

MEMORANDUM

From: Dennis Duffy, Energy Management, Inc.
To: Intermittent Resource Working Group; Roger Bacon
Date: June 15, 2006
Re: Capacity Rating of Intermittent Resources Based upon Dual-Season Performances.

I. Introduction and Proposal.

EMI proposes a modification of the Revised Preliminary Straw Proposal to establish a distinct method to determine the Qualified Capacity (“QC”) MW of intermittent resources in the Forward Capacity Auction (“FCA”). We would replace the last full-margined sentence of page one thereof with the following sentence: “The annual amount of Qualified Capacity that can be offered by an IC resource through the FCA primary or secondary actions shall equal the average of the following two seasonal capacity amounts.” The fundamental effect of this provision would be determine the annual QC amount for intermittent resources for purposes of the FCA and ICR in a manner that reflects the contribution of such resources to system reliability over both the winter and summer peak periods.

II. QC rating of intermittent resources to reflect dual-season performance is required by the Settlement.

Our suggested treatment is consistent with the terms of the Settlement Agreement, as well as the intent of the parties, including the working the group formed to address such issue near the close of the settlement process. The fundamental point is that the Settlement Agreement calls for a distinct method for determining the QC of intermittent resources for purposes of the FCA that is based upon both summer and winter output, and not merely summer output, as is the case for other units. With respect to non-intermittent units, Section II.D. of the Settlement Agreement provides for the determination of QC for annual FCA commitments based solely upon summer ratings:

Existing Capacity shall a Commitment period of one year. An Existing Capacity Resource will have a Qualified Capacity for the FCA and annual reconfiguration auctions, except as provided in Part II.D.5, equal to its Summer Seasonal Claimed Capability as adjusted per Part II.D.4 below.

In marked contrast to the summer-only rating method of such Section II.D., the immediately following Section II.E. calls for a distinct method of determining the QC of intermittent resources that expressly reflects both winter and summer performance:

For the Forward Capacity Market, a distinct method shall be developed to determine the Qualified Capacity of wind, solar and run-of-river hydro resources

(“intermittent resources”) in a manner that recognizes contribution to system reliability over the Winter and Summer periods.

Further, the exception clause set forth within Section III.B. of the Settlement Agreement confirms that the GC of intermittent units for ICR purposes was not intended to be set solely by reference to summer ratings: “The ICR purchased shall be based on the Summer Seasonal Claimed Capability. Capacity to meet the ICR shall be based on that Resource’s Summer Seasonal Claimed Capability except for [intermittent] Resources specified in Part ... II.E.”

We believe that the only sensible reading of the foregoing provisions is to develop a method, as we have suggested above, for determining the annual QC of intermittent resources for purposes of the FCA and ICR that reflects both winter and summer contributions to system reliability. The contrary argument, that the ratings of intermittent resources for purposes of the FCA and annual ICR purchases must be based solely upon summer ratings, cannot be reconciled with the foregoing provisions of the Settlement. If that had been the intent of the parties, there would have been no purpose or effect to the central and distinguishing clause of Section II.D. (“in a manner that recognizes contribution to system reliability over Winter and Summer periods”) or to the distinction as to ICR purchases of intermittent resources set forth in Section III.B.

III. Prior documents confirm the intent to use a dual-season performance to determine the QC of intermittent resources.

[REDACTED AS PRIVILEGED AND CONFIDENTIAL PURSUANT TO SECTION 8 OF THE SETTLEMENT AGREEMENT IN ACCORDANCE WITH THE FERC’S RULES OF PRACTICE AND PROCEDURE, THE FEDERAL RULES OF EVIDENCE AND ANY OTHER APPLICABLE RULES OF EVIDENCE]

IV. QC rating of intermittent resources to reflect dual-season performance Remains sound public policy.

All of the public policy rationale for determining the QC of intermittent resources for FCA and ICR purposes by reference to both summer and winter ratings remain equally valid today.

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It should also be noted that a majority of New England load is subject to minimum renewable purchase obligations under RPS programs, which will impose substantial “deficiency charges” to load servers if substantial new sources of renewable generation are not developed and financed.