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New England's Wholesale Power Markets in 2011 were Competitive, According to Annual Report

Falling fuel costs and demand were primary factors in lower wholesale electricity prices

Holyoke, MA—May 15, 2012—The average price of wholesale electric energy fell 6% in New England in 2011, according to a report released today by the Internal Market Monitor of ISO New England Inc., the operator of the region's bulk power system and wholesale electricity markets.

The *2011 Annual Markets Report* assesses the state of competition in the region's wholesale electricity markets and concludes that electric energy prices declined last year as a result of lower natural gas prices, lower demand for electricity in New England, and higher hydroelectric production levels.

"Natural gas-fired generation set the electric energy price in most of the hours in 2011 and natural gas prices declined by 4.5%. As a result, energy prices also fell, by 6%," said David LaPlante, vice president of market monitoring. "The average total cost of wholesale electricity—electric energy, capacity, and reserves and other ancillary services—fell by 10%."

The *2011 Annual Markets Report* examines the operation of the wholesale electricity markets to determine whether the markets are operating efficiently, competitively, and in line with market fundamentals. The factors reviewed by the Internal Market Monitor include electric energy prices, fuel costs, consumption levels, transmission congestion, costs to run power plants to maintain system reliability, market design, system operations, and participant behavior. The report concludes that the lower costs in 2011 were the outcome of wholesale electricity markets that operated efficiently and competitively.

Some highlights of the *2011 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 10% in 2011. The total value of the region's wholesale electricity markets decreased from about \$8.5 billion in 2010 to about \$7.6 billion in 2011.

- **Energy Prices:** The average real-time price for wholesale electric energy fell 6%, from \$49.56/megawatt-hour (MWh) in 2010 to \$46.68/MWh.
- **Fuel costs:** The average price of natural gas, which generated more than half of the electricity and set the clearing price 74% of the time in 2011, fell 4.5%, from \$5.21 per million British thermal units (MMBtu) in 2010 to \$4.98/MMBtu last year.
- **Consumption:** Demand for electricity was 1.2% lower than in 2010. When the year-to-year variations in weather are factored out, annual demand was down by 0.7%.
- **Hydroelectric production:** Pumped storage and run-of-river hydroelectric facilities produced 21% and 12% more electricity, respectively, in 2011 than in 2010.
- **Reliability costs:** To meet the requirements for ensuring the reliability of New England's bulk power system, the ISO may commit resources in addition to those cleared in the day-ahead energy market. Reliability costs declined 23% to \$73.6 million in 2011.
- **Capacity:** The cost of capacity decreased by 18% to \$1.35 billion in 2011.
- **Reserve prices:** Total real-time reserve payments fell 50%, from \$18.7 million in 2010 to \$9.5 million in 2011, because of increases in supply and lower demand.
- **Demand resources:** Demand-side resources participating in the Forward Capacity Market (FCM) grew 14%, to 1,960 MW, in 2011. Payments to demand-response resources totaled \$104.3 million in 2011 compared to \$143.2 million in 2010.
- **Generator availability:** The amount of time generators were available to produce electricity has remained steady over the last three years: in 2011, generator availability was at 86%; in 2010, 88%, and 2009, 87%. However, the report does highlight operating performance concerns, particularly under stressed system conditions.

The ISO relies on two independent market monitors: an Internal Market Monitor and an External Market Monitor. Every year, the market monitors review and report on market results and offer insights into the markets' competitiveness and efficiency as well as areas of market design and operations that need enhancement or improvement.

The internal market monitor reports directly to ISO New England's Board of Directors, giving the monitoring function the independence needed to objectively perform its functions. This annual report is submitted simultaneously to the ISO and the Federal Energy Regulatory Commission, which is charged with ensuring that markets within its jurisdiction are free of design flaws and inappropriate market behavior.

[View the full report.](#)