Capacity costs are on the rise
But you can be prepared and proactive

Planned electricity generation plant closures through 2018 will result in a reduction of over 3,500 mega-watts of electricity for the New England region. And more are at risk of retiring in the near future. If the region cannot source electrical generation to replace the reduction, the region will be facing a shortfall in meeting peak electricity demand by 2017/2018. This electricity deficit has already been reflected in the increased capacity market prices. Capacity costs (a major component of electricity prices) are set to escalate in June 2016 and beyond.

Your total electricity charge is made up of several individual costs; some controllable, others not. On your utility bill, you will notice a utility distribution charge and a supplier charge. The distribution charge paid to your utility accounts for roughly 25% of your total electricity cost and cannot be changed. The remaining 75%, your supplier charge, includes cost components such as the actual generation cost of the electricity, capacity, transmission, and other smaller charges.

The capacity charge is one cost that can be affected with proper management. Your capacity charge is made up of two main components: capacity cost and capacity tag.

- **Capacity Cost** – The generation price set per kilowatt-hour by the ISO New England forward capacity market auction
- **Capacity Tag** – The total kilowatt-hours used by a facility on the peak hour of the peak day per ISO New England
The capacity year runs June 1st to May 31st. What you use this year on the peak day will become your future capacity assignment. Your capacity assignment will impact your energy costs beginning June 1, 2016 and last through May 31, 2017.

The chart below illustrates the growing cost of capacity over the next three years for the northeastern Massachusetts electricity zone (NEMA). The higher capacity charges are required to entice development of adequate generation or demand reduction resources to meet anticipated peak demand. Consumers have yet to feel the impact of this escalation, but will start to see it when contracting for electricity needs for 2016 and beyond.

Each bar represents the cost components of energy supply at a different period in time:

- At left: Capacity cost represents 12% of the total Supplier Charge of a 1 year contract starting June 2015
- At middle: Capacity cost represents 22% of the total Supplier Charge for a 1 year contract starting June 2016
- At the right: Capacity cost represents 40% of the total Supplier Charge for a 1 year contract starting June 2017

This chart assumes that the generation cost component (currently 70% of your total supply charge today) will remain flat over the next three years.
Key takeaways:

- Increasing capacity rates will become a real issue as we get into 2016 and beyond.

- Capacity costs are undisputable charges that have already been approved by ISO New England.

- What you use this year on the peak day will become your future capacity assignment.

- Your capacity assignment will impact your energy costs beginning June 1, 2016 and will last through May 31, 2017.

Companies will pay higher costs for capacity in the near future, but there are ways to mitigate the full costs of these escalations through a capacity management program. Consult your Usource Energy Advisor for more details, or call Usource at 888.686.4845.