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## 2013 Wholesale Electricity Prices in New England Rose on Higher Natural Gas Prices

*Pipeline constraints and higher demand pushed up prices for both  
natural gas and power*

Holyoke, MA—March 18, 2014—Rising natural gas prices pushed wholesale electricity prices in New England up by 55% in 2013, according to preliminary figures from ISO New England Inc., the operator of the region's bulk power system and wholesale electricity markets.

Preliminary data show that the average price of wholesale electric energy rose to \$56.06 per megawatt-hour (MWh) in 2013, up from 2012's historic low price of \$36.09/MWh. Compared to average annual wholesale electricity prices since 2003, the year that competitive markets in their current form were introduced in New England, the 2013 annual average was the fifth highest, and 30% lower than the all-time high of \$80.56/MWh during 2008.

Natural gas is the predominant fuel used to generate the region's electricity, at about 46% of total generation in 2013, so wholesale power prices tend to track the price of natural gas. In 2013, preliminary figures show that the price of natural gas averaged \$6.97 per million British thermal units (MMBtu), up 76% from the 2012 record low price of \$3.95/MMBtu. The highest annual average price for natural gas in New England occurred in 2008 at \$10.07/MMBtu.

The price of natural gas has declined significantly in New England and nationally with increasing production of natural gas from the Marcellus shale field in New York and Pennsylvania in recent years, but the lower prices have resulted in higher demand for natural gas. The capacity of pipelines serving New England is not sufficient to serve this increasing demand for natural gas to heat homes and businesses and to generate electricity. Pipeline constraints, particularly in winter when home heating needs raise demand for natural gas, have pushed up the average spot price for natural gas in New England to the [highest in the country](#). Until new infrastructure alleviates these pipeline constraints, prices for natural gas and wholesale electricity are likely to remain volatile.

The higher energy price pushed the total value of the region's wholesale energy market to about \$8.0 billion in 2013, based on preliminary data, up 54% from the \$5.2 billion value in 2012. In 2008, the value of New England's wholesale electric energy market rose to a high of \$12.1 billion, reflecting

record high annual natural gas and wholesale electric energy prices.

“The wholesale price of power in New England’s competitive markets is based on input costs,” said Gordon van Welie, president and chief executive officer of ISO New England. “Higher fuel prices result in higher power prices. New England sits on the doorstep of the Marcellus shale, which has increased supply and lowered natural gas prices significantly, at least in areas of the country that can access that gas. However, the limited pipeline capacity coming into New England means that sometimes natural-gas-fired generators have difficulty getting fuel, and that not only pushes up prices, it also creates a risk to reliable operation of the power system.”

The [New England governors](#) have proposed an innovative approach to spur investment in much-needed natural gas pipeline expansion in the region. The proposal would seek a tariff addition to allow the ISO to collect gas pipeline costs from electric market participants. The ISO has agreed to work with industry stakeholders and policymakers to discuss this initiative, which could foster the pipeline expansion needed to meet the region’s electric energy needs.

Wholesale prices also are affected by consumer demand for power, which in turn is influenced by the economy, weather, and energy-efficiency efforts. Overall, demand for electricity rose slightly in New England in 2013, by about 1.0%, to 129,350 gigawatt-hours (GWh). When annual variations in weather are factored out, which allows demand to be evaluated on a comparable basis from year to year, electricity consumption would have dropped 0.4 percent to 127,754 GWh in 2013 compared with the weather-normalized 128,249 GWh of electricity consumed in 2012.

While wholesale electricity prices rise and fall in real time based primarily on fuel prices, retail default service rates are generally set for longer intervals. State regulators oversee the retail market, and the lag between wholesale prices and retail rates varies depending on each state’s approach to procurement. The wholesale market clearing price is used to help establish retail default service rates.

### **Total value of wholesale electric energy market and average wholesale electric energy and natural gas prices in New England: 2003, 2008, 2012 and 2013**

	2003 <sup>1</sup>	2008	2012	2013 <sup>2</sup>
<b>Wholesale electric energy market value<sup>3</sup> (in billions)</b>	\$5.6	\$12.1	\$5.2	\$8.0
<b>Average wholesale electric energy price (\$/MWh<sup>4</sup>)</b>	\$48.59	\$80.56	\$36.09	\$56.06
<b>Average price of natural gas (\$/MMBtu<sup>5</sup>)</b>	\$5.96	\$10.07	\$3.95	\$6.97

<sup>1</sup> Partial year; current wholesale electricity markets commenced in March 2003.

<sup>2</sup> 2013 figures are preliminary.

<sup>3</sup> This includes the value of the electric energy market only. It does not include the capacity or ancillary services markets.

<sup>4</sup> One megawatt-hour of electricity can serve about 1,000 average homes in New England for one hour.

<sup>5</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 are shown as MMBtu.

**Average annual natural gas and wholesale electricity prices in New England  
(2003 to 2013<sup>1</sup>)**

	Avg. natural gas price (per MMBtu)	Avg. wholesale electricity price (per MWh)
<b>2003<sup>2</sup></b>	\$5.96	\$48.59
<b>2004</b>	\$6.86	\$52.13
<b>2005</b>	\$9.75	\$76.64
<b>2006</b>	\$7.40	\$59.68
<b>2007</b>	\$8.17	\$66.72
<b>2008</b>	\$10.07	\$80.56
<b>2009</b>	\$4.79	\$42.02
<b>2010</b>	\$5.29	\$49.56
<b>2011</b>	\$4.99	\$46.68
<b>2012</b>	\$3.95	\$36.09
<b>2013</b>	<b>\$6.97</b>	<b>\$56.06</b>
<b>% Change 2012-2013</b>	<b>+76%</b>	<b>+55%</b>
<b>% Change 2003-2013</b>	<b>+17%</b>	<b>+15%</b>

<sup>1</sup> 2013 figures are preliminary.

<sup>2</sup> Partial year; current wholesale electricity markets commenced in March 2003.