



ICAP WG Meeting
April 22, 2004

Instability in Locational ICAP Requirements

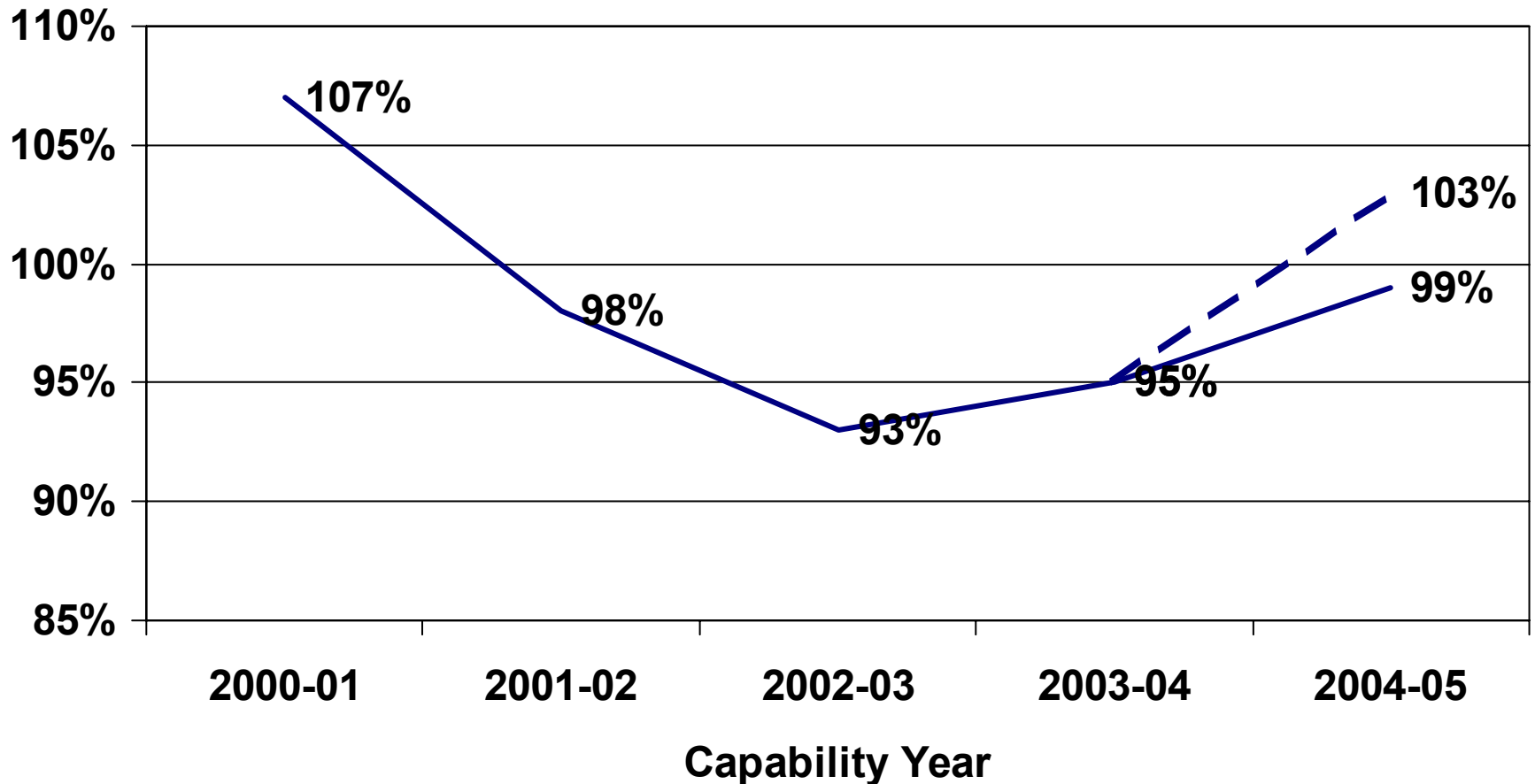
Statement of Issue and Solution

- **Issue:** The variability of ICAP requirements provides inconsistent market signals that make it difficult for market participants to respond.
 - While the current locational rebate mechanisms provide financial relief, they do not resolve the need for good market signals.
- **Scope of Issue:** Has been a issue for Long Island locational requirement, but can occur for Statewide and other Locational requirements
- **Desired Solution:** Provide a mechanism for ICAP requirements to change in a manner that allows the market to respond rationally to changes while not adversely affecting reliability.

Overview of NYISO ICAP Requirements

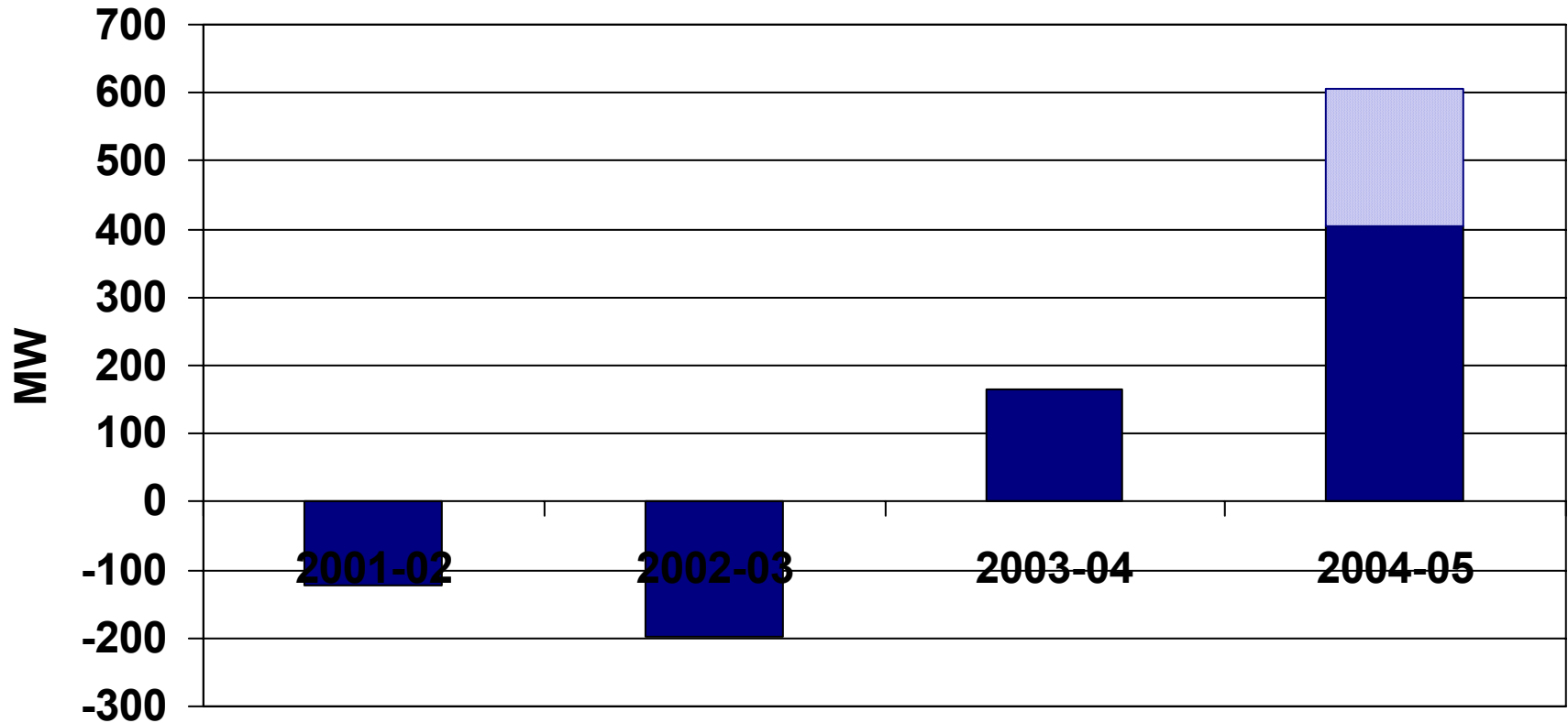
- Statewide ICAP Requirement
 - Developed by NYSRC
 - Statewide ICAP Requirement has been held constant at 118%
- Locational ICAP Requirement
 - Developed by NYISO and approved by Operating Committee
 - Based on same planning assumptions as statewide study
 - New York City Locational ICAP Requirement has been held constant at 80%
 - Long Island Locational ICAP Requirement has changed each Capability Year and has varied from 93% to 107%

Historic Long Island Locational Requirement



Note: 2004-05 locational requirement would have risen to 103% without socialization of Cross Sound Cable

Annual Change in Locational ICAP Requirement on Long Island in MWs



Change from Previous Capability Year

Note: 2004-05 locational requirement would have risen over 600 MW without socialization of Cross Sound Cable

Potential Remedies for Moderating Market Impact

- The NYSRC and NYISO could phase in changes in study assumptions to mitigate shock to market.
- A smoothing mechanism could be developed that would phase in a change to a ICAP requirements that exceeded some threshold level.
- ICAP requirements could be set with a longer lead time for responding to changes (2 to 3 years)