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# FEDERAL ENERGY REGULATORY COMMISSION

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WASHINGTON, D.C. 20426

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## NEWS RELEASE

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### FOR IMMEDIATE RELEASE

June 2, 2004  
Docket Nos. ER03-563-030 and  
EL04-102-000

### COMMISSION DEFERS LICAP IN NEW ENGLAND REGION, ORDERS HEARING ON KEY ISSUES

The Federal Energy Regulatory Commission today deferred implementation of and established hearing procedures for a plan proposed by the New England Independent System Operator (ISO-NE) for locational installed capacity (LICAP). The Commission deferred implementation until January 1, 2006 and ordered a hearing which will provide an opportunity for a comprehensive examination of the issues.

Today's order provides a specific timeline for implementation while allowing participants in New England's constrained areas an opportunity to move forward with the development of needed infrastructure prior to use of LICAP rates, the Commission said.

Installed Capacity obligations are intended to ensure sufficient generation capacity in New England to meet current and long-term needs.

The Commission expressed concern that certain elements of ISO-NE's proposal do not satisfy criteria outlined in a May 6 PJM order, which broadly outlined the Commission's policy addressing reliability compensation issues (EL03-236-000). The Commission said reliance on non-market solutions to resolve reliability compensation issues, and the regions chosen for LICAP may not match the specific areas where capacity is constrained.

Consistent with the reliability compensation policy set in the Commission's May 6 order, the goal in establishing the hearing proceedings is to arrive at a final LICAP market design that will appropriately compensate generators needed for reliability, and attract and retain necessary infrastructure. The Commission directed an initial decision from the presiding judge by June 1, 2005.

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The Commission agreed with two broad concepts in ISO-NE's proposal. The Commission agreed with ISO-NE's concept of a demand curve, but set the matter for hearing to obtain further information necessary to set the limits of the demand curve for each LICAP region. The Commission noted that the use of the demand curve for installed capacity (ICAP) will allow ISO-NE's market design to more closely resemble that of its neighboring ISO in New York – NYISO – and help to eliminate seams issues between the two market regions.

The Commission set for hearing the appropriate methodology for determining capacity transfer limits between ICAP regions and the amount and allocation of capacity transfer rights for the LICAP market.

The Commission also initiated an investigation (EL04-102-000) and paper hearing to determine whether Southwest Connecticut should be an ICAP region unto itself. Because ISO-NE has stated that an ICAP region cannot be a subset of an energy load zone, this investigation and hearing will also determine whether an energy load zone should be established for Southwest Connecticut and whether the energy load zone should be implemented before LICAP is implemented.

At present, the State of Connecticut is one energy load zone. The use of the entire state for installed capacity may result in some customers in Connecticut subsidizing others. The Commission said that there is a "clear record" demonstrating a distinction between reliability in Southwest Connecticut and the rest of the state. The Commission said it is "not convinced" that a single import-constrained area in Connecticut would produce incentives to locate infrastructure in Southwest Connecticut, the location where it is most needed.

Along with deferring the implementation date, the Commission directed ISO-NE to file quarterly reports with updates on the siting, permitting and construction of transmission upgrades, particularly in the designated congested areas.

In the interim, to compensate resources in constrained areas, the Commission will continue the so-called Peaking Unit Safe Harbor (PUSH) bidding mechanism – a means whereby generating units in designated constrained areas may increase their bids in order to recover their fixed and variable costs. In addition, the Commission will consider Reliability Must Run contracts to ensure that market participants are appropriately compensated for reliability services in the short-term.