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ISO New England's CEO and Market Monitor Present Views to FERC

van Welie and Chao Review Performance of Wholesale Markets and Look to the Future

Holyoke, MA—July 1, 2008—Today, ISO New England's President and CEO and Market Monitor discussed the status of New England's organized wholesale electricity markets with the Federal Energy Regulatory Commission (FERC) at a technical conference in Washington, D.C. Other participants included CEOs and Market Monitors from the six FERC-jurisdictional independent system operators and regional transmission organizations.

"We are pleased to meet with the commission today to outline New England's progress to date in the development of competitive wholesale electricity markets and the challenges that remain," Gordon van Welie, President and CEO of ISO New England Inc., said. "Efficient and fair markets with transparent information and open access to the transmission grid are providing the price signals needed to build infrastructure that will ensure reliability and keep up with consumer demand."

van Welie noted that the tangible benefits from these price signals include the addition of about 10,000 megawatts (MW) of new generation since markets were launched in 1999, about \$1.2 billion invested in over 200 transmission upgrades since 2002, and the introduction of more than 1,700 MW of demand-side resources into wholesale competition.

"The region faces challenges ahead," said van Welie. "New England is highly dependent on natural gas and oil to generate electricity, so its wholesale prices rise in tandem with fossil fuel costs. The need to diversify the region's fuel supply portfolio while meeting new environmental mandates may require construction of new transmission to reach geographically remote renewable resources."

According to Hung-po Chao, Director of Market Monitoring for ISO New England, the region's wholesale electricity markets provided a competitive environment for market participants last year.

"New England's wholesale markets worked competitively, market design and performance continued to improve, particularly with the implementation of the Forward Capacity Market, and market prices were consistent with competitive benchmark prices," said Chao. "Incremental market improvements are recommended, including modification of mitigation rules for out-of-market

charges for generation ‘uplift’ and reviewing the design parameters in the forward and real-time reserve markets based on experience gained in the first year of operation of these markets.’”

Some key findings contained in ISO New England’s 2007 Annual Markets Report include:

- The cost of energy, which comprised 85 percent of total wholesale electricity costs in 2007, is the main driver in rising electricity prices. Average actual wholesale electricity prices rose 10.9 percent in 2007, while natural gas prices rose 8.8 percent and fuel oil prices rose 16.2 percent.
- After factoring out the effects of changing fuel prices over the years, average wholesale electricity prices in New England rose 5.8 percent to \$45.15 per megawatt-hour (MWh) in 2007, compared to an average fuel-adjusted price of \$45.01/MWh from 2000 to 2006.
- The region’s vulnerability to natural gas supply disruptions was demonstrated in 2007 when mechanical failure cut off supply to several natural gas-fired generators, requiring ISO New England to take special steps to make sure reliability did not falter.
- Transmission investments in heavily populated southwestern Connecticut and northeastern Massachusetts and Greater Boston have improved reliability and reduced costs.
- Enrollment in ISO New England’s demand-resource programs grew by 162 percent in 2007.
- The design of the region’s Forward Capacity Market was completed in 2007, leading to the first Forward Capacity Auction in early 2008. The auction procured enough capacity – including almost 1,200 MW from demand-resource projects – to meet the region’s energy needs two years hence.

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