Beneficiaries Pay – Why and How Much

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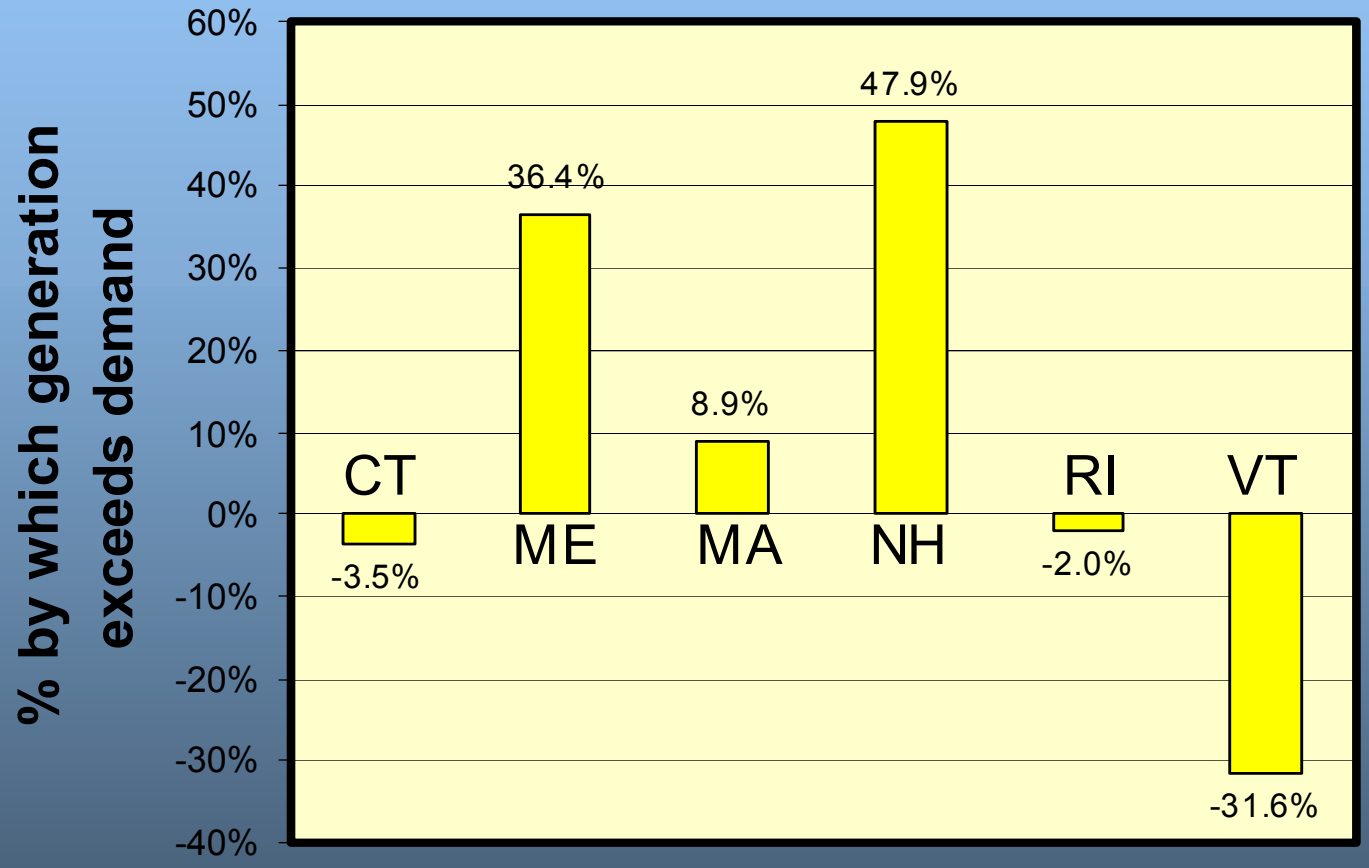
Outline

- Why Should Beneficiaries Pay?
- How Much Should they Pay?
- Why Should We Care?

Why Should Beneficiaries Pay

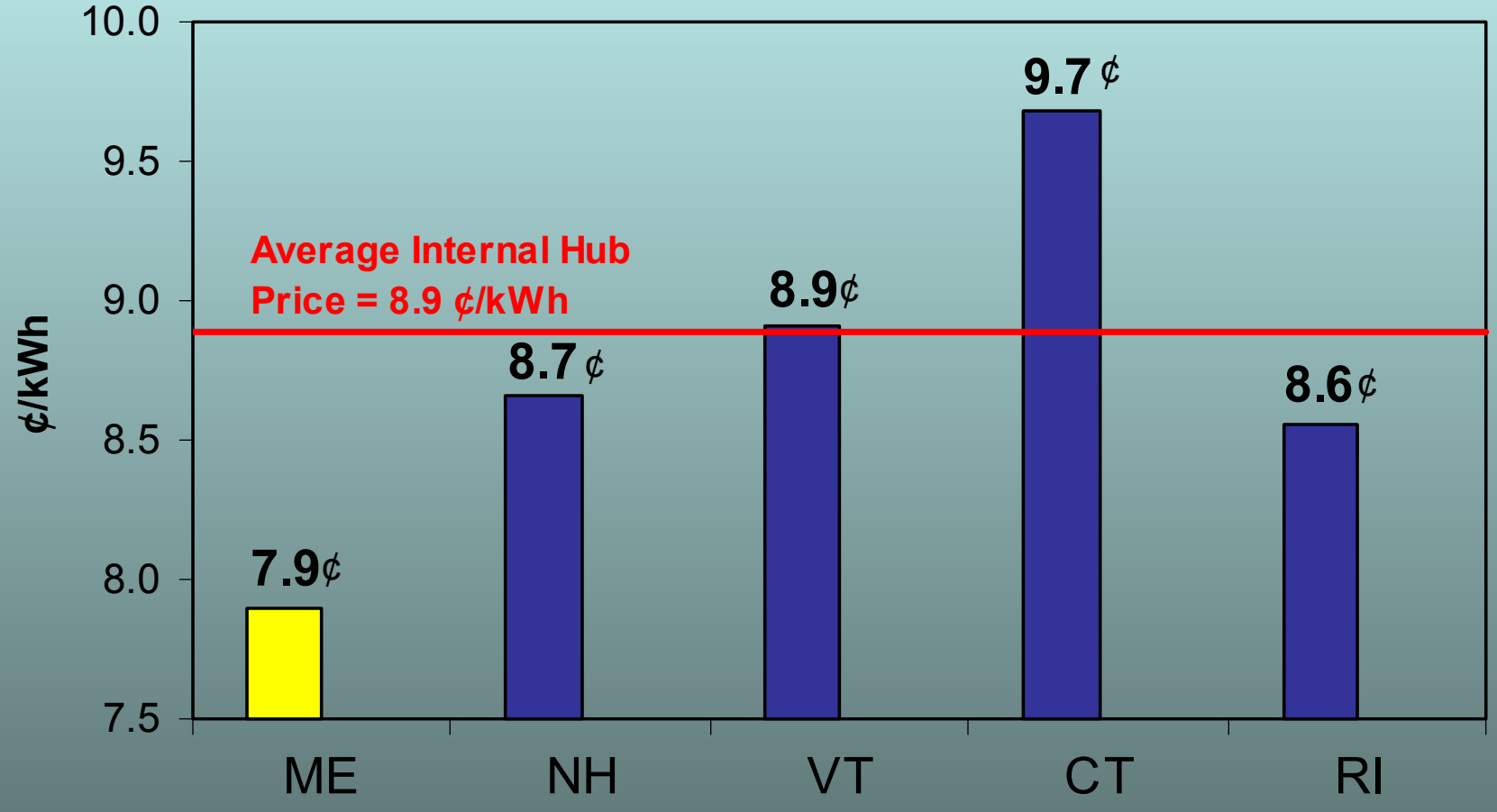
- Resource States and Load States Need Each other
- LMP Provides Incentives for Resource States to Site Generation
- Retail Sales Growth Rates Across New England Indicate that the Relationship between Resource and Load States will Persist
- . . . and the Resources Needed Will Continue to be located in Resource States

Comparison of Generation & Demand in New England by Percentage (2004)

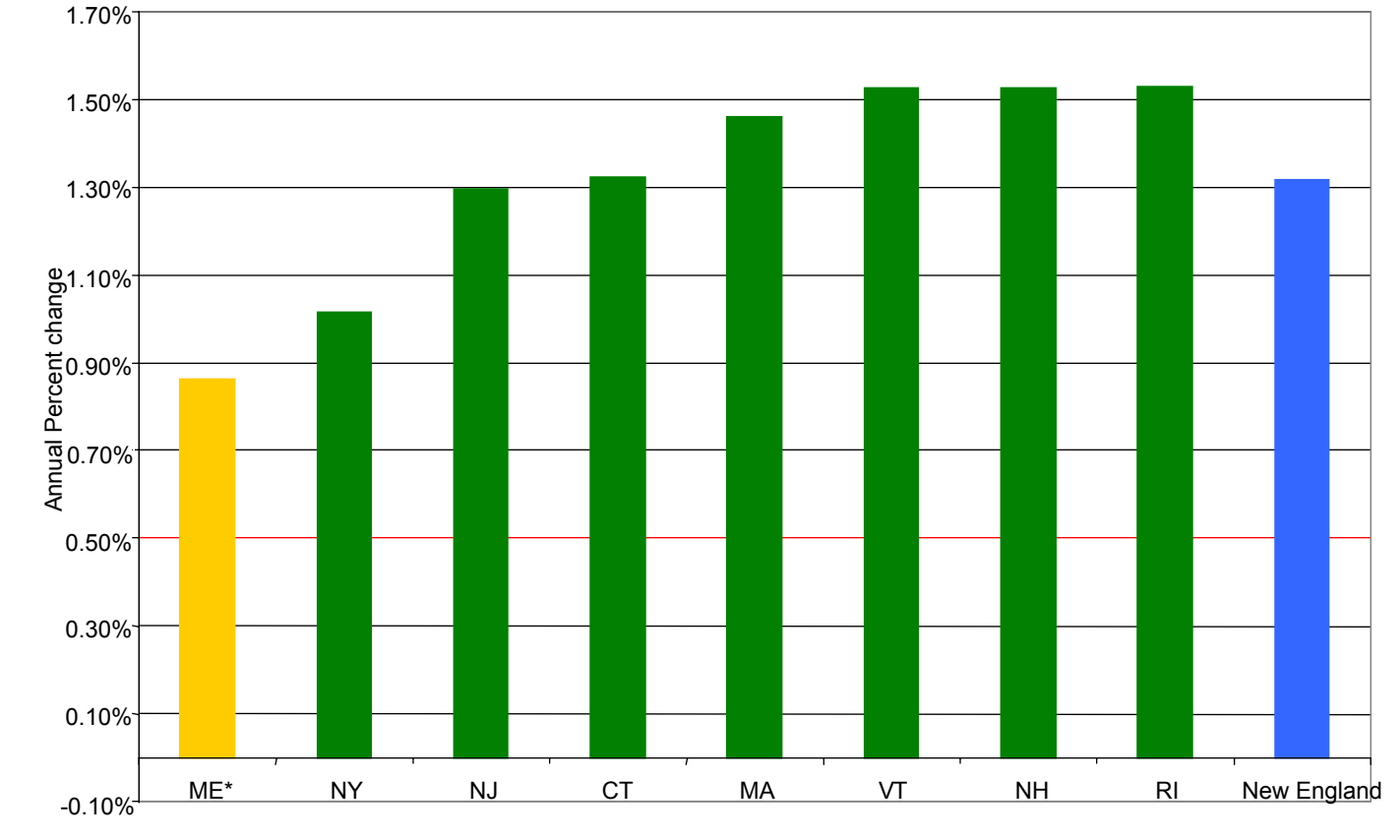


Comparison of Average Day-Ahead Locational Marginal Pricing by Zone

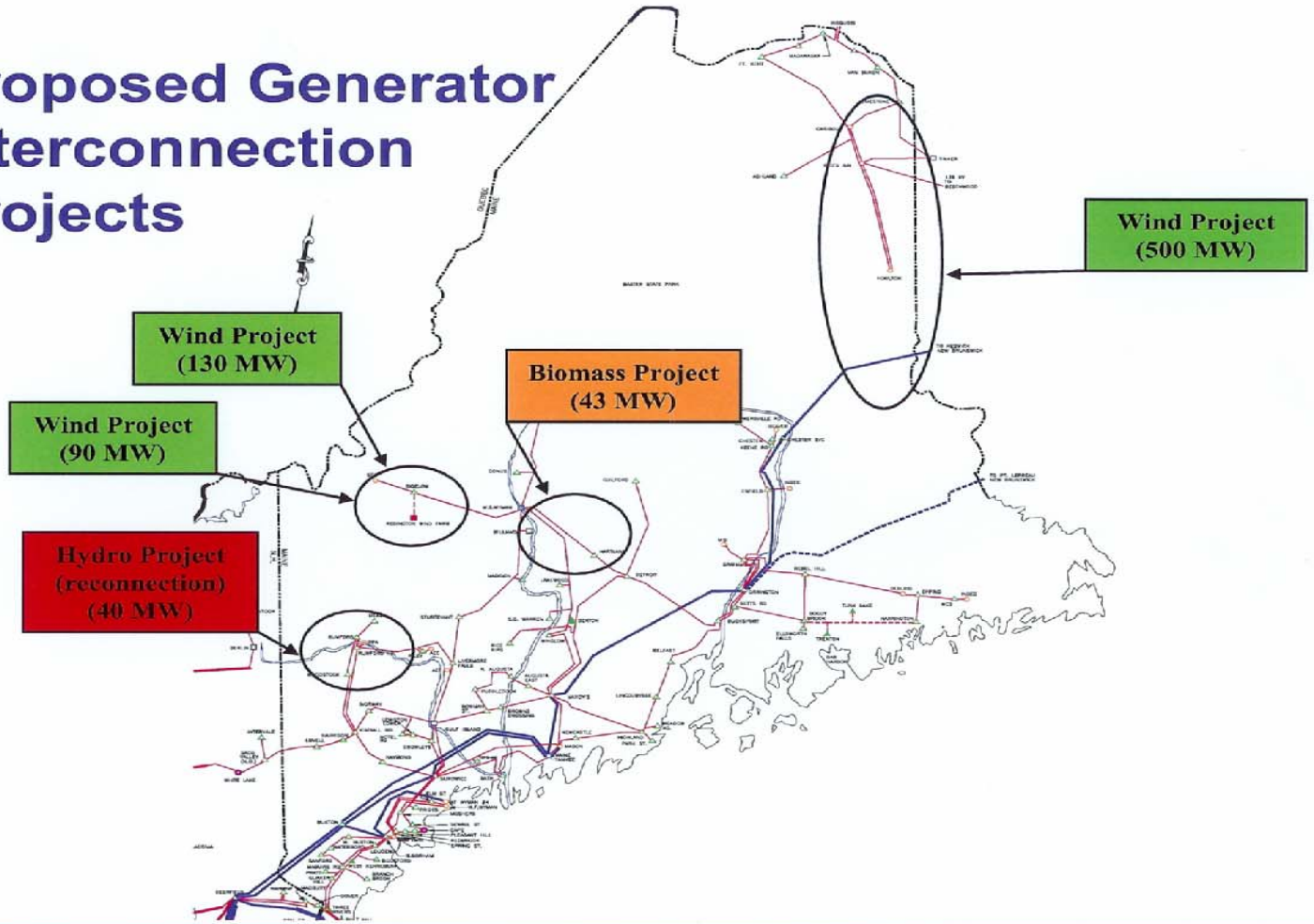
(2005 On-Peak Hours)



Retail Sales Growth in Northeast By State 1990-2005



Proposed Generator Interconnection Projects



Future Load Growth Will Be Served by Remote Generation

- ISO-NE Looks to wind, coal and nuclear

  . . .and Canadian hydro resources.
- Are coal and nuclear resources realistic options in New England?
- Where will new baseload generation be sited in southern New England?
- Load will be served by remote generation.
- Transmission Matters, But Will New England's TCA System Promote Development?

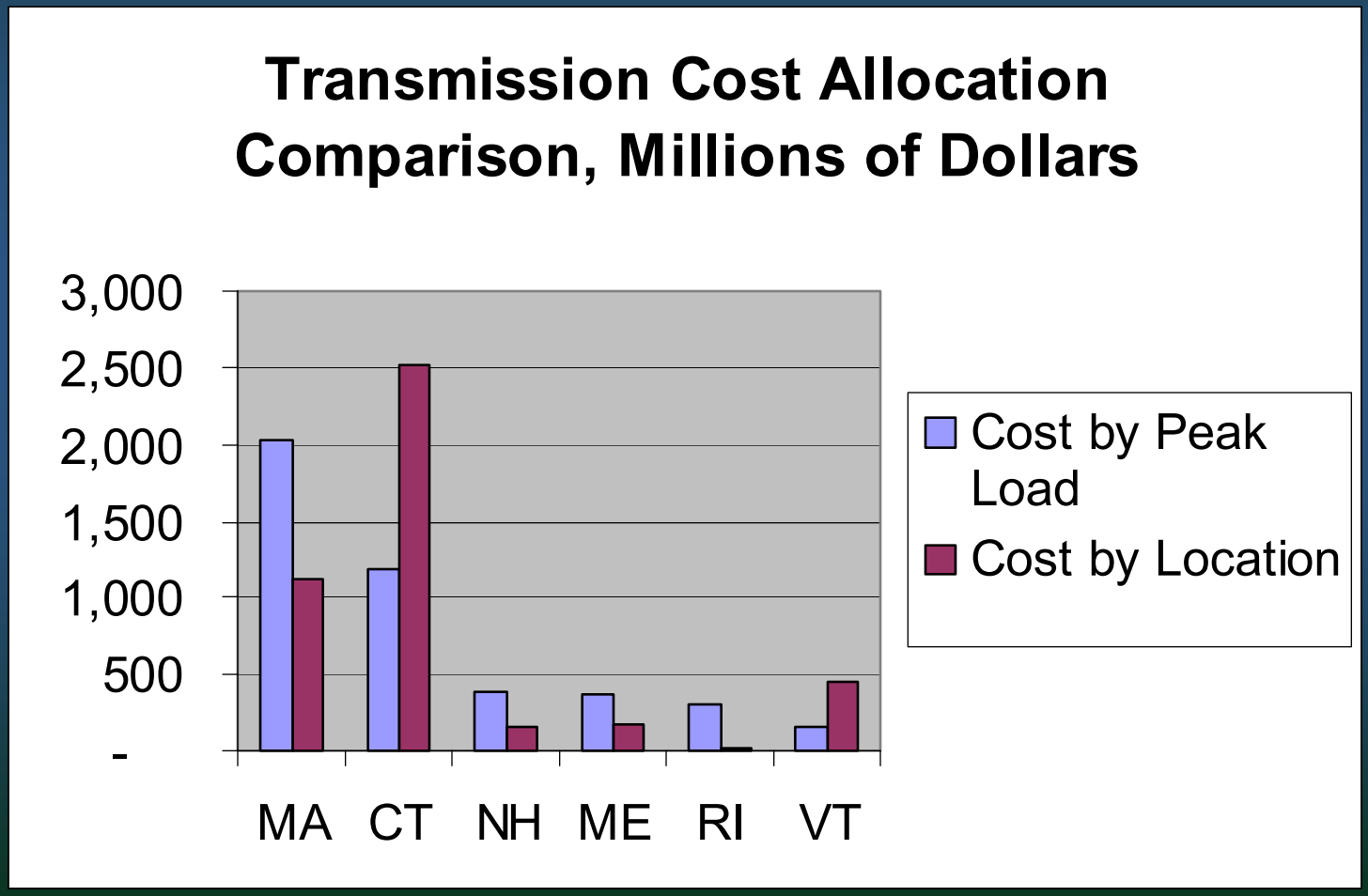
Disincentives to Sourcing Remote Generation

- Transmission cost allocation – digging your own grave
- LMP differential sacrifices
- Decreasing losses
- Why should resource states play?

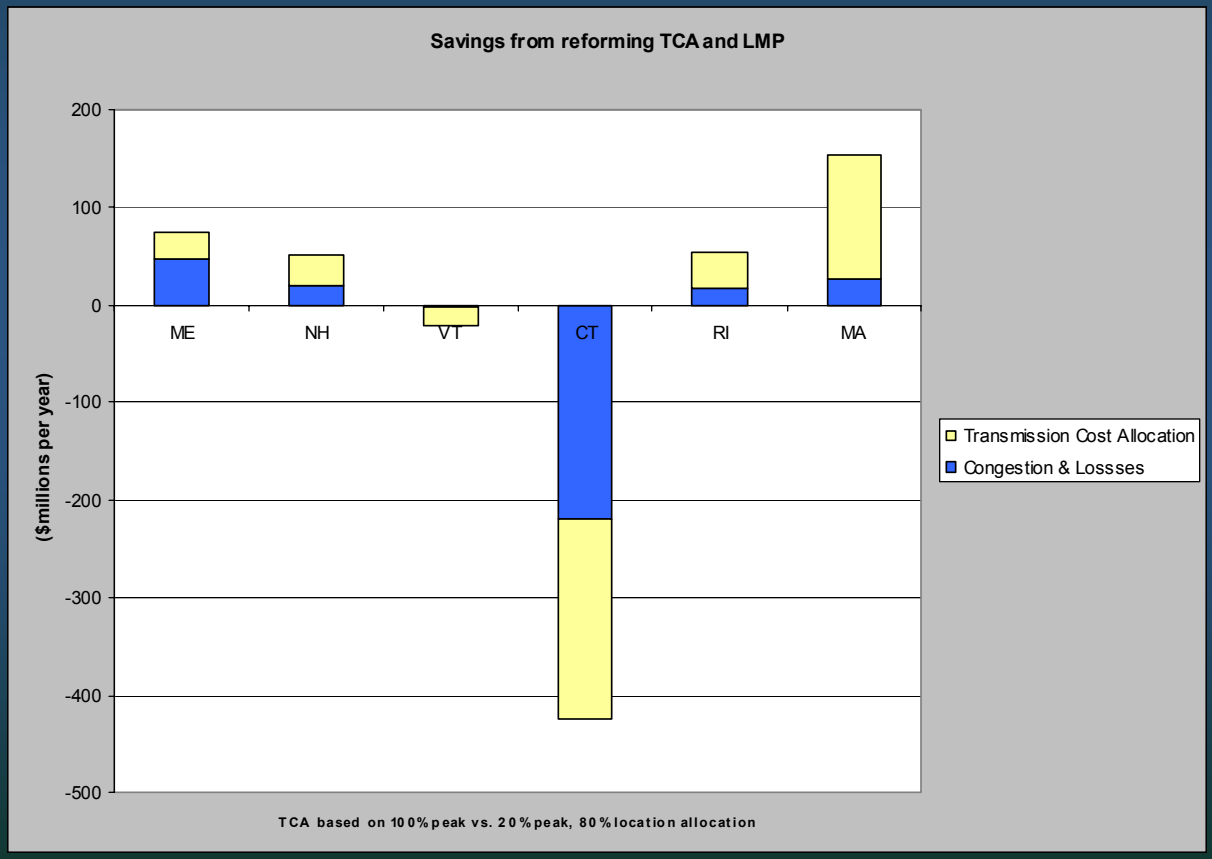
How Much Should they Pay?

- Do all Ratepayers Benefit?
- What about Market Costs?

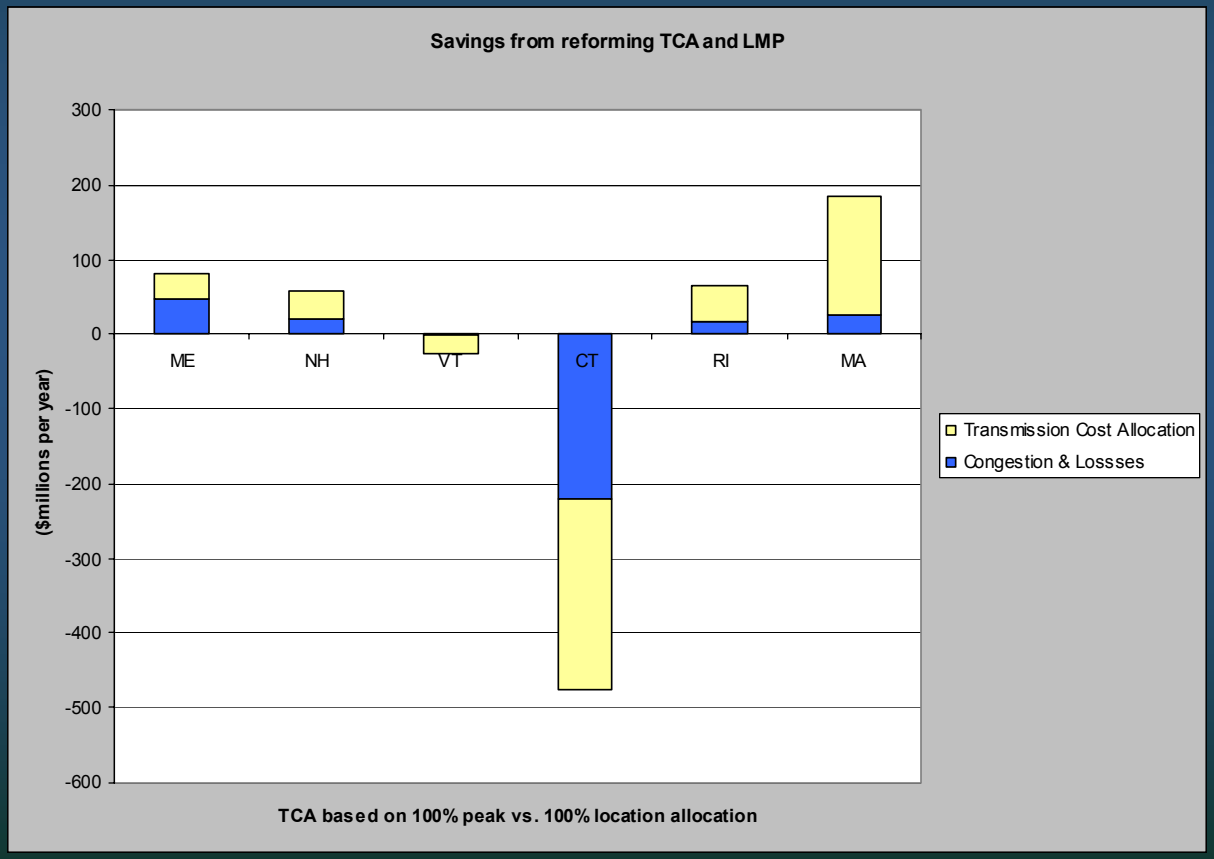
The Current System in New England



Reform Option 1



Reform Option 2



Three Principles for Incentive Regulation for Resource States

1. All costs of new transmission should be allocated to the beneficiaries of those investments.

2. Capacity markets should reflect the value of the "siting resource."

3. Consumers of resource states should be buffered from rate shock resulting from relieving constraints.