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## ISO New England Reports 2009 Wholesale Electricity Prices and Demand Fell to Lowest Levels in Seven Years

*Natural Gas Prices and Economic Conditions Combine to Push Electricity Prices and Consumption Down*

Holyoke, MA—March 1, 2010—Wholesale electricity prices and the annual demand for electricity in New England both fell last year to their lowest levels since at least 2003, according to ISO New England Inc., the operator of the region's bulk power system and wholesale electricity markets.

“A drop in natural gas prices pulled wholesale electricity prices down in 2009, while the recession tamped down electricity consumption in New England,” according to Vamsi Chadalavada, senior vice president and chief operating officer of ISO New England.

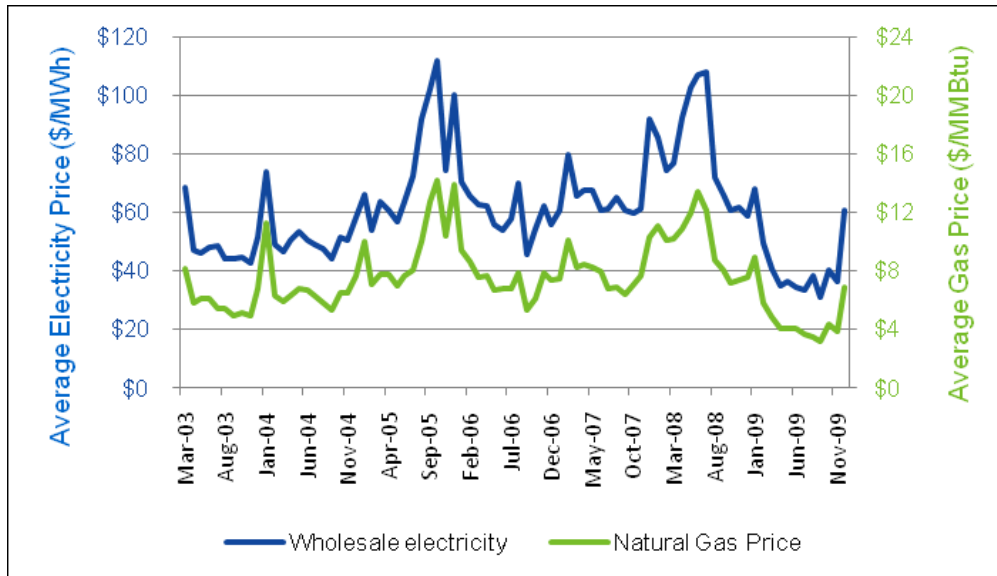
### **Wholesale electricity prices**

Year over year, the average price of wholesale electricity fell 48 percent in 2009, from \$80.54 per megawatt-hour (MWh) in 2008 to \$41.99/MWh last year. The 2009 price was lower than the comparable low of \$48.55/MWh set in 2003, the year that competitive markets in their current form were launched in New England. The decline last year was due largely to a sharp decline in the average price of natural gas—the predominant fuel used to generate the region's electricity. Natural gas prices fell 52 percent from 2008 to 2009, to \$4.77 per million British thermal units (MMBtu). The previous low price in the seven-year period was \$5.88/MMBtu in 2003.

“Wholesale electricity prices tend to rise and fall in sync with fossil-fuel costs,” noted Chadalavada.

“We've observed these parallel ups and downs in power and natural gas costs repeatedly since the inception of competitive markets. This linkage illustrates that wholesale electricity markets in New England are working as they should, with prices reflecting the input costs of production.”

**Electricity Prices Track Natural Gas Prices**



**Average Natural Gas and Wholesale Electricity Prices in New England  
(2003 to 2009)**

	Ave. natural gas price (MMbtu <sup>1</sup> )	Ave. wholesale electricity price (MWh <sup>2</sup> )
<b>2003*</b>	\$5.88	\$48.55
<b>2004</b>	\$6.76	\$52.08
<b>2005</b>	\$9.70	\$76.44
<b>2006</b>	\$7.32	\$59.69
<b>2007</b>	\$7.96	\$66.78
<b>2008</b>	\$9.91	\$80.54
<b>2009</b>	\$4.77	\$41.99
<b>% Change 2008—2009</b>	<b>-52%</b>	<b>-48%</b>

\* Current wholesale market commenced March 2003

Because wholesale electricity prices fell nearly 50 percent last year, the total value of energy transactions in New England’s wholesale markets also fell by about half, to \$5.4 billion, in 2009. Record-high fuel costs in 2008 had driven the value of electricity transactions up to \$10.7 billion.

<sup>1</sup> A British thermal unit (Btu) is used to describe the heat value of fuels, providing a uniform standard for comparing different fuels. One BTU is the amount of heat required to raise the temperature of a pint of water by one degree Fahrenheit. One million British thermal units is shown as MMBtu.

<sup>2</sup> One megawatt-hour of electricity can serve about 1,000 average homes in New England for one hour.

While wholesale electricity prices rise and fall in real time based on fossil fuel prices, retail rates are generally set for longer intervals by state utility regulators. The lag between wholesale prices and retail rates varies depending on each state's approach to procurement. The retail rate is what consumers pay in their monthly electric bill.

### **Energy consumption**

Wholesale prices also are affected by consumer demand, which in turn is influenced by the economy, weather, and energy efficiency efforts. The economic downturn, combined with generally cooler-than-normal weather in summer and warmer-than-normal weather in winter, constricted regional energy consumption last year.

"Last year's dip in electricity use is only the sixth time power consumption has decreased from one year to the next since our record-keeping began in 1981," noted Chadalavada. On average, demand has increased by 1.5 percent annually in New England over the past 29 years.

When annual variations in weather are factored out, which allows demand to be evaluated on a comparable basis from year to year, electricity usage in the six-state region dropped to levels not seen since the beginning of the decade. Weather-normalized electricity consumption dropped 2.2 percent, or 2,900 gigawatt-hours (GWh), to 128,224 GWh in 2009 compared with the 131,127 GWh of electricity consumed in 2008. The last time consumption was lower was in 2002, at 127,767 GWh.

ISO New England forecasts that demand for electricity will drop by about 0.5 percent this year and then begin to rise again in 2011, by about 0.8 percent.