



press release

FOR IMMEDIATE RELEASE

Contact:

Ellen Foley, ISO New England Inc. (413) 535-4139
Erin O'Brien, ISO New England Inc. (413) 540-4565
Marcia Blomberg, ISO New England Inc. (413) 540-4555

Annual Assessment Shows New England's Wholesale Electricity Markets Are Competitive

High Fuel Costs Pushed Prices Higher Through Most of 2008

Holyoke, MA—June 17, 2009—A comprehensive analysis shows that New England's electricity markets continued to provide a competitive environment for wholesale electricity transactions in 2008, leading to prices that reflected the costs of producing electricity, according to ISO New England Inc.'s internal market monitoring unit.

Volatile fuel prices that rose to the highest level since the start of wholesale electricity markets a decade ago and a two percent decline in electric energy consumption were the key factors influencing New England's \$12 billion wholesale energy markets last year, according to the *2008 Annual Markets Report* prepared by the internal market monitoring unit overseeing the markets administered by ISO New England. ISO New England is the operator of the region's bulk power system and wholesale electricity markets.

"Anyone who had to pay \$4 a gallon for gasoline last year knows the effects of high fuel prices. Last year's run-up in the cost of oil and natural gas also pushed the average price of wholesale electricity up for the entire year, despite falling fuel prices in the second half of the year," said David LaPlante, vice president of market monitoring at ISO New England. "The decline in energy consumption helped moderate the increase in electricity prices."

Illustrating that fuel costs are the primary driver in the price of wholesale electricity in New England and that fuel and electricity prices rise and fall in virtual lockstep, the report found that natural gas prices rose 25 percent, while the average price of wholesale power rose 21 percent in 2008.

The annual markets assessment also concluded that the region's first two Forward Capacity Auctions, conducted in 2008, were competitive. More information on the auctions is available in [Review of the Forward Capacity Market Auction Results and Design Elements](#), a comprehensive report prepared by the internal market monitor and filed at the Federal Energy Regulatory Commission (FERC).

The *2008 Annual Markets Report* noted that transmission improvements in Connecticut and Massachusetts have helped reduce the need to run power plants "out of merit"—that is, when their electric energy is more costly than the wholesale market's clearing price—to maintain reliability in certain areas.

Major findings in the 2008 report include:

- Based on a standard metric for evaluating market competitiveness, wholesale electric energy prices in New England were consistent with input fuel prices and other costs, showing that the markets are competitive.
- The New England energy markets have many competitors and no single competitor is large enough to affect the market price, providing the foundation for a competitive regional market.
- After adjusting for fuel price fluctuations, the average wholesale electricity price in 2008 was about \$41/megawatt-hour (MWh), down eight percent from 2007's approximate \$45/MWh fuel-adjusted price. The average real-time price of electric energy rose 21 percent to \$80.56/MWh, driven by a 25 percent rise in the cost of natural gas and a 42 percent rise in the cost of oil.
- Gas-fired and gas- and oil-fired plants generated 41 percent of the region's electricity. Nationally, about 20 percent of electric energy is produced by gas-fired power plants.
- Volatile fuel prices peaked in summer 2008 but fell back to 2007 levels by the end of the year. Despite the drop, average fuel prices in 2008 were the highest since the opening of wholesale electricity markets in New England in 1999.
- Natural gas-fired plants set the wholesale clearing price in New England about 62 percent of the time.
- With declining economic activity, more efficient use of electricity, and higher prices, energy consumption fell two percent.
- The first two Forward Capacity Auctions, both held in 2008, were competitive. The auctions procured surplus capacity for the years ahead, sparking investment in new resources including energy efficiency and demand response, and reducing the need for reliability agreements.
- Transmission improvements in Southwest Connecticut and Northeastern Massachusetts have reduced the need to run generators out of merit by 35 percent. Other transmission improvements due this year are expected to reduce the need for out-of-merit generation in Southeastern Massachusetts.
- Wholesale prices continued to be highest in Connecticut and lowest in Maine.
- Enrollment in demand-resource programs grew approximately 28 percent to 2,536 megawatts in 2008. Total demand resources increased 556 percent from January 2005 to December 2008.

The report notes that the ISO filed a proposal last year to restore the Day-Ahead Load-Response Program to its original purpose of reducing load only during periods of high prices, designed changes to require capacity importers to offer their energy at competitive prices, and this year moved to tighten the thresholds for making certain payments to resource owners to ensure reliability.

In the 2008 annual report, the market monitor also recommends changes to the Forward Reserve Auction design to reevaluate the amount of reserves required and the forward-reserve threshold price.

The internal market monitor analyzes each wholesale electricity market based on market data, performance criteria, and independent studies. An external market monitor also analyzes New England's wholesale electricity markets for competitiveness. The internal market monitoring unit reports directly to ISO New England's Board of Directors, giving it the independence needed to serve as an objective monitor of the markets. The internal market monitor submits this annual report simultaneously to the ISO and the FERC, which is charged with ensuring that markets within its jurisdiction are free of design flaws and market power abuse.

The full report is available at www.iso-ne.com.