
FEDERAL ENERGY REGULATORY COMMISSION



WASHINGTON, D.C. 20426

NEWS RELEASE

NEWS MEDIA CONTACT:

Barbara A. Connors
(202) 502-8680

FOR IMMEDIATE RELEASE

October 21, 2005
Docket No. ER03-563-000

COMMISSION PROVIDES FORUM FOR LICAP SETTLEMENT TALKS, ENCOURAGES DEVELOPMENT OF ALTERNATIVES

The Federal Energy Regulatory Commission today provided a forum for settlement talks to help resolve the long-standing issue of appropriate compensation to secure sufficient electric generation capacity to ensure reliable power supplies in the New England region.

The settlement discussions are intended to give parties the opportunity to develop an alternative to the proposed locational installed capacity program, or LICAP, currently pending before the Commission. In directing the talks, the Commission emphasized that a plan must be in place before demand growth causes regional reliability problems.

“At oral argument held by the Commission last month, there was universal agreement that there is a problem in New England. There was also broad consensus that the Commission needs to act. This order gives the region an opportunity to develop a workable alternative to LICAP. I urge the parties to dedicate themselves to that end and reach a settlement,” Commission Chairman Joseph T. Kelliher said.

By affording an opportunity to develop a workable alternative to LICAP, the Commission is acting consistent with section 1236 of the Energy Policy Act of 2005, which encouraged the Commission to “carefully consider” alternative regional views regarding LICAP, Chairman Kelliher noted.

LICAP, initially proposed in March 2004, is intended to assure sufficient electric generation capacity to supply system peak load under all contingencies in the six-state New England region. LICAP addresses localized scarcity of generation capacity resources within New England and accommodates differing needs in the region through regional price variations.

The Commission today expressed concern that, while demand for power continues to increase, especially in Southwest Connecticut and Northeastern Massachusetts, very

little new generation is being added and the “status quo is failing.”

“The collapse of generation additions and the threat that poses to reliability and just and reasonable wholesale power prices in New England cannot be ignored,” said Chairman Kelliher. “I do not want to see the California crisis visited upon New England, and I do not want to see the Commission criticized for not acting to assure reliability.”

In June 2004, the Commission ordered an administrative hearing to look into a LICAP market design that would appropriately compensate generation facilities needed for reliability purposes. The Commission is currently weighing an administrative law judge’s June 2005 findings on LICAP. The Commission has deferred LICAP implementation until October 1, 2006, at the earliest.

During the administrative hearing, ISO-New England proposed a shortage hours adjustment to the payments that capacity resources would receive under the LICAP mechanism. This adjustment, according to ISO-New England, is intended to take into account the actual availability of each generator in contributing to system reliability during the critical hours of the year. In today’s interim order, the Commission gave ISO-New England 60 days to submit additional detail on its shortage hours proposal for adjusting payments to LICAP generators and material on calculation of the potential cost impact of LICAP.

The settlement discussions will be overseen by a Commission administrative law judge, who will provide periodic reports to the Commission regarding progress in the pending discussions. Any alternatives to LICAP that emerge from the settlement discussions must be submitted to the Commission by January 31, 2006.

Concurrent with the effort to promote development of an alternative to LICAP, the Commission will continue to review the administrative law judge’s initial decision in this proceeding.