



For Immediate Release

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Long-term Hedging of Electricity Costs in Maine Will Require a Combined Generation and Transmission Strategy, Concludes London Economics International

BOSTON, March 10, 2008 - The Maine Public Utilities Commission ("Commission") has released the draft electric resource adequacy report and plan ("Plan") last February 29, 2008 for comments. The Plan, which can be found through the Commission's virtual docket on its website www.maine.gov/mpuc, Docket Number 2008-104, has been filed in response to the Act to Enhance Maine's Energy Independence and Security ("Act"). The Act allows the Commission to direct Maine's investor-owned utilities to enter into long-term agreements for capacity resources and to develop an electric resource adequacy plan to support its long-term contracts strategy.

London Economics International ("LEI") drafted the Plan in response to the Commission's request to provide recommendations for the long-term investment strategy that would hedge rising power costs for the state. The Plan involves a review of publicly available materials and studies performed by the Maine utilities and ISO-NE with respect to infrastructure needs. The report also contains an analysis of the current supply-demand situation and an evaluation of the current wholesale market rules for energy trends.

Based on LEI's analysis, Maine has enjoyed adequate supply vis-à-vis its demand historically. Moreover, transmission congestion with the rest of New England has actually benefited Maine ratepayers to date. "Unlike sub-regions like Southwest Connecticut and Boston, Maine has much more generation capacity than necessary to meet its current and future internal electrical load. The existence of transmission constraints has actually provided a natural hedge against escalating peak prices in other parts of New England," noted Julia Frayer, Managing Director of LEI. Presuming that generation development costs are lower in Maine, she also added that the state can potentially secure a lower capacity price and reduce its capacity costs by maintaining its designation as an export-constrained Load Zone in future Forward Capacity Auctions.

“Generation and transmission investments are in many ways both compliments and substitutes. On the one hand, new generation in Maine requires some new transmission investments. On the other, transmission investments could replace the need for local generation development and vice versa,” observes Ms. Frayer. LEI recommended that the long-term strategy in Maine should involve the potential development of new transmission, generation, and demand-side resources on an integrated basis.

Investments that will enhance and expand the transmission capability between Maine and the Rest of Pool will have an impact on Maine’s capacity price in the Forward Capacity Auction, and more importantly, on the Locational Marginal Prices (LMPs) for energy. Transmission investments could lower the congestion costs component in Maine’s LMPs, which in turn could increase the overall energy costs to ratepayers. However, there may be long-term benefits to transmission investment, especially if transmission investment incorporates strategies for securing complementary generation investment with lower cost, renewable profiles. “There is a lot of uncertainty in how generators will respond to transmission investment, which makes measurement of economic benefits difficult,” warns Ms. Frayer. This uncertainty could be mitigated by an analysis of the potential economic benefits of transmission projects concurrently with a long-term contracting initiative for new generation. This would, in effect, firm up the potential benefits from transmission, and may therefore offset the potential risk for higher energy costs and balance the costs of transmission investment.

Comments on the draft Resource Plan should be filed to the Commission by March 21, 2008. After the finalization of the report, LEI will assist the Commission in the long-term contract solicitation.

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London Economics International LLC is a global economic, financial, and strategic advisory professional services firm specializing in energy and infrastructure. The firm combines detailed understanding of specific network and commodity industries, such as electricity generation and distribution, water and wastewater provision, and natural gas distribution, with a suite of proprietary quantitative models to produce reliable and comprehensible results. For further information on LEI, please contact Julia Frayer at (617) 933-7200 or visit www.londoneconomics.com.

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