



Regional Electric Capacity Charges will Increase Soon, but Decline in 2020

April 12, 2017

Ratepayers will see some relief on the charges they pay for power plant capacity beginning on June 1, 2020. Power plants receive payment for availability in addition to being paid for the energy they produce. There are a variety of justifications for the need for such payments, called “capacity payments” or “capacity charges,” including because electricity cannot be easily or cheaply stored. The regional grid operator, ISO-New England, holds competitive auctions every February for the period beginning approximately three-and-a half years later, called a Forward Capacity Auction or “FCA.” The term “Forward” is in the title because the auction is done years in advance. A forward auction allows for the possibility of new bidders to bid proposed new power plants into the auction before they exist, and indeed the promise of revenues from the auction can help to secure financing for a new plant. Conversely, an older plant may get a signal to retire through the auction because the price comes in too low to justify further operation. Indeed, the Forward Capacity Market, which uses the results of the forward capacity auction, has a key goal of encouraging resource adequacy through new units as well as sending appropriate signals to obsolete units to retire.

At present, capacity payments are relatively low and represent approximately 7% of your electric bill. For a typical residential customer, this would represent a charge of about \$10 a month. That charge for most customers is not something you see as a line-item on your bill; instead, it is embedded within the generation charge that you pay to the utility for standard service or to a retail supplier. Beginning in June 2017, that charge is slated to climb based on the Forward Capacity Auction that took place in June 2014. The charge will be about 15% of your total electric bill, or about \$21 a month. Again, you will not see this as a direct line item in your bill, but it will be reflected in the standard service price that changes in July 2017 and in retail supplier offerings.

Things get worse in June 2018 as to capacity payments. Beginning on June 1, 2018, capacity payments will be about 20 percent of your electric bill, based on the auction that took place in February 2015. This is because power plant capacity was tightening in that time frame and some major new power plants set a high price in that auction. This amount will cost approximately \$28 a month on the electric bill of a typical customer. So you will probably again

see an increase in the standard service price and retail supplier offerings available beginning in the summer of 2018.

However, relief will begin in June 2019, when capacity charges return to the levels in place beginning in June 2017.

The present good news is that reductions will continue with the period beginning June 2020. The most recent Forward Capacity Auction, just held in February 2017, revealed a clearing price of \$5.30 per kW per month. This will yield payments of about 11% of the electric bill of a typical resident, or about \$15.50 per month. While this is higher than the present figure of \$10 a month, it is a substantial and somewhat unanticipated reduction from the \$28 price beginning in June 2018 (again, for a typical residential consumer).

The reasons for the relatively low clearing price in the recent auction are varied, but include the fact that electricity usage across the region is not increasing and at times is even decreasing slightly (due in large part to energy efficiency measures), growth in demand response (by which customers, and particularly large commercial and industrial users, reduce their power usage at key times), and a dearth of retirements, with most of the coal plants in the region already having retired in past years.

So, in summary, consumers should be prepared for an increase in their electric bills related to capacity payments beginning this summer, then a further increase in summer 2018, a decrease in summer 2019, and then a further decrease in summer 2020.



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