



State of Connecticut

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DEPARTMENT OF PUBLIC UTILITY CONTROL

NEWS RELEASE

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Connecticut Parties Sign Sweeping Settlement to Resolve LICAP

A number of Connecticut parties – including the Department of Public Utility Control and the Office of Consumer Counsel – today signed a comprehensive agreement to establish a new auction market system for electric capacity.

Also agreeing to the sweeping settlement are the Connecticut Light and Power Co., the United Illuminating Co., and the Connecticut Municipal Electric Energy Cooperative (CMEEC).

The settlement agreement, which was negotiated over four months among 100 parties under the auspices of a federal administrative law judge, would replace the locational installed capacity (LICAP) scheme that the Federal Energy Regulatory Authority (FERC) had preliminarily approved.

“This settlement provides more reliability for the power system at far less cost to Connecticut ratepayers than LICAP would have done,” said DPUC Chairman Donald Downes.

Consumer Counsel Mary Healey said the agreement is a plus for consumers. “Given what Connecticut ratepayers were facing under the original FERC LICAP proposal, \$1.7 Billion in additional costs with no guarantees they would receive the power and reliability they were supposedly paying for, this settlement brings immediate, tangible savings as compared to LICAP and will significantly improve Connecticut’s electric reliability picture by making generators and alternate power suppliers accountable for delivering on their promises to provide power to the state at reasonable rates through a newly designed, competitive auction system.”

Also joining the settlement, which provides a cheaper and more reliable alternative to LICAP are other New England utility regulators, other regional

consumer representatives, electric utilities, power plant owners and the Independent System Operator for New England (ISO-NE).

The agreement, which remains preliminary pending final review by the Federal Energy Regulatory Commission (FERC), includes measures to guarantee electric generating plants will be available when they are most needed and penalized when they fail to meet that need.

Consumer Counsel Healey said the “settlement is a significant achievement reflecting a great effort by many parties throughout New England and will positively improve Connecticut’s energy picture by addressing serious flaws in the existing wholesale market rules that had a costly and inequitable effect on Connecticut ratepayers.”

This new market mechanism will meet New England’s needs for reliable electric power at the lowest reasonable price. The settlement resolves a three-year dispute over how to ensure that power plant owners will build enough new plants to meet peak power requirements and will replace old, inefficient plants that cannot respond at times of peak power usage. This settlement provides an opportunity to take action without further delay to fix the market for capacity in New England which was not working effectively.

If approved by FERC, this innovative forward procurement market will be implemented instead of ISO-NE’s original LICAP plan. The new system will use a competitive auction market that will compensate power plants only when they meet their commitment to be available three years in the future. If FERC rejects the settlement it will automatically approve LICAP, effectively doubling the cost.

This auction will allow new plants and demand reduction measures (measures that a customer can use to reduce his own usage at peak hours), to compete with older plants in the auction. LICAP, by contrast, used a non-competitive price-setting mechanism and required consumers to compensate more plants with more money than actually would be needed for system reliability.

FERC reopened settlement talks after opposition to LICAP from Governor Rell, Connecticut’s congressional delegation and other New England elected officials.

The forward-looking nature of the new market means that it will not be fully implemented until about 2010. During this transition period, the settlement provides for fixed, New England-wide capacity payments. These transition payments, beginning on December 1, 2006, will be about half of the projected LICAP costs for that same period.

LICAP Settlement Fact Sheet

- * Net Cost to Connecticut consumers over four years is estimated at \$800 million, one half of estimated incremental cost of LICAP.
- * There will be only one price zone for all of New England during interim, with two price zones in Connecticut unlikely long-term. LICAP would have required two price zones.
- * LICAP electricity prices will be the same for all six New England states.
- * Ratepayers will not be obligated to buy excess capacity that may be produced. In addition, only electric capacity actually needed will be purchased; LICAP would have required 15% more capacity to be purchased.
- * Generators will be available during times of greatest need, especially during peak periods of demand. No guarantee of that with LICAP.
- * Poorly performing power plants which are unavailable to run will be excluded from the auction, providing incentives for building new plants to build where they are needed.
- * Competitive auction process will determine prices with plants bidding against each other to provide power.
- * For a residential customer whose average bill is currently \$100/month we expect the increase to be approximately \$4.50/month.