SECTION III

MARKET RULE 1

APPENDIX C

AUCTION REVENUE RIGHTS AND INCREMENTAL ARRs

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AUCTION REVENUE RIGHTS AND INCREMENTAL ARRs

III.C.1 Introduction.

Auction Revenue Rights ("ARRs") are rights to receive FTR Auction Revenues from the sale by the ISO of FTRs other than FTRs sold by FTR Holders. Incremental ARRs are rights to receive FTR Auction Revenues associated with transmission system upgrades, as provided in Section III.C.8. ARRs shall be determined and allocated to Congestion Paying LSEs, Transmission Customers and NEMA LSEs (including any of the foregoing that are parties to Excepted Transactions that are included in the list of transactions specified in Attachments G and G-2 of the Transmission, Markets and Services Tariff), using a four-stage process as described below (the "ARR Allocation"). Congestion Paying LSEs that are Asset Related Demands or Dispatchable Asset Related Demands will receive ARR allocations based on the specific relevant Node for each Asset.

Auction Revenue Rights are determined at the completion of each month to distribute the net FTR Auction Revenues (which excludes FTR Auction Revenues attributable to FTRs sold at auction by FTR Holders) associated with that month, including a monthly share of all net revenues from annual FTR Auctions that include that particular month based on the number of days in the month divided by the number of days in the year, and including the net auction revenues from all monthly auctions for FTRs effective for that particular month. The ARR determination for revenues associated with annual on-peak or off-peak FTR Auctions shall be based on the auction prices resulting from the specific annual on-peak or off-peak auction. The ARR determination for revenues associated with monthly on-peak FTR Auctions shall be based on the auction prices in the final on-peak auction for the month. The ARR determination for revenues associated with monthly off-peak FTR Auctions shall be based on the auction prices in the final off-peak auction for the month.

III.C.2 First Stage ARR Allocation

III.C.2.1 Excepted Transactions.

In the first stage of each ARR Allocation, each entity serving load to which energy is delivered or making an External Transaction sale pursuant to an Excepted Transaction included in the list of transactions specified in Section II.41 of Section II of the Transmission, Markets and Services Tariff, and which is the party responsible for paying Congestion Cost associated with energy purchased under the Excepted Transaction shall have the option to be allocated ARRs from the generator to the location of the load or

External Node. Alternatively, each seller delivering energy pursuant to an Excepted Transaction to an entity serving load or making an External Transaction sale and in which the seller is the party responsible for paying Congestion Cost associated with energy purchased under the Excepted Transaction shall have the option to be allocated ARRs from the generation source to the location of the load or External Node. For an Excepted Transaction which is not an External Transaction, if the party responsible for paying the Congestion Cost associated with energy purchased under the Excepted Transaction does not elect to be allocated ARRs under Section III.C.2.1, then the ARRs associated with the destination Node(s) of the load served by such Excepted Transaction shall be allocated pursuant to Section III.C.2.2.
The party responsible for paying the Congestion Cost associated with energy purchased under an Excepted Transaction which is an External Transaction will retain its existing contract rights for physical scheduling of such transaction pursuant to Section II of the Transmission, Markets and Services Tariff until such party irrevocably elects to be allocated ARRs under this Section III.C.2. Such irrevocable election shall mean that the party may not revert to using its contract rights for physical scheduling. For an Excepted Transaction which is an External Transaction purchase, the party may request to be allocated ARRs, prior to each FTR Auction, either pursuant to Section III.C.2.1 or pursuant to Section III.C.2.2. For an Excepted Transaction which is an External Transaction, if the party responsible for paying the Congestion Cost associated with energy purchased under the Excepted Transaction does not elect to be allocated ARRs under Section III.C.2.1, then the ARRs associated with the destination Node(s) of the load served by such Excepted Transaction shall be allocated pursuant to Section III.C.2.2. For an Excepted Transaction which is an External Transaction sale, ARRs will be allocated pursuant to Section III.C.2.1.

III.C.2.1.1 Requesting Allocation of First Stage ARRs for Excepted Transactions.

In order to be eligible to receive ARRs in association with an Excepted Transaction, each entity to which energy is delivered pursuant to an Excepted Transaction or which delivers energy pursuant to an Excepted Transaction must request that it be allocated ARRs pursuant to this Section III.C.2.1 and in accordance with the ISO New England Manuals and ISO New England Administrative Procedures prior to each FTR Auction.

III.C.2.1.2 Specification of First Stage ARRs for Excepted Transactions.

The first stage ARR Allocation to an entity serving load to which energy is delivered or making an External Transaction sale pursuant to an Excepted Transaction who makes such a request shall be equal to the number of megawatts of energy to be delivered to that customer under the Excepted Transaction. The origin Node(s) or External Node(s) for those ARRs shall match the generation source for any such

Excepted Transaction and the destination Node(s) for those ARRs shall match the location: (i) of the load served by those Excepted Transactions or (ii) of the External Node if the Excepted Transaction is an External Transaction sale. The first stage ARR Allocation to an entity selling energy to an entity serving load or making an External Transaction sale to which energy is delivered pursuant to an Excepted Transaction who makes such a request shall be equal to the number of megawatts of energy to be delivered by that selling entity under the Excepted Transaction. The origin Node(s) or External Node(s) for those ARRs shall match the generation source for any such Excepted Transaction and the destination Node(s) for those ARRs shall match the location: (i) of the load served by those Excepted Transactions or (ii) of the External Node if the Excepted Transaction is an External Transaction sale. Each entity shall be entitled to make requests for ARRs under the terms of this section until the Excepted Transaction has terminated, or ten years from the SMD Effective Date, whichever is earlier.

III.C.2.2 Transmission Customers and Congestion Paying LSEs.

ARRs shall be allocated to each Congestion Paying LSE and Transmission Customer from each generating Resource and tie line source in proportion to the capacity of the generator and tie line source and in proportion to the loads in the network model for the FTR Auction for the period being settled.

The generator or tie line source and load associated with each Excepted Transaction shall be reduced by the MW quantity of the Excepted Transaction. The determination of the first stage ARR Allocation to Transmission Customers and Congestion Paying LSEs shall be performed using the following formula:

$N_{ijt} = G_{it} * (L_{jt}/L_t)$,

where:

N_{ijt} = the amount of ARRs from Node or External Node i to Node or External Node j for the period being settled t;

G_{it} = the total rated capacity for month t of generators or the capacity during period t of tie line capacity located at Node i;

L_{jt}= the load at Node j from the network model used for the FTR Auction for period t, updated as appropriate, less any portion of that load which is associated with Excepted Transactions as described above; and

L_t = total load from the network model used for the FTR Auction for period t, updated as appropriate, less any portion of that load which is associated with all Excepted Transactions as described above.

The total quantity of ARRs assigned to load pursuant to this Section III.C.2.2 in period *t* shall be:

$$\sum_i \sum_j N_{ijt}$$

III.C.3 Second Stage of ARR Allocation

III.C.3.1 In General.

The amount of ARRs allocated to each entity in the first stage of each ARR Allocation may be modified in the second stage of that ARR Allocation. The second stage of each ARR Allocation shall determine the final allocation of ARRs to all ARR Holders for that FTR Auction, except for NEMA LSEs. Allocations of ARRs to NEMA LSEs may be modified in the third and fourth stages of the ARR Allocation for each FTR Auction.

III.C.3.2. The Second Stage Allocation Procedure.

The second stage of each ARR Allocation shall be performed using the following procedure, which will be adjusted on an annual and monthly basis to account for changes in available transmission capacity, load ratio shares, and the termination or expiration of Excepted Transactions. The ISO shall make such adjustments in accordance with the allocation methodology described below, in the ISO New England Manuals and in the ISO New England Administrative Procedures. For each FTR Auction:

Step 1: Begin with the combination of all ARRs included in the first-stage ARR Allocation described in Section III.C.2.

Step 2: Determine a value for each ARR using the on-peak or off-peak auction prices, as applicable, pursuant to Section III. C.1.

Step 3: Through the following steps, eliminate ARRs having a negative value in the FTR Auction and then reduce the set of remaining ARRs defined in Step 1 proportionately on a per megawatt of constraint impact basis as necessary to arrive at a set of ARRs that is simultaneously feasible in a contingency constrained dispatch.

3(a): Identify all ARRs determined in Step 1 that receive a positive value (in $/MW) in the FTR Auction.

3(b): Test whether the ARRs identified in Step 3(a) are simultaneously feasible.

3(c): If the ARRs identified in Step 3(a) are simultaneously feasible, go to Step 4.

3(d): If the ARRs identified in Step 3(a) are not simultaneously feasible, calculate the pre- and post-contingency power flows associated with dispatching the system to honor the ARRs defined in Step 3(a).

3(e): Identify the constraint whose relief would require the largest proportionate reduction in all of the ARRs defined in Step 3(a) that increase flows over that constraint. Reduce proportionately on a per megawatt of constraint impact basis all ARRs defined in Step 3(a) that increase flows over this constraint until the constraint is relieved.

3(f): Test whether the ARRs identified in Step 3(e) are simultaneously feasible. If the set of ARRs defined in Step 3(e) is simultaneously feasible, proceed to Step 4.

3(g): Otherwise, calculate the pre- and post-contingency power flows associated with dispatching the system to honor the ARRs defined in Step 3(e).

3(h): Identify the constraint whose relief would require the largest proportionate reduction in all of the ARRs defined in Step 3(e) that increase flows over that constraint. Reduce proportionately on a per megawatt of constraint impact basis all ARRs defined in Step 3(e) that increase flows over this constraint until the constraint is relieved.

3(i) Repeat Steps 3(f) through 3(h) as necessary until a simultaneously feasible set of ARRs is obtained.

3(j) If as a result of the application of Steps 3(e) through 3(i) any of the constraints over which ARRs were reduced in Steps 3(e) through 3(i) is no longer binding, ARRs defined in Step 3(a) that have been reduced in Steps 3(e) through 3(i) and do not exacerbate any binding transmission constraint would be proportionately scaled up until a transmission constraint becomes binding.

The allocation process ends here if NEMA is not constrained and the ARRs allocated at the conclusion of Step 3(j) constitute the final allocation of ARRs.

Step 4. The ARR Allocation determined in the preceding steps shall be divided into two sets: ARRs allocated to entities that are not NEMA LSEs, and ARRs allocated to NEMA LSEs.

III.C.4 Third Stage of ARR Allocation

III.C.4.1 In General.

The ARRs allocated to NEMA LSEs, as determined in the first two stages of each ARR Allocation, may be modified further in the third and fourth stages of the ARR Allocation. The third and fourth stages of

any ARR Allocation shall not change the amount or origin Nodes or External Nodes or destination Nodes of any ARRs allocated to entities that are not NEMA LSEs as of the conclusion of the second stage of that ARR Allocation.

III.C.4.2 Definition of Stage 3 ARRs.

For the purposes of this stage, a set of "Stage 3 ARRs" shall be defined as follows: Certain NEMA LSEs which have long-term purchase contracts in effect as of November 1, 1999 for generation resources with delivery points in NEMA, excluding long-term purchase contracts covered by Excepted Transactions, ("NEMA Contracts") shall be allocated Stage 3 ARRs.

III.C.4.2.1 Verification of NEMA Contracts.

The NEMA Contracts for these NEMA LSEs' respective generation resources and entitlements, which entitle them to Stage 3 ARRs subject to verification that the NEMA Contracts meet the criteria specified in Section III.C.4.2, are listed in ***Exhibit 1*** to this Appendix C. Each NEMA LSE listed in ***Exhibit 1*** shall provide by October 1, 2000 to the ISO and shall make available upon request to each NEMA LSE, copies of its NEMA Contract(s) in the form that such contracts existed as of November 1, 1999, together with copies of any subsequent modifications or amendments, any notices of termination, and any notices or elections shortening the term or reducing the amount of power to be purchased under its NEMA Contract(s). For as long as a NEMA LSE listed in ***Exhibit 1*** has a right to request Stage 3 ARRs, it shall have an ongoing obligation to provide, in a timely manner, each NEMA LSE and the ISO with copies of any further modifications or amendments, any transfers to another entity of the responsibility for paying for the Congestion Cost any notices of termination, and any notices or elections shortening the term or reducing the amount of power to be purchased under its NEMA Contract.

III.C.4.2.2. Specification of Stage 3 ARRs.

The amount of Stage 3 ARRs that will be allocated to each NEMA LSE shall be equal to the sum of the megawatts of entitlement specified in each NEMA LSE's NEMA Contract(s) calculated based on the winter capability period (the period from the beginning of October through the end of May) capacity during months of the winter capability period and the summer capability period (the period from the beginning of June through the end of September) capacity during the months of the summer capability period subject to the limitation that the Stage 3 ARRs allocated to each NEMA LSE shall not exceed that NEMA LSE's Real-Time Load Obligation excluding External Transaction sales at the time of the coincident peak for the New England Control Area for the period being settled. The origin Node(s) or External Node(s) for the Stage 3 ARRs allocated to NEMA LSEs shall match the Node(s) or External

Node(s) where energy was purchased in association with the NEMA Contracts listed in Exhibit 1, and the destination Node(s) for the Stage 3 ARRs allocated to NEMA LSEs shall match the location of the load served by that NEMA LSE in association with that contract.

III.C.4.2.3. Requesting Allocation of Stage 3 ARRs for NEMA Contracts.

The NEMA LSEs identified in ***Exhibit 1*** to this Appendix C shall be entitled to make requests for Stage 3 ARRs under the terms of this section until the earlier of the expiration of the term of each of its NEMA Contract(s) in effect as of November 1, 1999, but excluding any optional extensions which had not been exercised as of November 1, 1999, or until NEMA is no longer constrained. To the extent that such a NEMA LSE transfers to another entity the responsibility for paying for the Congestion Cost resulting from the NEMA LSE's NEMA Contract, the entity assuming such responsibility shall receive the entitlement to the NEMA LSE's Stage 3 ARRs in lieu of the NEMA LSE receiving that entitlement.

III.C.4.3. The Third Stage Allocation Procedure.

The third stage of each ARR Allocation shall be performed using the following procedure, which will be adjusted on an annual and monthly basis to account for changes in available transmission capacity, load ratio shares, reductions in or resale of purchase amounts under NEMA Contracts, and the termination of the NEMA Contract(s) or expiration of the term of the NEMA Contract(s) in effect as of November 1, 1999, but excluding any optional extensions which had not been exercised as of November 1, 1999. The ISO shall make such adjustments in accordance with the allocation methodology described below, in the ISO New England Manuals and in the ISO New England Administrative Procedures.

Step 1: Begin with the set of all Stage 3 ARRs.

Step 2: Through the following steps, eliminate Stage 3 ARRs having a negative value in the FTR Auction and then reduce the set of remaining Stage 3 ARRs proportionately on a per megawatt of constraint impact basis as necessary to arrive at a set of ARRs that is simultaneously feasible in a contingency constrained dispatch.

2(a): Identify all ARRs determined in Step 1 that receive a positive value (in $/MW) in the FTR Auction. Then add the set of all non-NEMA ARRs as determined in Step 4 of Stage 2 to the remaining Stage 3 ARRs.

2(b): Test whether the ARRs identified in Step 2(a) are simultaneously feasible.

2(c): If the ARRs identified in Step 2(a) are simultaneously feasible, go to Step 3.

2(d): If the ARRs identified in Step 2(a) are not simultaneously feasible, calculate the pre- and post-contingency power flows associated with dispatching the system to honor the ARRs defined in Step 2(a).

2(e): Identify the constraint whose relief would require the largest proportionate reduction in all of the Stage 3 ARRs defined in Step 2(a) that increase flows over that constraint. Reduce proportionately on a per megawatt of constraint impact basis all Stage 3 ARRs defined in Step 2(a) that increase flows over this constraint until the constraint is relieved.

2(f): Test whether the ARRs identified in Step 2(e) are simultaneously feasible. If the set of ARRs defined in Step 2(e) is simultaneously feasible, proceed to Step 3.

2(g): Otherwise, calculate the pre- and post-contingency power flows associated with dispatching the system to honor the ARRs defined in Step 2(e).

2(h): Identify the constraint whose relief would require the largest proportionate reduction in all of the Stage 3 ARRs defined in Step 2(e) that increase flows over that constraint. Reduce proportionately on a per megawatt of constraint impact basis all Stage 3 ARRs defined in Step 2(e) that increase flows over this constraint until the constraint is relieved.

2(i) Repeat Steps 2(f) through 2(h) as necessary until a simultaneously feasible set of ARRs is obtained.

2(j) If as a result of the application of Steps 2(e) through 2(i) any of the constraints over which ARRs were reduced in Steps 2(e) through 2(i) is no longer binding, ARRs defined in Step 2(a) that have been reduced in Steps 2(e) through 2(i) and do not exacerbate any binding transmission constraint would be proportionately scaled up until a transmission constraint becomes binding.

Step 3. Remove the non-NEMA ARRs. The remaining ARRs will be the ARRs for the NEMA Contracts.

III.C.5 Fourth Stage of ARR Allocation Procedure

III.C.5.1 In General.

The fourth stage of the ARR Allocation shall determine the final allocation of ARRs for a given FTR Auction. The fourth stage shall only affect the allocation of ARRs to NEMA LSEs.

III.C.5.2 Definition of "Stage 4 ARRs".

For the purposes of this step, a set of "Stage 4 ARRs" shall be defined. The determination of the fourth stage ARR Allocation to NEMA LSEs shall be performed using the following formula:

$$N_{ijt} = A_{ijt} * X_{jt}$$

where:

N_{ijt} = the amount of Stage 4 ARRs from Node or External Node *i* to the load at NEMA Node *j* (from the network model used for the FTR Auction) for the period being settled *t*;

A_{ijt} = the amount of ARRs from Node or External Node *i* to NEMA that had been allocated to the load at NEMA Node *j* for period *t* as of the conclusion of the second stage of the ARR Allocation; and

X_{jt} = the ratio of load at NEMA Node *j* from the network model used for the FTR Auction for period *t*, less any portion of that load which is associated with NEMA Contracts as described above, to the total load at NEMA Node *j* from the network model used for the FTR Auction for period *t*.

III.C.5.3 The Fourth Stage Allocation Procedure.

The fourth stage of each ARR Allocation shall be performed using the following procedure, which will be adjusted on an annual and monthly basis to account for changes in available transmission capacity, load ratio shares, reductions in purchase amounts under NEMA Contracts, and the termination of the NEMA Contract(s) or expiration of the term of the NEMA Contract(s) in effect as of November 1, 1999, but excluding any optional extensions which had not been exercised as of November 1, 1999. The ISO shall make such adjustments in accordance with the allocation methodology described below, in the ISO New England Manuals and in the ISO New England Administrative Procedures.

Step 1: Begin with the set of all Stage 4 ARRs.

Step 2: Through the following steps, eliminate Stage 4 ARRs having a negative value in the FTR Auction and then reduce the set of remaining Stage 4 ARRs proportionately on a

per megawatt of constraint impact basis as necessary to arrive at a set of ARRs that is simultaneously feasible in a contingency constrained dispatch.2(a): Identify all ARRs determined in Step 1 that receive a positive value (in $/MW) in the FTR Auction. Then add the set of all non-NEMA ARRs and all ARRs for NEMA Contracts to the remaining Stage 4 ARRs.

2(b): Test whether the ARRs identified in Step 2(a) are simultaneously feasible.

2(c): If the ARRs identified in Step 2(a) are simultaneously feasible, go to Step 3.

2(d): If the ARRs identified in Step 2(a) are not simultaneously feasible, calculate the pre- and post-contingency power flows associated with dispatching the system to honor the ARRs defined in Step 2(a).

2(e): Identify the constraint whose relief would require the largest proportionate reduction in all of the Stage 4 ARRs defined in Step 2(a) that increase flows over that constraint. Reduce proportionately on a per megawatt of constraint impact basis all Stage 4 ARRs defined in Step 2(a) that increase flows over this constraint until the constraint is relieved.

2(f): Test whether the ARRs identified in Step 2(e) are simultaneously feasible. If the set of ARRs defined in Step 2(e) is simultaneously feasible, proceed to Step 3.

2(g): Otherwise, calculate the pre- and post-contingency power flows associated with dispatching the system to honor the ARRs defined in Step 2(e).

2(h): Identify the constraint whose relief would require the largest proportionate reduction in all of the Stage 4 ARRs defined in Step 2(e) that increase flows over that constraint. Reduce proportionately on a per megawatt of constraint impact basis all Stage 4 ARRs defined in Step 2(e) that increase flows over this constraint until the constraint is relieved.

2(i) Repeat Steps 2(f) through 2(h) as necessary until a simultaneously feasible set of ARRs is obtained.

2(j) If as a result of the application of Steps 2(e) through 2(i) any of the constraints over which ARRs were reduced in Steps 2(e) through 2(i) is no longer binding, ARRs defined in Step 2(a) that have been reduced in Steps 2(e) through 2(i) and do not exacerbate any binding transmission constraint would be proportionately scaled up until a transmission constraint becomes binding.

Step 3. The remaining ARRs constitute the final allocation of ARRs. Holders of ARRs in this allocation shall be deemed ARR Holders.

III.C.6 Distribution of FTR Auction Revenues

Each ARR Holder shall be entitled to receive a monthly share of FTR Auction Revenues (excluding FTR Auction Revenues attributable to FTRs sold at auction by FTR Holders) from each FTR Auction. FTR Auction Revenues are determined by the value of each auctioned FTR as described in Section.7.3.6. FTR Auction Revenues shall not include the value of FTRs sold by FTR Holders, corresponding to its ARRs, whether or not such specific FTRs are actually sold. The determination of the FTRs awarded in each FTR Auction shall be subject to a simultaneous feasibility test in accordance with Section III.7 of Market Rule 1. The amount of feasible FTRs available in the FTR Auction (and the corresponding FTR Auction Revenues and payments to ARR Holders and Incremental ARR Holders) will vary depending on transmission system conditions as modeled. Incremental ARR Holders, described in Sections III.C.1and III.C.8, shall be entitled to receive a monthly share of the FTR Auction Revenues reflecting the incremental value of such transmission upgrade, as determined in accordance with Section III.C.8.

Following the distribution of FTR Auction Revenues for Incremental ARR awards, the ISO shall distribute the remaining monthly share of the FTR Auction Revenues. The distribution of FTR Auction Revenues is described below:

Step 1: For a specified destination Node, the amount of ARRs (quantified in megawatts) received in the final allocation of ARRs with specified origin Nodes or External Nodes and such destination Node shall be multiplied by the difference in the clearing prices determined in that FTR Auction for the same origin Nodes or External Nodes and such destination Node as the ARRs.

Step 2: A dollar value shall be allocated to each Load Zone. The dollar value to be allocated to each Load Zone shall be calculated by summing Step 1 over all of the Nodes in the Load Zone.

Step 3: A dollar value shall be allocated to each Asset Related Demand and Dispatchable Asset Related Demand within a Load Zone (excluding station service and pumps), which is settled at a Node and are not included in the Load Zone's Real-Time Load Obligation. The allocation is calculated using the dollar value of the ARRs for the specific Node

associated with each Asset Related Demand and Dispatchable Asset Related Demand. The allocated dollar values are then subtracted from the dollar value previously allocated to the Load Zone in Step 2.

Step 4: The dollar value calculated in Step 2 for each Load Zone, as adjusted by any allocation to Asset Related Demands and Dispatchable Asset Related Demands in Step 3, shall be distributed to each ARR Holder in the Load Zone. The distribution shall honor Excepted Transactions and NEMA Contracts, as appropriate.

The dollar values calculated in Step 3 for each Asset Related Demand and Dispatchable Asset Related Demand in a Load Zone (excluding station service and pumps) shall be distributed to the ARR Holders associated with the Asset Related Demand and Dispatchable Asset Related Demand.

The remainder of the ARR Holder's distribution shall be in proportion to its Real-Time Load Obligation, excluding External Transaction sales, in the Load Zone at the time of the coincident peak for the New England Control Area for the month being settled less adjustments for Excepted Transactions and NEMA Contracts. Since the four-stage ARR Allocation process is not inherently revenue neutral, a proportional adjustment is applied to the auction revenue awards to distribute all available FTR Auction Revenues each month. The proportional adjustment is applied to ARRs awarded in the four-stage ARR Allocation process only.

III.C.7 Monthly ARR Settlement

ARR Holders shall receive a monthly share of FTR Auction Revenues, reflecting a monthly share of annual FTR revenues and the revenues from all monthly FTRs effective for the month being settled. Such monthly share shall reflect Incremental ARR awards, Excepted Transactions, NEMA Contracts, and the ARR Holder's Real-Time Load Obligation excluding External Transactions sales at the time of the coincident peak for the New England Control Area for the month being settled as described in Section III.C.6. The Incremental ARR awards used in the settlement of FTR Auction Revenues shall be prorated in proportion to the amount of incremental network capacity made available in the FTR Auction resulting in the FTR Auction Revenues to be distributed in accordance with Section III.C.8.

III.C.8 Incremental ARR Awards

An entity who pays for transmission upgrades which increase transfer capability on the New England Transmission System, making it possible for the ISO to award additional FTRs in the FTR Auction, shall be awarded Incremental ARRs. Transmission upgrades initially placed in-service on or after March 1, 1997 may qualify for Incremental ARR awards. The amount of any Incremental ARR award shall be specific MW quantities over one or more specific pairs of receipt and delivery points relevant to the upgrade and shall be determined once for each upgrade in accordance with Section III.C.8.1. The MW amount of the award shall reflect the amount of additional network capacity provided by the upgrade, prorated to reflect the entity's funding-share of the transmission system upgrade. An Incremental ARR award will have a value associated with each auction in which incremental network capacity is made available for the first time. The value will be determined by the sets of receipt and delivery points awarded for each Incremental ARR, the MW quantity awarded between each pair of receipt and delivery points, and the market-clearing prices for each pair of receipt and delivery points as determined by the auction. The determination of the sets of receipt and delivery points and the MW quantity associated with each pair, which comprise an Incremental ARR award, shall respect the order of service and study priority established through the Transmission, Markets and Services Tariff and ISO New England System Rules. Once determined, the subsequent valuation of an Incremental ARR depends only on the awarded set of receipt and delivery points and MW quantities, the amount of incremental network capacity made available in the FTR Auction, and on prices resulting from the associated FTR Auction. The Transmission, Markets and Services Tariff and ISO New England System Rules establish an order of both: (i) transmission upgrades eligible for Incremental ARR awards; and (ii) transmission upgrades paid for through the Pool PTF Rate. To the extent that transmission upgrades resulting in new transfer capability are paid for through the Pool PTF Rate, any ARRs associated with the sale of FTRs made possible by such upgrades, other than FTRs sold by FTR Holders, shall be allocated to Transmission Customers and Congestion Paying LSEs in the four-stage ARR Allocation process.

An entity who pays for transmission upgrades, initially placed in-service on or after March 1, 2003, and who requests Incremental ARRs, in accordance with the ISO New England Manuals and ISO New England Administrative Procedures, will be responsible for the cost of any study required to determine such Incremental ARRs.

Incremental ARRs shall be awarded to the entities funding the transmission upgrade at the later of the time the upgrade goes into service or when support payments begin, and shall continue for so long as the entities, or their successors, support the costs of the upgrade (either through up front support payments or periodic installments) or for the life of the upgrade (such as in the case where the upgrade is supplanted

by a planned transmission system improvement published in the ISO's Regional System Plan prior to the upgrade's in-service date, but installed subsequently), if shorter.

All previously granted awards specifically associated with transmission upgrades shall be converted to Incremental ARR awards.

At the time an Incremental ARR award is made, the funding entity must provide documentation to indicate the share of the total transmission upgrade cost the entity is supporting, and whether that share of the transmission upgrade total cost is either fully funded, or funded by ongoing support payments. If funded by ongoing support payments, the documentation must indicate the schedule of remaining support payments. The Incremental ARR Holder must provide, upon request of the ISO, documents confirming that ongoing support payments are being made as required. If adequate confirmation is not provided within 30 days of the ISO request, the associated Incremental ARR Award will be terminated.

Incremental ARR Holders shall not be entitled to receive a share of any excess Congestion Revenue in the Congestion Revenue Fund, nor shall they be required to make payments into the Congestion Revenue Fund when the fund is insufficient to pay positive target allocations to all FTR Holders, as described for ARR Holders in Sections III.5.2.5 and III.5.2.6 of Market Rule 1.

If in any month the monthly FTR Auction Revenues plus the monthly share of annual FTR Auction Revenue for the relevant month are insufficient to provide the full value of the Incremental ARRs, as described in this Section, to the Incremental ARR Holders, the value of all Incremental ARRs for the month shall be prorated in proportion to their full value, such that the prorated value of all Incremental ARRs for the month equals the available monthly FTR Auction Revenues.

Incremental ARRs may be transferred to a Market Participant that is eligible to receive Incremental ARR payments. A request to transfer Incremental ARRs must be submitted by the existing holder at least 30 days prior to the requested transfer date. If the transmission upgrade associated with the Incremental ARR is funded by an ongoing stream of support payments, the transfer request must be accompanied by documentation indicating that the transferee has assumed the obligation to make the continuing support payments.

III.C.8.1 Determination of Incremental ARRS

The ISO will determine a baseline Incremental ARR award to an entity for an eligible transmission system upgrade that will reflect the additional cleared FTR amounts between receipt and delivery points made possible by the upgrade. The baseline award will comprise one or more pairs of receipt and delivery points relevant to the upgrade in the prevailing direction of real-time electrical power flows at the time the determination is performed.

Relevant pairs of receipt and delivery points shall include the complete set of all direct paths (receipt point and delivery point are directly linked by the upgraded facility) and sequential direct paths (receipt and delivery points are linked by a series of contiguous upgraded facilities). Where the upgrade includes several non-contiguous facilities, the complete set of all direct paths may include a number of individual direct paths that cannot be combined into a single sequential direct path. Where the transmission system upgrade increases the transfer capability of a transmission interface, the Incremental ARR shall be determined using receipt and delivery points comprised of the pairs of receipt and delivery points that define the interface.

The Incremental ARR determination is performed assuming all lines in service with no equipment outages and no reductions in equipment or interface ratings. The amounts of the baseline award on the relevant pairs of receipt and delivery points shall be determined by: (1) measuring the maximum FTR that can be cleared using he FTR auction clearing software with the transmission system upgrade included in the modeled network; (2) measuring the maximum FTR that can be cleared in the same manner with the upgrade excluded; (3) calculating the difference in total cleared FTRs over each relevant pair of receipt and delivery points. The increase in cleared FTRs over the relevant pairs of receipt and delivery points becomes the baseline award.

After receiving the baseline award, the entity requesting the Incremental ARR award may request the ISO to provide up to three additional Incremental ARR determination analyses. The ISO shall provide the entity with a list of all qualifying pairs of receipt and delivery points relevant to the upgrade that may be considered. The entity shall then identify for each determination analysis a specific set of pairs selected from the list of qualifying pairs of receipt and delivery points. In each determination analysis, the entity may adjust the MW amounts and bids to be used in the clearing calculations over the qualifying pairs to reflect the entity's preferences and priorities for specific receipt and delivery point pairs in the Incremental ARR award. The ISO shall repeat the award determination analysis for the requested set of relevant pairs of receipt and delivery points, and shall provide the resulting MW awards to the entity. The

entity shall then select the results of either the baseline award or any one of the determination analysis awards to become the final Incremental ARR award.

EXHIBIT 1

NEMA CONTRACTS

NEMA Load-Serving Entity	NEMA Contract Entitlements (Stated by percentages in the case of unit entitlement held on percentage basis, and by megawatts when contract states entitlement in megawatts.)
Danvers	1. Millstone 3 (0.263%) 2. Seabrook (1.112%) 3. Stony Brook Combined Cycle (8.457%) 4. Stony Brook 2A (11.555%) 5. Stony Brook 2B (11.555%) 6. Vermont Yankee (1.080 MW) 7. Hydro Quebec (2.930 MW (winter)) 8. NYPA (2.440 MW)
Georgetown	1. Millstone 3 (0.021%) 2. Seabrook (0.096%) 3. Stony Brook Combined Cycle (0.736%) 4. Stony Brook 2A (1.014%) 5. Stony Brook 2B (1.014%) 6. Vermont Yankee (0.144 MW) 7. System Power (Select Energy) (2.0 MW) 8. Hydro Quebec (0.280 MW (winter)) 9. NYPA (0.620 MW)
Ipswich	1. Millstone 3 (0.061%) 2. Seabrook (0.107%) 3. Stony Brook Combined Cycle (0.293%) 4. Vermont Yankee (0.522 MW) 5. NYPA (1.350 MW)

Marblehead	1. Millstone 3 (0.154%) 2. Seabrook (0.135%) 3. Stony Brook Combined Cycle (2.684%) 4. Stony Brook 2A (1.598%) 5. Stony Brook 2B (1.598%) 6. Wyman 4 (0.279%) 7. Vermont Yankee (0.655 MW) 8. Hydro Quebec (1.040 MW (winter)) 9. NYPA (2.140 MW)
Middleton	1. Millstone 3 (.044%) 2. Seabrook (0.328%) 3. Stony Brook Combined Cycle (0.878%) 4. Stony Brook 2A (1.892%) 5. Stony Brook 2B (1.892%) 6. Wyman 4 (0.101%) 7. Vermont Yankee (0.213%) 8. System Power (NU 10.000 MW, PGET 0.500 MW) 9. Hydro Quebec (0.580 MW (winter)) 10. NYPA (0.600 MW)
Peabody	1. Millstone 3 (0.297%) 2. Seabrook (1.130%) 3. Stony Brook Combined Cycle (13.052%) 4. Vermont Yankee (1.693 MW) 5. Hydro Quebec (3.480 MW (winter)) 6. NYPA (4.860 MW)
Reading	1. Millstone 3 (0.404%) 2. Seabrook (0.635%) 3. Stony Brook Combined Cycle (14.453%) 4. Stony Brook 2A (19.516%)

	5. Stony Brook 2B (19.516%) 6. System Power (NU) (15 MW) 7. Hydro Quebec (5.710 MW (winter))
Wakefield	1. Millstone 3 (0.206%) 2. Seabrook (0.387%) 3. Stony Brook (3.993%) 4. Stony Brook 2A (6.379%) 5. Stony Brook 2B (6.379%) 6. Wyman 4 (0.440%) 7. Vermont Yankee (0.885 MW) 8. Hydro Quebec (1.520 MW (winter)) 9. NYPA (2.230 MW)
Concord	1. Hydro Quebec (0.890 MW (winter))
Groveland	1. System Power (NU) (6.100 MW) 2. NYPA (0.510 MW)
Merrimac	1. System Power (NU) (4.900 MW) 2. NYPA (0.520 MW)
Rowley	1. System Power (NU) (6.700 MW) 2. Hydro Quebec (0.200 MW (winter)) 3. NYPA (0.510 MW)