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NEPGA
NEW ENGLAND POWER GENERATORS ASSOCIATION, INC.

Fact Sheet No. 4:

What Are the Benefits to Customers of a Locational Capacity Market?

Are there benefits for consumers in creating a locational capacity market?

Yes. The locational capacity market proposed for New England is a means of getting new supply in place to meet electric load reliably, and to prevent needed existing generation from retiring. The real question is whether this is more cost effective than having capacity shortages over time (and hence an unreliable power grid).

The costs of poor electric reliability can be huge. New England's technology-based industries and employers rely on a secure source of power. When considering the costs of the capacity market, the real comparison is to the much larger cost of *not* investing in the power system. Power outages both reduce economic activity in the short-run and will send the signal that the region's infrastructure is inadequate to support high tech and high value-added added industries.

What if a part of the New England region has extra capacity? Will it be penalized?

No. Under the locational capacity market proposal, if there is a surplus of capacity in part of the New England grid, then the price there will fall. So consumers in that sub-region will enjoy lower prices.

Would it be cheaper in the long-run to do it any other way?

No. An old economic adage — but a good one — is that there is no such thing as a free lunch. Having a reliable electricity system unfortunately costs money, and those costs must be paid ultimately by electricity consumers. The key is to create a system that gives the right price signals, so that investment can be made in the lowest-cost manner. The locational capacity market proposal agreed upon by most of the market participants in New England — utilities, regulators, generators, and ISO New England — attempts to do just that.