Congress of the United States
Washington, DC 20510

September 12, 2005

The Honorable Joseph T. Kelliher
Chairman
Federal Energy Regulatory Commission
888 1st St. NE
Washington, DC 20426

Dear Chairman Kelliher,

We are writing to express our strong opposition to the application of the Locational Installed Capacity (LICAP) rate schedule in Connecticut and in the New England region, and in support of the appeal, by the State of Connecticut and other appellants, of the Administrative Law Judge's approval in this matter.

LICAP represents a fatally flawed policy, imposing unnecessary, staggering costs on Connecticut businesses and consumers with no promise of achieving its avowed objective of stimulating investment in new generation capacity in areas of need.

Current estimates place the cost of LICAP at $3.7 billion for Connecticut alone and $13 billion across New England. These costs will come *in addition* to rising energy costs consumers are all but sure to face as a result of increases in natural gas and home-heating oil costs – increases now magnified by the damage inflicted by Hurricane Katrina on oil and natural gas facilities in the Gulf Coast region.

This money will flow from ratepayers' pockets to those of electricity generators – including existing generators that have already been remunerated fully for capacity costs and stranded costs. There is no indication that these additional funds will be used to accomplish the stated goal of LICAP – building new generation capacity. In fact, there is little to suggest that it is electricity rates by themselves that are the key to inducing investment in new generation. In contrast, it appears that other factors, such as transmission capacity, that create key obstacles to investment in new generation. At present, transmission system upgrades are not scheduled for completion until 2009 or 2010; even if the new rates did create an incentive effect, companies would have no means to respond to those incentives for several more years. Thus, the result of LICAP will be simply to damage the economy of Connecticut and New England while accomplishing little beyond the further enrichment of existing electricity generators.

That is why the comprehensive federal energy legislation enacted just last month included Sense of the Congress language directing FERC to consider the New England Governors' objections that LICAP would not provide adequate assurance that LICAP would yield the necessary electric generation capacity or reliability, while imposing high costs on consumers and threatening significant negative economic impact.

To the extent that Connecticut's economy may demand a combination of new generation, increased transmission capacity and enhanced energy efficiency and conservation, we fully support the State's request for additional full hearings to evaluate alternative approaches that can address these needs cost-effectively.

In addition to expressing support for the submissions of the State of Connecticut in this matter, we, as legislators, are also obliged to examine the central policy issues raised by LICAP and other ratemaking approaches, such as Locational Marginal Pricing (LMP), now being practiced by Independent System Operators, with the support or acquiescence of the FERC. Our preliminary review suggests that current ratemaking approaches may be uneconomic and may fail to reflect sound market-based principles, resulting in unnecessary, high costs to electricity ratepayers, not only in New England, but elsewhere in the country. As a result, we and our Congressional colleagues, whose states face similar economic challenges because of these ratemaking approaches may be forced to take up this issue via legislation – especially at a time when the issue of rising energy costs is becoming more and more critical to the public and political leaders.

We respectfully urge you to grant the relief sought by the State of Connecticut in this matter.

Thank you for your consideration in this matter

Sincerely,