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## Industry plan would hike power rates 12%

### Increase is intended as incentive to spur plant construction

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New Englanders would face electric bill increases of 12 percent for the next four years, and undetermined increases after that, under a plan endorsed late

yesterday to promote construction of power plants, officials said.

A hearing officer working for the Federal Energy Regulatory Commission unveiled details of a new industry consensus plan that is likely to be adopted by the commission this spring. The proposal is intended to end years of wrangling among energy companies, utilities, and government regulators over how to generate enough electricity.

Over the next four years, the deal

would impose \$5 billion in added charges on New England homeowners and businesses, a roughly 12 percent premium, according to regional power grid officials. After that, the plan could continue to add undetermined billions every year to New England electric bills, which are already the country's highest.

The higher payments are intended to strengthen economic incentives for companies to build or expand power plants by 2010, but don't guarantee

new construction. Deregulation spawned a glut of power-plant construction in the late 1990s and early 2000s, and the overcapacity drove many plant owners into bankruptcy. Virtually no new power plants are proposed to come on line by decade's end.

Independent System Operator New England, the Holyoke organization that runs the six-state power grid, said the plan is a tough, dose of economic medi-

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## To spur power plants, bills would rise 12%

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cine needed to prevent Third-World-style rolling blackouts that could happen soon as 2008 if electric supplies fail to keep up with demand.

"This plan will advance the goal of building a reliable power system for New England's consumers and its economy," said Gordon van Welie, chief executive of ISO New England. "We must promote investment in existing and new power resources to meet future electric needs, and we believe this plan will accomplish that objective."

Angela M. O'Connor, president of the New England Power Generators Association trade group, agreed that "this settlement will provide investors with the confidence they need to invest in more resources for New England to generate more reliable electricity in the long run."

Also backing the agreement are the 7,000-member Associated Industries of Massachusetts, the state's biggest business lobby, and National Grid, the state's biggest utility, with 1.3 million customers.

But Massachusetts Attorney General Thomas F. Reilly called the plan a "\$5 billion bailout for generators" and vowed to fight the plan before the commission and potentially through lawsuits later. "This plan forces New England and Massachusetts ratepayers to foot the bill for billions in subsidies to power generators with no expectation that new power plants will be built for this money," Reilly said. "In addition, this money will go to certain coal and nuclear power plant owners who are already earning windfall profits."

Caroline Allen, a spokeswoman for NStar, which serves 1.15 million electric customers in Boston and 80 other cities and towns, said NStar will also battle the plan because it would cost customers too much.

Before 1998, most electricity used in New England was generated by utilities that owned their power plants and collected a regulated profit for running them.

As part of industry deregulation and restructuring in Massachusetts and other states, however, regulators turned power generation into a free-market business. They hoped to save billions of dollars and encourage construction of more efficient power plants that would drive utilities' inefficient 1950s coal and oil plants out of business.

That policy largely worked initially. But after inspiring billions of dollars' worth of new, mostly gas-fired plants, a glut of capacity led to a wave of bankruptcies after 2002 among New England power plant owners, including PG&E Corp. and Mirant Corp. Investment dried up and plant construction plans withered, even as regional electric demand kept rising.

ISO New England has worked for years to change market rules to promote plant construction. Last year it had a disputed plan that Reilly and NStar said would have created a \$14 billion generator windfall over five years.

The new plan is called a forward capacity market. As soon as December 2007, ISO New England

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would project how much electricity the region would need three years into the future. Then it would use a free-market auction to attract enough generators to produce the needed power at the lowest possible price.

Until the auction is fully running, however, the plan calls for generators to collect "transitional" payments of \$5 billion over the next four years. Though much lower than last year's plan, the payments are intended to give generators bigger profits so they are encouraged to begin building new power plants before or as the auction system begins in 2010, or to continue operating plants they've been considering closing because they don't make enough money.

After the years of failed negotiations, FERC commissioners have strongly signaled they will enact whatever plan New England electric officials can agree on to stave off rolling blackouts. However, opponents — including Reilly, NStar, and state officials from Maine and Massachusetts — will be able to lobby the commission to reject the ISO plan.

Jackie Barry, a spokeswoman for National Grid, said her company can accept the plan because it is "a significant improvement" over earlier, much costlier plans FERC was poised to adopt. "Our hunt in this debate since its inception has been to protect the interests of our customers" while adopting policies that "will actually bring new generating capacity into the region," Barry said.

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