



press release

For Immediate Release

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## ISO New England Announces Broad Stakeholder Agreement on New Capacity Market Design Action Promotes Investment in Resources That Increase Power Supply and Reduce Power Use

Holyoke, MA—March 6, 2006—ISO New England Inc., operator of the region's bulk power system and wholesale electricity markets, today joined in a final agreement with regional stakeholders to establish a redesigned wholesale electric capacity market that will promote investment in new and existing power resources needed to meet growing consumer demand and maintain reliable electric service for consumers.

The agreement was filed late today with the Federal Energy Regulatory Commission (FERC), which must approve the agreement before it can be implemented. The parties have requested that FERC issue its final ruling by June 30.

"This agreement is a critical step forward in the development of a reliable, efficient power system for the region," said Gordon van Welie, ISO New England President and Chief Executive Officer. "It addresses one of the most significant challenges we face: ensuring there are enough resources to meet New England's growing demand for electricity. Another significant challenge the region faces is the need to implement conservation and retail rate design programs that will incent consumers to reduce their electricity usage during periods when electricity is most needed. Without a reduction in consumer electricity usage, the need for new energy resources will continue to grow—increasing costs to consumers."

The agreement would establish a Forward Capacity Market (FCM) under which ISO New England would project the needs of the power system three years in advance and then hold an annual auction to purchase power resources to satisfy the region's future needs. These resources include new and existing power plants, alternative energy sources, and demand-response assets.

The FCM model was originally proposed by the six New England states last September and has been the subject of negotiations before a FERC settlement judge that involved numerous stakeholders representing diverse interests, including state officials, utility companies, generating companies, consumer representatives, regulators, and other market participants. Four New England states—

Vermont, Connecticut, Rhode Island, and New Hampshire—signed the agreement. FERC ordered the settlement talks after stakeholders objected to ISO New England's original proposal to create a different market model called the Locational Installed Capacity (LICAP) market.

ISO New England estimates the first forward capacity auction could be held as early as December 2007 with the resources being paid roughly two and one-half years later—in 2010. If resources purchased in the auction are not available during power system emergencies, they will fail to earn their full payments.

The agreement also includes a multi-year transition mechanism that will compensate new and existing resources in the interim period between December 2006 and May 2010. All New England power resources will receive a set payment to ensure fair compensation for the role they play in maintaining regional reliability. These transition payments are lower than those that would have been likely during the same period under the LICAP proposal approved by a FERC administrative law judge.

Because FCM prices will be subject to market forces, the agreement does not include cost estimates for the auction. van Welie stated that these costs are impossible to predict for a number of reasons, chiefly because it isn't possible to predict the outcome of an auction.

van Welie also noted it is worthwhile for the states to take action now to help manage wholesale costs. Namely, the states can foster conservation programs and retail rate designs to incent consumers to reduce electricity use, which will help decrease wholesale prices by slowing down the growth in demand and the need for new resources. The states can also encourage local utilities to protect against any short-term fluctuations in wholesale costs through long-term contracts for power supplies, which help to stabilize prices over time.

“We are pleased that an overwhelming majority of stakeholders recognize that this plan will advance the goal of building a reliable power system for New England's consumers and its economy,” van Welie said. “We must promote investment in existing and new power resources to meet future electricity needs, and we believe this plan will accomplish that objective. The status quo is a costly option that provides the least benefit for consumers.”

The reliability of the New England power system faces a significant threat due to a diminishing and aging pool of resources. While electricity use continues to grow—it would take the addition of one new power plant per year to keep pace with demand—investment in new supply has slowed down. ISO New England estimates that as early as 2008, the region may have insufficient supplies to meet its electricity needs. The FCM is designed to spur the investment needed to ensure a reliable supply of electricity throughout New England.

Because electricity cannot be stored, New England needs enough power plants and other resources to meet peak demand on the hottest and coldest days of the year. A functioning capacity market recognizes the value of having assets that can meet the region's needs under all conditions.

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