
FEDERAL ENERGY REGULATORY COMMISSION

WASHINGTON, D.C. 20426



NEWS RELEASE

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FOR IMMEDIATE RELEASE

June 15, 2006
Docket No. ER03-563-000

COMMISSION ACCEPTS SETTLEMENT DESIGNED TO RESOLVE RELIABILITY ISSUES IN NEW ENGLAND REGION

The Federal Energy Regulatory Commission today approved a settlement agreement addressing problems in New England's generation capacity market. The settlement attempts to resolve protracted litigation and "bring a needed measure of stability," the Commission said.

In today's order, the Commission found the settlement agreement is a "just and reasonable outcome consistent with the public interest" and should "resolve the deficiencies in New England's existing capacity market." The agreement is the product of a series of more than 30 formal settlement conferences over a four-month period overseen by a Commission administrative law judge. Of 115 parties involved in the settlement proceedings, all but eight parties supported the settlement in whole or part.

"This agreement will allow New England to move forward and enhance the reliability of its wholesale power markets," Commission Chairman Joseph T. Kelliher said. "Reliable and affordable electricity supplies require infrastructure, and this approach should provide the right signals to investors to develop that important infrastructure."

Under the settlement agreement a forward capacity market (FCM) will be implemented instead of the contested locational installed capacity (LICAP) mechanism proposed two years ago by ISO-New England, the region's independent power grid system operator.

The Commission has long been concerned about the adequacy of capacity resources in the New England region. The Commission initiated these proceedings to address compensation problems involving generation facilities that are necessary for system reliability, but unable to secure sufficient revenues in the market.

“Both the FCM and the interim transition mechanism will provide the revenues needed by generators to keep them in operation to preserve reliability,” the Commission said. “The forward looking nature of the FCM will provide appropriate price signals to investors when new infrastructure resources are necessary with sufficient lead time to allow that infrastructure to be put in place before reliability is sacrificed.”

The FCM establishes annual auctions for capacity. Capacity resources eligible to participate include traditional generating resources as well as renewable resources and demand-side resources. The capacity will be sold on a per-megawatt of deliverable capacity basis. The Forward Capacity Auctions (FCAs) will procure capacity three or more years ahead, thus allowing for a planning period for new entrants and allowing potential new capacity to compete in the auctions. The commitment period is for one year, corresponding to the ISO-New England power year – a twelve-month period beginning June 1 and ending the following May 31. FCM includes a locational mechanism to establish separate zones for capacity when transmission constraints are found to exist.

The FCAs are designed as “descending clock” auctions. Bidding will begin at a price which is twice the Cost of New Entry (CONE) established in the settlement agreement. Following the first auction, subsequent CONEs will be mathematically determined, based on the preceding CONEs and the clearing price of the preceding auction.

FCM allows load-serving entities (LSEs) to self-supply through their own resources or contracted resources, thus an LSE can meet its capacity obligations, subject to the same performance obligations as other resources, without participating in the FCAs.

The settlement also provides for a transition period until June 1, 2010, which marks the start of the first period in which suppliers would receive payments under the FCA mechanism.

LICAP, proposed in March 2004, was intended to assure sufficient electric generation capacity to supply system peak load under all contingencies. LICAP addressed localized scarcity of generation capacity resources within New England and sought to accommodate differing needs in the region.

After a September 2005 oral argument in these proceedings, at which parties were given the opportunity to provide alternatives to LICAP, the Commission gave the parties an opportunity to hold settlement talks in an attempt to reach agreement on an alternative proposal to LICAP. Providing the opportunity to develop a workable solution was consistent with section 1236 of the Energy Policy Act of 2005, which encouraged the Commission to “carefully consider” alternative regional views regarding LICAP.

The Commission noted that although the settlement was a contested filing, the agreement “resolves all of the outstanding issues in a difficult, contentious and lengthy matter,” which contributed to the Commission’s decision that the settlement “is consistent with the public interest,” today’s order said. “The Settlement Agreement represents difficult compromises among the diverse parties that, if found to be just and reasonable, should be honored.”

R-06-39