



press release

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New England's Wholesale Electricity Markets Performed Competitively in 2007

Annual Report Concludes Markets Provided Needed Incentives for Infrastructure and Demand-Side Investment

Holyoke, MA—June 9, 2008—New England's wholesale electricity markets performed competitively in 2007, providing the price signals needed to guide investment in New England's electricity infrastructure while supporting the reliable operation of the region's bulk power grid, according to a report released today by ISO New England Inc.

The *2007 Annual Markets Report*, from the operator of the region's bulk power system and wholesale electricity markets, provides a comprehensive review of the markets by ISO New England's Internal Market Monitoring Unit. The 206-page state-of-the-market report concludes that New England's markets provided a competitive environment for wholesale energy transactions in 2007 and responded effectively to changing supply and demand conditions. Wholesale electricity prices rose in 2007, driven by higher prices for natural gas and oil and rising demand.

"New England's wholesale electricity markets help ensure the region's residents and businesses have a reliable source of competitively-priced electricity to meet their needs," said Gordon van Welie, President and CEO of ISO New England. "New England's competitive wholesale markets are reflecting demand and fuel costs and are also encouraging investment in transmission, generation, and demand-side resources where they are most needed."

The report points to three key developments in New England's electricity marketplace in 2007: the successful introduction of the Forward Capacity Market with improved investment incentives for electric energy supply and demand resources; transmission investment in southwestern Connecticut and Greater Boston that improved reliability and reduced costs; and several disruptions to natural gas delivery that affected reliability and pricing.

van Welie noted that these developments highlight some of the challenges and opportunities facing the region: "Market enhancements made in 2007 are the driving force behind much of the new investment planned for New England, while the gas supply disruptions in the past year show that the region will be best served with a more diverse portfolio of fuels powering our generators. And with

over \$1.2 billion in transmission upgrades since 2002 as well as explosive growth in our demand-response programs, reliability has been improved significantly in several major demand areas.”

Other key findings contained in the 2007 report include:

- The cost of fuel continues to be the most significant factor in wholesale electricity prices. Energy costs comprise 85 percent of total wholesale electricity costs. Natural gas prices rose 8.8 percent and fuel oil prices rose 16.2 percent from 2006 to 2007.
- After adjusting for fuel prices, the average wholesale price of electricity in New England rose 5.8 percent to \$45.15 per megawatt-hour (MWh). That compares to an average fuel-adjusted price of \$45.01/MWh from 2000 to 2006. The actual average wholesale electricity price rose 10.9 percent from \$62.74/MWh in 2006 to \$69.57/MWh in 2007.
- After factoring out the impact of weather patterns across the years, average electricity consumption grew by 0.9 percent while peak demand grew by 1.9 percent. Spikes in demand for electricity on peak hours require more resources to serve that demand for just a few hot days each year.
- The Forward Capacity Market design was completed in 2007 and the region’s first Forward Capacity Auction was held in early 2008, procuring enough capacity to supply the region’s energy needs in the 2010 to 2011 timeframe.
- Ensuring that sufficient resources will be available when needed pushed capacity costs up from 2 percent of total electricity costs in 2006 to 11 percent in 2007.
- Enrollment in ISO New England’s demand-resources programs grew by 162 percent, from 646 MW in 2006 to 1,693 MW in 2007.
- Generator availability, which stood at 81 percent when wholesale electricity markets commenced in New England in 1999, hit a new high of 90 percent in 2007.
- The region’s vulnerability to natural gas supply disruptions was underscored in December, 2007, when a mechanical failure cut off supply to several natural gas-fired generators, requiring ISO New England to take special steps to ensure the grid operated effectively. Power plants burning natural gas generated 42 percent of New England’s electricity in 2007.
- Average price separation among load zones continued to narrow in 2007. Average prices continued to be highest in Connecticut and lowest in Maine.

The report notes that ISO New England detected and corrected design flaws in its Day-Ahead Load-Response Program in 2007. The report also recommends incremental improvements to market design rules in the region’s reserve markets, financial transmission rights markets, and Real-Time Demand-Response program, while concluding that thresholds for daily reliability payments should be examined.

The 2007 Annual Markets Report is submitted to ISO New England’s board of directors as well as the U.S. Federal Energy Regulatory Commission, and is available on ISO New England’s Web site at www.iso-ne.com.

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