to support the transmission upgrades.

(d) CTRs resulting from transmission upgrades funded through the Pool PTF Rate shall not be specifically allocated but shall be allocated in the same manner as described in Section III.13.7.3.3.2.

III.13.7.3.3.5. [Reserved.]

III.13.7.3.3.6. Specifically Allocated CTRs for Pool Planned Units.

In import-constrained Capacity Zones, in recognition of longstanding life of unit contracts, the municipal utility entitlement holder of a resource constructed as Pool-Planned Units shall receive an initial allocation of CTRs equal to the applicable seasonal claimed capability of the ownership entitlements in such unit. Municipal utility entitlements are set as shown in the table below and are not transferrable.

		Millstone 3	Seabrook	Stonybrook GT 1A	Stonybrook GT 1B	Stonybrook GT 1C	Stonybrook 2A	Stonybrook 2B	Wyman 4	Summer (MW)	Winter (MW)
Nominal Summer (MW)	1155.001	1244.275	104.000	100.000	104.000	67.400	65.300	586.725			
Nominal Winter (MW)	1155.481	1244.275	119.000	116.000	119.000	87.400	85.300	608.575			
Danvers	0.2627%	1.1124%	8.4569%	8.4569%	8.4569%	11.5551%	11.5551%	0.0000%	58.26	63.73	
Georgetown	0.0208%	0.0956%	0.7356%	0.7356%	0.7356%	1.0144%	1.0144%	0.0000%	5.04	5.55	
Ipswich	0.0608%	0.1066%	0.2934%	0.2934%	0.2934%	0.0000%	0.0000%	0.0000%	2.93	2.37	
Marblehead	0.1544%	0.1351%	2.6840%	2.6840%	2.6840%	1.5980%	1.5980%	0.2793%	15.49	15.64	
Middleton	0.0440%	0.3282%	0.8776%	0.8776%	0.8776%	1.8916%	1.8916%	0.1012%	10.40	11.07	
Peabody	0.2969%	1.1300%	13.0520%	13.0520%	13.0520%	0.0000%	0.0000%	0.0000%	57.69	60.26	
Reading	0.4041%	0.6351%	14.4530%	14.4530%	14.4530%	19.5163%	19.5163%	0.0000%	82.98	92.77	
Wakefield	0.2055%	0.3870%	3.9929%	3.9929%	3.9929%	6.3791%	6.3791%	0.4398%	30.53	32.64	
Ashburnham	0.0307%	0.0652%	0.6922%	0.6922%	0.6922%	0.9285%	0.9285%	0.0000%	4.53	5.22	
Boylston	0.0264%	0.0849%	0.5933%	0.5933%	0.5933%	0.9120%	0.9120%	0.0522%	4.71	5.35	
Braintree	0.0000%	0.6134%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	7.63	7.63	
Groton	0.0254%	0.1288%	0.8034%	0.8034%	0.8034%	1.0832%	1.0832%	0.0000%	5.81	6.61	
Hingham	0.1007%	0.4740%	3.9815%	3.9815%	3.9815%	5.3307%	5.3307%	0.0000%	26.40	30.36	
Holden	0.0726%	0.3971%	2.2670%	2.2670%	2.2670%	3.1984%	3.1984%	0.0000%	17.01	19.33	
Holyoke	0.3194%	0.3096%	0.0000%	0.0000%	0.0000%	2.8342%	2.8342%	0.6882%	15.34	16.63	
Hudson	0.1056%	1.6745%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.3395%	24.05	24.12	

Hull	0.0380%	0.1650%	1.4848%	1.4848%	1.4848%	2.1793%	2.1793%	0.1262%	10.70	12.28
Littleton	0.0536%	0.1093%	1.5115%	1.5115%	1.5115%	3.0607%	3.0607%	0.1666%	11.67	13.63
Mansfield	0.1581%	0.7902%	5.0951%	5.0951%	5.0951%	7.2217%	7.2217%	0.0000%	36.93	42.17
Middleborough	0.1128%	0.5034%	2.0657%	2.0657%	2.0657%	4.9518%	4.9518%	0.1667%	21.48	24.45
North Attleborough	0.1744%	0.3781%	3.2277%	3.2277%	3.2277%	5.9838%	5.9838%	0.1666%	25.58	29.49
Pascoag	0.0000%	0.1068%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	1.33	1.33
Paxton	0.0326%	0.0808%	0.6860%	0.6860%	0.6860%	0.9979%	0.9979%	0.0000%	4.82	5.53
Shrewsbury	0.2323%	0.5756%	3.9105%	3.9105%	3.9105%	0.0000%	0.0000%	0.4168%	24.33	26.23
South Hadley	0.5755%	0.3412%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	10.89	10.90
Sterling	0.0294%	0.2044%	0.7336%	0.7336%	0.7336%	1.1014%	1.1014%	0.0000%	6.60	7.38
Taunton	0.0000%	0.1003%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	1.25	1.25
Templeton	0.0700%	0.1926%	1.3941%	1.3941%	1.3941%	2.3894%	2.3894%	0.0000%	10.67	12.27
Vermont Public Power Supply Authority	0.0000%	0.0000%	2.2008%	2.2008%	2.2008%	0.0000%	0.0000%	0.0330%	6.97	7.99
West Boylston	0.0792%	0.1814%	1.2829%	1.2829%	1.2829%	2.3041%	2.3041%	0.0000%	10.18	11.69
Westfield	1.1131%	0.3645%	9.0452%	9.0452%	9.0452%	13.5684%	13.5684%	0.7257%	67.51	77.27

This allocation of CTRs shall expire on December 31, 2040. If a resource listed in the table above retires prior to December 31, 2040, however, its allocation of CTRs shall expire upon retirement. In the event that the NEMA zone either becomes or is forecast to become a separate zone for Forward Capacity Auction purposes, National Grid agrees to discuss with Massachusetts Municipal Wholesale Electric Company (“MMWEC”) and Wellesley Municipal Light Plant, Reading Municipal Light Plant and Concord Municipal Light Plant (“WRC”) any proposal by National Grid to develop cost effective transmission improvements that would mitigate or alleviate the import constraints and to work cooperatively and in good faith with MMWEC and WRC regarding any such proposal. MMWEC and WRC agree to support any proposals advanced by National Grid in the regional system planning process to construct any such transmission improvements, provided that MMWEC and WRC determine that the proposed improvements are cost effective (without regard to CTRs) and will mitigate or alleviate the import constraints.

III.13.7.3.4. Forward Capacity Market Net Charge Amount.

The Forward Capacity Market net charge amount for each Market Participant as of the end of the Obligation Month shall be equal to the sum of: (a) its Capacity Load Obligation charge; (b) its revenues from any applicable specifically allocated CTRs; (c) its share of the CTR fund; and (d) any applicable export charges.

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UNITED STATES OF AMERICA

BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

ISO New England Inc. and) Docket No. ER15-___
NEPOOL Participants Committee)

JOINT TESTIMONY OF CHRISTOPHER A. PARENT
AND RYAN MCCARTHY

I. INTRODUCTION

Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

Mr. Parent: My name is Christopher A. Parent. I am the Manager of the Market Development Department at ISO New England Inc. (the “ISO”). My business address is One Sullivan Road, Holyoke, Massachusetts 01040.

Mr. McCarthy: My name is Ryan McCarthy. I am Lead Analyst in the Market Development Department at the ISO. My business address is One Sullivan Road, Holyoke, Massachusetts 01040.

Q: PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND QUALIFICATIONS.

Mr. Parent: I have been with ISO since July 2004 and have held various positions within the organization, including Supervisor of Hourly Settlements, Supervisor of Business Analysis, and Manager of Business Development. I was also Manager, Quality & Business Process Development reporting to the Chief Operating Officer until December 2009 when I became the Manager of the

1 Market Development Department reporting to the Vice President of Market
2 Development. In my present position, I am responsible for coordinating the
3 market development work at the ISO. By working closely with my staff, internal
4 business units, and external stakeholders on proposed changes to the market
5 design, I help to ensure that proposed solutions to market issues address the
6 identified scope efficiently and effectively and that they are fully vetted through
7 the internal ISO review and external stakeholder processes.

8 *Mr. McCarthy:* I am currently a Lead Analyst in the Markets Development
9 department at the ISO, a position I have held since August 2013. In this role, I am
10 responsible for identifying market improvements for the New England power
11 grid, developing new market designs and associated market rules and presenting
12 them to external stakeholders.

13 Prior to joining ISO New England, I held various power-marketing positions in
14 the energy market industry including four years as a power trader at NRG energy
15 and two years as a vice president in the power trading division of Citibank Global
16 Commodities. I also worked five years as an equity options trader on the
17 Philadelphia Stock Exchange for Timber Hill, LLC. I hold a B.A. in Economics
18 from Lycoming College

19 **Q: PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.**

20 A: The purpose of our testimony is to explain various revisions to the rules
21 governing the Forward Capacity Market (“FCM”)¹ submitted in this filing, which

¹ Capitalized terms used but not defined in this joint testimony have the meaning given to such terms in the ISO New England Inc. Transmission, Markets and Services Tariff (“Tariff”).

1 we will refer to as “Rule Changes.”

2 **II. DISCUSSION OF FCM RULE CHANGES**

3 **Q: PLEASE PROVIDE THE BACKGROUND FOR THE RULE CHANGES**
4 **IN SECTION III.13.2.5.2.5.**

5 A: On January 31, 2014, in compliance with the Commission’s Order in Docket No.
6 ER12-953-002,² the ISO submitted a filing in which it proposed a two-step
7 process to determine whether or not to model a zone for an upcoming Forward
8 Capacity Auction (the “Capacity Zones Filing”). To implement Step One, the
9 ISO incorporated a transmission transfer capability assessment (pursuant to
10 NERC Standard FAC-013-2) into Section 3.1 of Attachment K to the Tariff.
11 Under Step One, the ISO (with input from its stakeholders) will identify and
12 evaluate potential zonal boundaries and associated transfer capabilities.³ To
13 implement Step Two, the ISO revised Section III.12 of the Tariff. Under Step
14 Two, each year, the ISO will apply the results of the transfer capability
15 assessment conducted in Step One to objective criteria (or triggers) in order to
16 determine whether a zone should be modeled. With these triggers, a zone can be
17 modeled as either import- or export- constrained.⁴ The Commission accepted the
18 Capacity Zones Filing to become effective on April 28, 2014.⁵

² *ISO New England Inc.*, 143 FERC ¶ 61,198 (2013).

³ *See ISO New England Inc.*, 147 FERC ¶ 61,071 (2014) at P 11.

⁴ *See id.* at P 12.

⁵ *Id.* at P1.

1 **Q: WHY ARE THE RULE CHANGES IN SECTION III.13.2.5.5 BEING**
2 **MADE?**

3 A: The Rule Changes are being made to conform Section III.13 to the changes made
4 in Section III.12 in the Capacity Zones Filing by replacing the term “Load Zone”
5 with the term “Capacity Zone” where appropriate. Specifically, the current
6 version of Section III.13.2.5.2.5 provides that a de-list bid or Non-Price
7 Retirement Request (“NPRR”) will not be rejected solely on the basis that
8 acceptance of the NPRR or de-list bid may result in the procurement of less
9 capacity than the Local Sourcing Requirement for Load Zones or aggregations of
10 Load Zones considered for modeling in a Forward Capacity Auction. In order to
11 conform this provision to the rules filed in the Capacity Zones Filing, the Rule
12 Changes replace the words “Load Zones or aggregations of Load Zones
13 considered for modeling in a Forward Capacity Auction” with the words
14 “Capacity Zones.”

15 **Q: ARE THERE ANY OTHER INSTANCES IN SECTION III.13 WHERE**
16 **THE TERM “LOAD ZONE” HAS TO BE REPLACED WITH THE TERM**
17 **“CAPACITY ZONE” IN ORDER TO CONFORM TO THE CURRENT**
18 **CAPACITY ZONE MODELING RULES?**

19 A: No. The ISO has determined that Section III.13.2.5.2.5 is the only instance where
20 “Load Zone” needs to be replaced with “Capacity Zone” in Section III.13 to
21 conform that section to the current Capacity Zone modeling rules in Section
22 III.12.

23 **Q: PLEASE PROVIDE THE BACKGROUND FOR THE RULE CHANGES**

1 **IN SECTION III.13.7.3.36.**

2 A: Section III.13.7.3.3.6 of the Tariff provides that, in import-constrained Capacity
3 Zones, in recognition of longstanding life of unit contracts, the municipal utility
4 entitlement holder of a resource constructed as a Pool-Planned Unit will receive
5 an initial allocation of Capacity Transfer Rights equal to the applicable seasonal
6 claimed capability of the ownership entitlements in such unit. Municipal utility
7 entitlements are set as shown in the table contained in Section III.13.7.3.3.6 and
8 are not transferrable.

9 Under the Capacity Zone modeling rules that were in effect at the time when the
10 table was developed, the only original municipal utility entitlement holders of
11 resources constructed as Pool-Planned Units in a zone that could be modeled as
12 import-constrained, were those located in NEMA/Boston. For that reason, the
13 table only included the original municipal utility entitlement holders of resources
14 constructed as Pool-Planned Units in that Capacity Zone.

15 **Q: WHY IS THE TABLE IN SECTION III.13.7.3.3.6 BEING REVISED?**

16 A: Under the current Capacity Zone modeling rules (which were filed in the
17 Capacity Zones Filing and accepted by the Commission as explained above),
18 Capacity Zone formation will be dynamic. This means that other import-
19 constrained Capacity Zones may be modeled. Accordingly, the ISO is updating
20 the table by extending the current design of Section III.13.7.3.3.6 to include all
21 initial municipal utility entitlement holders of resources constructed as Pool-
22 Planned Units.

1 **Q: PLEASE DESCRIBE THE CHANGES TO THE TABLE IN SECTION**
2 **III.13.7.3.3.6.**

3 A: In accordance with the current ISO records, the Rule Changes add the following
4 municipal utility entitlement holders, along with the percentages of their
5 entitlements, to the table: Ashburnham, Boylston, Braintree, Groton, Hingham,
6 Holden, Holyoke, Hudson, Hull, Littleton, Mansfield, Middleborough, North
7 Attleborough, Pascoag, Paxton, Shrewsbury, South Hadley, Sterling, Taunton,
8 Templeton, Vermont Public Power Supply Authority, West Boylston, and
9 Westfield.

10 **Q: PLEASE DESCRIBE THE CURRENT RESTRICTIONS ON CAPACITY**
11 **SUPPLY OBLIGATION BILATERALS (“CSO BILATERALS”)**
12 **CONTAINED IN SECTION III.13.5.1 OF THE TARIFF.**

13 A: Currently, Section III.13.5.1 (f) of the Tariff requires that the Capacity
14 Transferring Resource and the Capacity Acquiring Resource that are parties to a
15 Capacity Supply Obligation Bilateral be located in the same Capacity Zone, or
16 that the path from the Capacity Transferring Resource to the Capacity Acquiring
17 Resource flow across adjacent Capacity Zones in the direction of the modeled
18 interface constraint(s). Similarly, for Import Capacity Resources, Section
19 III.13.5.1 (g) requires that the Capacity Acquiring Resource and the Capacity
20 Transferring Resource be on the same external interface

21 **Q: WHY IS THE ISO PROPOSING TO ALLOW ADDITIONAL**
22 **FLEXIBILITY FOR THE TRADING OF CAPACITY SUPPLY**
23 **OBLIGATIONS THROUGH CSO BILATERALS?**

1 A: Market Participants expressed interest in adding flexibility in the rules for CSO
2 Bilaterals to allow CSO Bilaterals across Capacity Zones and external interfaces,
3 limited by the Local Sourcing Requirements, Maximum Capacity Limits and
4 external capacity transfer limits. The ISO determined that allowing bilateral
5 trades across Capacity Zones and External Interfaces can be implemented within
6 the current vertical demand curve design because the vertical demand curve offers
7 a defined quantity threshold that can govern CSO Bilateral acceptance.

8 Accordingly, the ISO is submitting the Rule Changes to provide additional
9 flexibility in the trading of Capacity Supply Obligations through CSO Bilaterals.

10 **Q: PLEASE DESCRIBE THE RULE CHANGES IN SECTION III.13.5.1.**

11 A: For resources other than Import Capacity Resources, the Rule Changes add the
12 desired flexibility in the rules for CSO Bilaterals by deleting Section III.13.5.1 (f)
13 of the Tariff. For Import Capacity Resources, the additional flexibility can be
14 implemented starting on April 1, 2015.⁶ For that reason, Section III.13.5.1 (g)
15 has been modified to state that “[p]rior to April 1, 2015, if the Capacity Acquiring
16 Resource is an Import Capacity Resource, then the Capacity Transferring
17 Resource must be an Import Capacity Resource on the same external interface.”
18 (Emphasis added). On April 1, 2015, Section III.13.5.1 (g) will sunset and,
19 starting on that date, the restriction in that Section will no longer apply.
20 Accordingly, Import Capacity Resources, like other resources, will be able to
21 enter into CSO Bilaterals across Capacity Zones and external interfaces starting
22 on April 1, 2015.

⁶ The rest of the Rule Changes can be implemented on the requested effective date, which is described in Section V of this transmittal letter.

1 **Q: ARE ANY OTHER CHANGES TO PROVISIONS RELATED TO CSO**
2 **BILATERALS BEING MADE?**

3 A: Yes. The Rule Changes in Section III.13.5.1.1.3 also allow netting of annual
4 CSO Bilaterals within the ISO’s reliability review process. Specifically, language
5 is being added in that section to provide that the ISO will review the net impact of
6 all annual CSO Bilaterals to ensure that the regional and local adequacy and other
7 reliability needs are maintained in the Capacity Transferring Resource’s Capacity
8 Zone and the Capacity Acquiring Resource’s Capacity Zone or, in the case of
9 Import Capacity Resources, across the external interface. If after its review of the
10 net impact of all annual CSO Bilaterals the ISO determines that the regional and
11 local adequacy and other reliability needs are not maintained, the ISO will
12 approve or reject CSO Bilaterals based on the order in which they are confirmed.⁷
13 Hence, the priority to transfer capacity before CSO Bilaterals are constrained by
14 adequacy and reliability limits will be given starting with the earliest confirmed
15 CSO Bilateral based upon its confirmation timestamp.

16 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

17 A: Yes.

18

⁷ The current rule for monthly CSO Bilaterals is that they will be approved based on the order in which they are confirmed. The Rule Changes do not modify that rule and, to make that clear, the words “and for all monthly Capacity Supply Obligation Bilaterals” are being added in Section III13.5.1.1.3.

1 I declare under penalty of perjury that the foregoing is true and correct.

2

3 Executed on October 27, 2014

4

5

6  Christopher A. Parent

7 Manager, Market Development

8

1 I declare under penalty of perjury that the foregoing is true and correct.

2

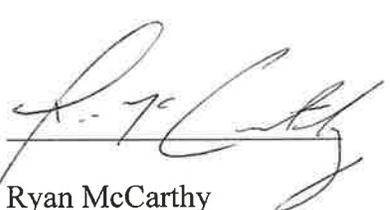
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4

5

6 Ryan McCarthy

7 Lead Analyst, Market Development

A handwritten signature in black ink, appearing to read "Ryan McCarthy", is written over a horizontal line. The signature is cursive and somewhat stylized.

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