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New England's Wholesale Power Markets Operated Competitively in 2012, According to Annual Review

Falling natural gas costs and a decline in demand drove wholesale electricity prices down

Holyoke, MA—May 15, 2013—The \$6.1 billion wholesale electricity markets in New England operated efficiently and competitively in 2012, according to a report released today by the Internal Market Monitor (IMM) of ISO New England Inc., the operator of the region's bulk power system and wholesale electricity markets.

The *2012 Annual Markets Report (AMR12)* shows that wholesale electricity prices fell as a result of lower natural gas prices and slightly lower demand for electricity in the six-state region. The report concludes that lower prices in 2012 were the outcome of efficient and competitive wholesale electricity markets.

“The trend of the last few years accelerated in 2012, as falling natural gas prices drove down the price of electric energy in New England. Natural-gas-fired power plants generated 52% of the electricity produced in New England, and set the energy price in most hours,” said David LaPlante, vice president of market monitoring. “There is a clear linkage between the cost of fuel and the price of electricity: The average price of natural gas fell nearly 20% in 2012, and the price of electric energy fell 23%.”

AMR12 examines the operation of the wholesale electricity markets to determine whether the markets are operating efficiently, competitively, and in line with market fundamentals. Factors reviewed include electric energy prices, fuel costs, consumption levels, transmission congestion, costs to run power plants to maintain system reliability, market design, system operations, and participants' bidding and selling behavior.

AMR12 also reports on current issues affecting the markets, including the challenges posed by the region's dependence on natural gas for electricity generation. The report notes that the low price of natural gas has caused demand for the fuel to grow, outpacing the capacity of pipelines bringing it into New England, and that there were periods in 2012 when natural gas-fired generators were unable to operate due to issues with fuel availability. *AMR12* outlines actions ISO New England is taking to address these reliability concerns, including adjusting the Day-Ahead Energy Market schedule to more

closely match the gas industry's timeline, to be implemented May 23 for the May 24 operating day.

Some highlights of the *2012 Annual Markets Report*:

- **Wholesale electricity market value:** The all-in cost of wholesale electricity, which includes capacity and ancillary services payments as well as electric energy costs, fell 20% in 2012. The total value of the region's wholesale electricity markets declined from about \$7.6 billion in 2011 to about \$6.1 billion in 2012.
- **Energy Prices:** The average real-time price for wholesale electric energy fell 23%, from \$46.68/megawatt-hour (MWh) in 2011 to \$36.09/MWh. The total cost of electric energy was \$4.8 billion last year.
- **Fuel costs:** The average price of natural gas, which produced 52% of the electricity generated in New England and set the clearing price in 81% of the hours in 2012, fell 19.5%, from \$4.98 per million British thermal units (MMBtu) in 2011 to \$4.01/MMBtu last year.
- **Consumption:** Demand for electricity was 0.9% lower than in 2011.
- **Reliability costs:** In addition to resources cleared in the energy market, other resources may be called on to help ensure the reliability of New England's bulk power system. Reliability costs increased 17% to \$87.1 million in 2012.
- **Capacity:** The cost of capacity fell by 11% from \$1.35 billion in 2011 to \$1.19 billion in 2012. The report concludes that the Forward Capacity Market (FCM) has met the goal of sending price signals that retain existing resources and attract new resources to meet demand.
- **Reserve prices:** Additional resources in reserve are maintained at all times to be ready to recover from the unexpected loss of a resource. Changes to market rules and reserve requirements increased reserve payments from \$9.5 million in 2011 to \$29.8 million in 2012. In all, ancillary services such as reserves, reliability commitments, and regulation cost about \$130 million in 2012, an increase of 17%.
- **Demand resources:** Demand-side resources participating in the FCM declined 11%, to 1,724 MW, in 2012. Payments to demand resources totaled \$91.4 million in 2012, down from \$104.3 million in 2011.

The ISO relies on two independent market monitors, one internal and one external. The market monitors annually review and report on market results and offer insights into the markets' efficiency and competitiveness as well as market design and needed operation enhancements.

The IMM reports directly to ISO New England's Board of Directors, giving the market monitoring unit the independence needed to objectively perform its functions. The IMM submits the 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 inappropriate market behavior.

View the full [report](#).