



## Market Info

# Capacity and Locational Forward Reserves

## Frequently Asked Questions

### CAPACITY

#### **Q: What are Capacity costs?**

A: They are costs assigned to every customer in New England as a consequence of a Federal Energy Regulatory Commission (FERC) decision aimed at ensuring the adequate availability of electricity generation in the region's future. Capacity costs will be assessed as of October 1, 2006, will be set by existing Unforced Capacity (UCAP) auction until November 30, 2006 and shall be set (see Transition prices below) until May 31, 2010.

#### **Q. Would I have incurred these costs if my business was being served by the utility?**

A. Yes, if your business had remained with the utility you would also incur these Capacity costs.

#### **Q: How will my account be affected by Capacity?**

A: Capacity prices are set through May of 2010, on a schedule as follows:  
October 1, 2006 until November 30, 2006, UCAP prices will be established by auction. After that date, Transition prices will come into effect, accordingly:

December 1, 2006 to May 31, 2008 - \$3.05 per kilowatt  
June 1, 2008 to May 31, 2009 - \$3.75 per kilowatt  
June 1, 2009 to May 31, 2010 - \$4.10 per kilowatt  
Post-May 2010 - set by auction in 2008

This charge is calculated based on your facility's demand during the peak hour of the day with the highest annual demand of the Independent System Operator, New England (ISO-NE) the account distribution loss factor and the system reserve margin.

#### **Q: How is the Capacity cost formula set?**

A: The cost passed through to you will be the product of:

Your Capacity [referred to as your ICAP tag] x Capacity Charge x (1+ system reserve margin) x (1+ account distribution loss factor) = Capacity costs.

Capacity costs will vary by month because the system reserve margin changes on a monthly basis.

A sample calculation for a 1 MW customer is as follows:

$1,000 \text{ kW} \times \$3.05 \times (1+.40) \times (1 + .06) = \$4,526.20$  for one month of Capacity costs.

#### **Q: How is my demand set?**

A: Your demand on the peak day of 2005 is your ICAP tag. Your ICAP tag is what you will be charged with respect to capacity from June 1, 2006 to May 31, 2007. Your demand on August 2, 2006 (which was the peak day of this year) will be billed as of June 1, 2007.

## **LOCATIONAL FORWARD RESERVES**

### **Q: What are Locational Forward Reserves?**

A: In order to ensure electricity generation is built in areas where there are not enough power plants, additional charges, locational forward reserves (LFR) are being levied in four specific zones: SouthWest CT (SWCT), rest of Connecticut (CT), Northeast Massachusetts (NEMA) and Rest of System (ROS). ROS includes New Hampshire, Maine, Western Central Massachusetts Southeast Massachusetts, Rhode Island and Vermont.

### **Q. Would I have incurred these costs if my business was being served by the utility?**

A. Yes, if your business had remained with the utility you would also incur these locational forward reserve costs.

### **Q: How will these charges be determined?**

A: These charges will set by auction. There are two periods for which auctions will occur: i) Winter Period from October through May and ii) Summer Period from June through September. The first auction for the between October 1, 2006 to May 31, 2007 occurred in August 2006. The next auction, in March of 2007, will set prices for the period from June 1, 2006 to September 30, 2007.

### **Q: Is there any sort of cap on Locational Forward Reserve charges?**

A: Yes - Together with the Capacity charges, LFR and Capacity cannot exceed \$14.00 per kilowatt month. The auction results for the Winter Period cleared at the cap for NEMA, CT and SWCT. The auction result for ROS for capacity and LFR was \$4.20/kW-month.

### **Q: When do these charges start?**

A: These charges will be passed through effective as of October 1, 2006.

### **Q: How are the prices set?**

A: ISO-NE calculates the total revenue needed to pay all electricity generators who provide forward reserves for each month. The amounts are determined using the forward reserve auction clearing price, and are then charged to all customers in the system. These LFR prices have now been set for the period from October, 2006 until May, 2007. Depending on your load zone, these prices will range from .05 cents per kilowatt hour to .2 cents per kilowatt hour. The NEMA and Connecticut zones have the highest charges, while the other zones have lower charges.