



**To: CES Customers**

**From: Richard Silkman, Mark Isaacson and Jon Sorenson**

**Re: LICAP ISSUES**

**Date: February 16,2006**

## **CONFIDENTIAL UPDATE – LICAP – 02/16/06**

**For our customers that are not familiar with LICAP or capacity markets in electricity, please take a couple of minutes to read a paper we issued last year in August entitled “Resource-Must-Run Generation, Locational Installed Capacity And Electric Capacity Markets in New England”. This paper will provide you with a good background on LICAP and give you a sense of the potential costs your company might face if it is implemented. You can download this by clicking on it on our web site.**

LICAP continues to be in the news in New England, most recently in regards to legislation introduced in Maine to direct the Maine Public Utilities Commission to conduct a study to determine whether it is in Maine’s best interest to leave the New England Power Pool rather than pay the very high capacity charges being proposed under LICAP. Since this is such an important financial issue for all electricity customers in Maine and throughout New England, we are trying to keep our customers up-to-date through timely updates and informational pieces.

-----

After months of negotiations - under the direction of an Administrative Law Judge from the Federal Energy Regulatory Commission (FERC) - among almost 100 parties in New England – including generators, municipal electric utilities, state public utility commissions and consumers –, a Settlement Agreement was reached on all matters related to capacity markets for New England. The terms of this Settlement Agreement are expected to become public in early March. Until then, rumors circulating indicate that the Settlement Agreement has a number of components including the following most important ones:

- The Settlement Agreement is scheduled to be implemented upon approval from FERC on or about December 2006.
- There will be “interim” capacity charges imposed on all customers in New England (including Maine) of around \$2.50 to \$3.50 per kW month. These initial charges will increase by somewhere between \$1.00 and \$2.00 over a 5 year period. (Please read the above referenced paper for more detail on what these charges mean. For a typical commercial customer, a \$3.00 per kW per month charge represents a cost of approximately 0.8 cents per kWh.)
- A Forward Reserve Market will be implemented, the details of which are not known at this time. (Barring any unforeseen changes in the electric industry in New England, we would expect that the charges that will result from the Forward Reserve Market will be around \$8.00 per kW per month – or approximately 2 cents per kWh. These charges will begin in 2011.)

Not all parties agreed with the Settlement Agreement. In particular, the Maine Public Utilities Commission and a consortium of industrial consumers in Maine (the IECG) opposed the Settlement and refused not sign it. (Of note – the Massachusetts Department of Telecommunications and Energy – its “PUC” – also did not sign on and is opposing the Settlement Agreement.)

We are not sure what will happen with the Settlement Agreement, and specifically whether FERC will seek to impose it on Maine and Massachusetts. The process from here will be:

1. The Settlement Agreement will be finalized and recast as a new set of market rules.
2. It will then be formally filed at FERC for its review and approval.
3. FERC will take written testimony from various parties supporting or opposing the Settlement Agreement and may conduct hearings.
4. FERC will issue a decision – currently anticipated in fall 2006.

### **What does all this mean for you?**

First, you will **not** pay any capacity charges other than what you are already paying in your current contract price through at least the end of 2006. This is a good thing, especially since the price of electricity is so high.

Second, we expect that suppliers will continue to price electricity for their retail contracts with no provision for LICAP or new capacity charges. IF such charges do get implemented by FERC, they will be a pass through to customers, who will then have to pay them to suppliers – or, if they are on the Standard Offer, to the Standard Offer supplier(s).

Third, we continue to recommend that customers do **NOT** execute retail contracts with a LICAP charge built into the price, unless the price with the LICAP charge is less than the prices offered by other suppliers. There continues to be significant political opposition to the imposition of LICAP in Maine that could delay any implementation or result in lower prices. In light of this,

we think it is prudent to purchase retail electricity without a capacity charge – and if one is later implemented, to pay it as a pass through.

Finally – if you have any questions, please give us a call at (207) 772-6190. While we do not claim to be able to predict FERC decisions, we can offer you some guidance about what LICAP charges might be for your accounts if LICAP is ultimately ordered by FERC.

Please also stay abreast of this issue by referring to our periodic updates. We expect to issue our next update when the details of the Settlement Agreement are made public in early March. We will send you an email at that time – or you can always go to our web site and click on LICAP Updates for the latest information available.