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DEPARTMENT OF PUBLIC UTILITY CONTROL

OFFICE OF CONSUMER COUNSEL

NEWS RELEASE

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Today, the State of Connecticut, represented by the Department of Public Utility Control (Department), and the Office of Consumer Counsel (OCC) (collectively the Connecticut Parties) joined with several Massachusetts parties, in filing briefs with the Federal Energy Regulatory Commission (FERC) asking that the FERC consider more effective, lower cost alternatives to the ISO New England's Locational Installed Capacity (LICAP) charge proposal.

ISO New England, the operator of New England's electric grid, asked the FERC to approve a LICAP plan which provides monetary incentives to electric power plant owners/generators for building generation in the region. If implemented, LICAP will cost electric utility ratepayers in Connecticut and across New England approximately 13 billion dollars over a five-year period without guaranteeing any benefit to those ratepayers because generators are not obligated to build any additional generation or provide any additional services. In fact, there is nothing to prevent generators from spending the money to expand their operations outside of New England or to pay the money out as dividends to their shareholders.

The Department and the OCC have vigorously opposed the ISO New England's LICAP plan because it suffers from numerous fatal flaws that will assure that it fails to produce benefits to customers throughout New England, and particularly in Connecticut, providing extremely excessive windfall profits for the plant owners, drastic rate increases to consumers, and potentially causing great economic harm to the New England region. Moreover, New England currently has more than enough generation to meet its needs. In Connecticut, the LICAP plan is purely punitive during the first few years as no new generation is likely to be built in the congested areas because the present transmission system cannot hold more than a small amount of additional electric generation.

The FERC originally ordered that LICAP charges go into effect on January 1, 2006. Congress, through a resolution in the recently-enacted energy bill, requested that the FERC consider the objections of the New England Governors that the LICAP plan was too expensive and came with no assurances that it would result in improved electric reliability. The FERC has since issued an order stating that LICAP will begin, if ever, in October 2006 and has requested that parties in the LICAP proceeding present information to the FERC about more effective, lower cost alternatives to ISO New England's LICAP plan.

The purpose of today's brief is to ask the FERC to reopen the matter and consider an alternative proposal developed by Connecticut and Massachusetts, as well as one previously offered by Connecticut during the FERC LICAP proceeding. In their brief, the Connecticut Parties present the framework for a plan that they believe is better than the ISO New England's LICAP plan. Unlike the ISO New England plan which pays all existing generators administratively-determined prices and places no obligation on them to build additional plants, provide additional services, the CT Parties' proposal provides that prices be set by a competitive auction, procures only the amount of generation needed to serve reliability, and places an obligation on generators to perform.

Donald W. Downes, CT DPUC chairman, noted that "If LICAP is enacted, the cost estimates are staggering. Over a five-year period, New England's electric utility ratepayers will assume an additional $12.8 billion in payments. Of that amount, Connecticut's electric utility customers will incur an additional $525.8 million in year one and that figure will continue to rise to more than $874 million in year five, in total more than $3.6 billion over five years. This is for a plan that provides no customer benefit and cannot work in Connecticut until new transmission lines are built that provide additional capacity needed to install any significant additional generation. Moreover, the plan does not require that the funds be used for improvements or upgrades to the generating facilities.

"If the FERC is determined to mandate a market to pay generators for capacity needed to comply with reliability standards, the Connecticut Parties today have presented the FERC with two alternatives that will cost less than LICAP and are more likely, because they place specific obligations on specific generators to perform, to produce customer benefits."

Consumer Counsel Mary Healey stated that "I am very hopeful that the oral argument at FERC will lead to the re-opening of the LICAP proceeding for a full consideration of alternatives, and applaud the work of Governor Rell's office, of the Connecticut and New England Congressional Delegations and of our many allies in the private and public sector that encouraged FERC to hear all of our concerns. LICAP will create enormous expenses for electric ratepayers with no assurance that power plants will be built as needed in the future. The LICAP 'pay and pray' approach does not tie the very large payments to any tangible results or commitments. It is not appropriate to force ratepayers to provide incentive payments to power companies over the next few years to build power plants, considering that new plants cannot be installed where needed until the proposed transmission lines in Southwest Connecticut are completed.

The right approach, as has been suggested by this office, by the Connecticut Department of Public Utility Control, and many others is to have a competitive, market-oriented bidding process for power plant capacity. Such an approach would be both lower cost and could be structured to foster the development of conservation measures and other innovations as alternatives to traditional power plants."

The Connecticut Parties are scheduled to argue before the FERC against the ISO NE's LICAP plan and for the FERC to reopen the evidence in the proceeding to consider alternatives to the LICAP plan.