

New England Energy Alliance

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New England Energy Alliance White Paper Cites Economic and Environment Benefits from Electricity Industry Restructuring Lack of Infrastructure Development Diminishing Market Effectiveness

Boston, MA – 10/30/06 – A white paper released today by the New England Energy Alliance (NEEA) finds that electricity industry restructuring has saved the region’s consumers billions of dollars compared to pre-restructuring trends and is better protecting the environment.

The white paper presents what may well be the first integrated review of the progress of restructuring in New England from its inception in 1998 through 2005. It identifies and quantifies the performance of the regional wholesale market; reviews and qualitatively compares individual state retail markets; and assesses the impact of restructuring on electricity generation and fuel sources.

NEEA President Carl Gustin, said, “This snapshot of the region’s electricity restructuring found that consumers and the environment are better off in comparison to what the prevailing trends prior to restructuring would have yielded had they continued.”

Sponsored by several members of the Alliance and prepared by Polestar Communications & Strategic Analysis, the white paper does not project future trends or performance. It calls restructuring "a work in progress," noting that development of new infrastructure – power plants, transmission lines, and natural gas supplies – is not keeping pace with demand, which in turn affects market effectiveness. Recent changes to the wholesale market such as the newly approved “Forward Capacity Market” are designed to encourage new power plants, and early signs are positive. In the meantime, opposition to energy projects already proposed remains strong throughout the region.

The white paper finds that New England consumers have cumulatively saved between \$6.5 to \$7.6 billion under a combination of state restructuring efforts and the establishment of a regional competitive wholesale electricity market.

Adjusted for inflation, electricity prices were shown to be 7 to 18% lower when compared to those years just prior to restructuring. More recently, record-high natural gas prices, environmental compliance costs, and transmission congestion costs appear to reduce these economic benefits, but some, if not all, of these costs, would have been borne under the previous electricity industry structure.

The environment has also benefited despite a 25% increase in electricity production. The white paper documents that the construction of new generating capacity in the early years of restructuring, more efficient operation of existing power plants, and some of the most stringent environmental regulations in the country have cut emission rates from the production of electricity (through 2004) significantly – sulfur dioxide by 56%, nitrogen oxide by 57% and carbon dioxide by 22%.

An often stated goal of restructuring at the state level was to provide all classes of consumers the opportunity to choose their electricity supplier. However, this goal was never quantified so its achievement is only qualitatively assessed in the white paper.

Consumer switching to competitive suppliers has progressed the furthest among medium and large commercial and industrial customers with buying power and market knowledge, especially in Massachusetts and Maine. Conversely, the white paper confirms that there has, to date, been little switching of electricity suppliers among residential and small commercial consumers.

The white paper supports the view that residential and small consumers had little incentive to switch as long as electricity prices were kept artificially low or at least stable under state restructuring legislation and rulings.

Finally, the white paper highlights that New England has also become heavily dependent on natural gas as a generating plant fuel, making the region susceptible to volatile electricity prices and vulnerable to supply disruption. In spite of this situation, infrastructure project proposals to increase natural gas supplies or diversify the fuels used to generate electricity have been increasingly met with political opposition.

“We need more infrastructure to maintain an adequate, reliable and affordable supply of electricity. Political leadership across the region is needed to encourage investment and to make the hard decisions necessary for the permitting of facilities to be more predictable and timely”, said Gustin.

The New England Energy Alliance is a coalition of energy providers, business and trade organizations and others concerned about future energy supplies. Sponsors of the report are Constellation NewEnergy, Dominion Resources, Duke Energy Gas Transmission, Edison Electric Institute, Entergy Corporation, KeySpan Energy, National Grid, Nuclear Energy Institute, SUEZ Energy North America, TransCanada Corporation. The report was prepared by Polestar Communications & Strategic Analysis of Boston, Massachusetts.

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