



For Immediate Release

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ISO New England Working to Address Trend Towards Inefficient and Costly Reliability Agreements

Holyoke, MA – January 5, 2005 – ISO New England Inc., the operator of the region's bulk power system and wholesale electricity markets, today released cost impacts of a new element of the wholesale electricity market that will encourage the investment in new generation at a more reasonable cost than the current market structure.

"Since the introduction of a competitive wholesale market, New England's power supply has grown by 40 percent, creating healthy competition among power plants and, when the cost of fuel is considered, reducing wholesale power costs," said Gordon van Welie, President and CEO of ISO New England Inc.

Today, the market doesn't compensate generators for capacity, and, as a result, many of them are not able to recover their capital costs for capacity. The current market structure allows generators, which are required to ensure reliability, to recoup their capital costs through 'reliability agreements'. The costs of these agreements are likely to double over the next few months and there is a strong likelihood that these costs will continue to increase over the next several years. These agreements, however, do not incent investment in generation at the right location. Without a new market mechanism that encourages investment, New England will face region-wide power system reliability problems within the next 5-7 years, and earlier in high consumption areas, such as, Connecticut and Boston.

Today, ISO New England provided to stakeholders an estimate of the overall cost of this new mechanism as compared to the increasing costs of the reliability agreements. The ISO believes this new mechanism and its related costs are a far better investment in ensuring a reliable power system and efficient wholesale market than the current structure.

"Prior to the introduction of a competitive market in New England, consumers paid for generation capacity. Generation capacity is necessary to ensure electricity is there when and where you need it. The introduction in 2006 of this new market design, called Locational Installed Capacity (ICAP), will restore balance in New England's wholesale marketplace to secure the benefits of competition and a reliable power system," said van Welie. "Although there is uncertainty associated with any forecast, our analysis has revealed that Locational ICAP is a better long-term investment in the region's energy future. Locational ICAP provides a more efficient market signal, and a more reliable indicator of capacity requirements for the long term."

As more transmission system upgrades are completed, allowing for an unconstrained flow of electricity across the bulk power grid, the cost of generation capacity will change and the reliance on reliability agreements will decrease. It is anticipated that, in some cases, the cost of capacity with Locational ICAP will decrease over time, as compared to the expected costs of reliability agreements, as areas of the transmission system are upgraded and new power supplies are developed. In addition, as new investment in generation occurs, inefficient and highly polluting generation will be retired from the marketplace.

ISO New England's analysis shows a range of results, depending on assumptions used in the forecast model. However, the 'mid-range' scenario shows that if reliability agreement costs continue to increase as expected, and the proposed transmission upgrades are timely completed, Connecticut and the Greater Boston area may see a cumulative decrease over a five-year period in projected overall costs. The cumulative decrease will be approximately \$1.00 and \$1.50, respectively, for the average consumer bill in

Connecticut and Greater Boston. For Connecticut the cost ranges from a decrease of \$3.08 a month, to a \$2.50 a month increase for an average consumer bill. Similarly, in Greater Boston, the cost ranges from a decrease of \$3.30 a month, to a \$1.50 a month increase for an average consumer bill. For the rest of New England, with Locational ICAP, capacity costs will no longer be undervalued, and will vary depending on the amount of capacity available in the region.

At the direction of the Federal Energy Regulatory Commission (FERC), ISO New England proposed the Locational ICAP market in March 2004 after nearly 12 months of discussion with the region's stakeholders, including market participants, state regulators and other public officials. In June, the FERC issued an Order largely approving the market enhancement, but establishing a hearing process to finalize elements of the market's design. ISO New England and other interested parties have submitted testimony regarding this proposal over the past few months.

The Administrative Law Judge overseeing this hearing process is expected to issue a decision on the final market design in June 2005. Implementation of the Locational ICAP market is expected in January 2006.

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For more than seven years, ISO New England Inc. has been the not-for-profit corporation responsible for the day-to-day reliable operation of New England's bulk generation and transmission systems with an installed capacity of approximately 32,000 megawatts. In addition to operating the bulk power grid, ISO New England is the administrator of the region's wholesale electricity marketplace and the Open Access Transmission Tariff on behalf of the New England Power Pool.