
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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ER06-1465-000

COMMISSION DENIES REHEARING OF NEW ENGLAND'S PLANNED FORWARD CAPACITY MARKET; PROPOSED TARIFF ACCEPTED

The Federal Energy Regulatory Commission has taken final action to establish a Forward Capacity Market (FCM) to address deficiencies in New England's generation capacity markets. In a separate order, the Commission approved proposed tariff revisions implementing the transition to the FCM.

Last year, generation capacity additions in New England were only 11 megawatts as peak demand rose by 2,700 megawatts. The region has set electricity demand records in 2005 and 2006 of 26,885 megawatts and 28,130 megawatts respectively. The region's grid operator issued a recent report warning of blackouts unless the region adds 4,800 megawatts of generating capacity and \$3.4 billion in transmission system improvements by the year 2015.

"This order marks final Commission action to help assure that New England has an adequate electricity supply in the future. I commend the parties for entering into this settlement, and taking steps to make sure the region has reliable electricity supplies at a just and reasonable cost. The region acted to prevent a crisis, and for that they should be applauded," Chairman Kelliher observed.

In June 2006, the Commission accepted a settlement agreement establishing the FCM, concluding that, as a package, it provided a just and reasonable outcome consistent with the public interest. The settlement, approved by all but eight of the 115 parties to the proceeding, followed a period of protracted litigation. In the June order, the Commission concluded that the parties objecting to the settlement would "be in no worse position under the terms of the settlement than if the case were litigated."

The agreement called for development of a forward capacity market instead of the contested locational installed capacity (LICAP) mechanism proposed more than two years ago by ISO-New England, the region's independent power grid system operator.

Among the issues addressed in the rehearing order are: (1) the sufficiency and relevance of the record evidence on which the Commission based its conclusions in the June order; (2) the justness and reasonableness of the transition mechanism; (3) the locational feature of the FCM; (4) the Commission's jurisdiction to approve the settlement and the FCM; and (5) the settlement's standard of review for market rules developed under the settlement.

The settlement calls for the Mobile-Sierra "public interest" standard to attach to the tariff revisions governing the transition to the FCM after they are finalized. The Commission concluded that "this limited application of Mobile-Sierra is reasonable, especially since those market rules will only be in place temporarily until the FCM begins." With regard to the application of the public-interest standard to other limited portions of the settlement, the Commission also noted that it has on many occasions accepted the public interest standard as applicable to settlement agreements and contracts.

The Commission reiterated that it relied upon a relevant and substantial record in reviewing the settlement. As the Commission noted in its June order, the agreement was the product of a series of more than 30 formal settlement conferences over a four-month period. The Commission also reiterated that it has ample jurisdiction to consider and approve the settlement agreement. The settlement falls under Commission jurisdiction "because it establishes a mechanism and market structure" for pricing interstate capacity at wholesale.

The Commission denied the Maine Parties' request for procedures addressing the transition mechanism, particularly as it applies to Maine. The Commission said it "will not initiate procedures to gather evidence and determine appropriate capacity rates for the interim period for Maine or any other states" affected by the settlement. "[T]he transition rates are an essential element of a package that will establish a capacity procurement mechanism that resembles, quite closely, an alternative to the LICAP proposal presented by the Maine Parties" at the September 2005 oral argument before the Commission.

In a related order, the Commission accepted the proposed tariff revisions designed to implement the settlement's transition mechanism, which will be in place during the period of December 1, 2006, through June 1, 2010. During the transition period, fixed payments will be made to all installed capacity resources.

The proposed market rules terminate the existing Installed Capacity (ICAP) market and replace it with the transition mechanism. The proposal is "just and reasonable and consistent with the Settlement Agreement," the Commission said. "The proposed rules represent a just and reasonable transition to the FCM for the region as a whole."

The Commission addressed concerns regarding adjustment to transition payments

based on the locational forward reserve market revenues. The Commission noted that in its June order, it had directed ISO-NE to carefully observe locational forward reserve markets and FCM markets and file any necessary corrections. “[T]he process of making adjustments to locational forward market offers may be not be a perfect solution, given the size of the estimated impact and the size of the locational forward reserves market,” the Commission said, but “it represents a just and reasonable proposal that will give generators the opportunity to recover appropriate revenues.”

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