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2012 Wholesale Electricity Prices in New England Fell to Lowest Level Since 2003

Lower Natural Gas Prices and Lower Demand Combine to Push Electricity Prices Down to a 10-Year Low

Holyoke, MA—January 23, 2013—Wholesale electricity prices in New England fell by nearly 23% last year to their lowest levels since 2003, according to ISO New England Inc., the operator of the region’s bulk power system and wholesale electricity markets.

Preliminary figures show that year over year, the average price of wholesale electric energy fell 23% in 2012, from \$46.68 per megawatt-hour (MWh) in 2011 to \$36.09/MWh last year. Further, the 2012 price was almost 26% lower than the average price of \$48.59/MWh set in 2003, the year that competitive markets in their current form were introduced in New England.

The magnitude of the price decline is illustrated in the total amount paid for electric energy, which fell by more than a billion dollars in the past year, from \$6.7 billion in 2011 to approximately \$5.2 billion in 2012, based on preliminary data. Just five years ago, in 2008, New England’s wholesale electric energy market value rose to a high of \$12.1 billion, when natural gas prices soared to historic highs. In 2003, when wholesale markets were introduced in March, the total value of the electric energy market was \$5.6 billion.

Natural gas is the predominant fuel used to generate the region’s electricity, and preliminary figures show the average price for natural gas fell 20 percent from 2011 to 2012, to \$4.01 per million British thermal units (MMBtu). The previous low price in the ten-year period was the 2011 price of \$4.98/MMBtu. The price of natural gas has declined significantly in New England with increasing production of natural gas from the Marcellus shale field in New York and Pennsylvania.

“New England’s wholesale electricity is competitively priced,” said Gordon van Welie, president and chief executive officer of ISO New England. “That means that low input costs—such as the cost of fuel—result in lower wholesale electricity prices, which should translate into savings for consumers.”

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 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. Both utility regulators and competitive retail suppliers use the wholesale market clearing price to help set the price of retail offerings.

Wholesale prices also are affected by consumer demand, which in turn is influenced by the economy, weather, and energy efficiency efforts. The lingering effects of the economic downturn, combined with increasing energy-efficiency efforts, and generally milder weather, reduced regional electric energy consumption last year. Overall, demand for electricity dropped slightly in New England in 2012, by about 0.9%, to 128,007 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 dropped 0.6 percent to 128,249 GWh in 2012 compared with the weather-normalized 128,998 GWh of electricity consumed in 2011.

ISO New England was created during the power industry restructuring of the 1990s to help facilitate the creation of competitive wholesale electricity markets. It is currently working with industry representatives and state utility regulators on enhancing the current set of wholesale markets to ensure the regional power system continues to stay reliable, flexible, and efficient in order to meet future needs.

Total value of wholesale electric energy market and average wholesale electric energy and natural gas prices in New England: 2003, 2008, 2011 and 2012

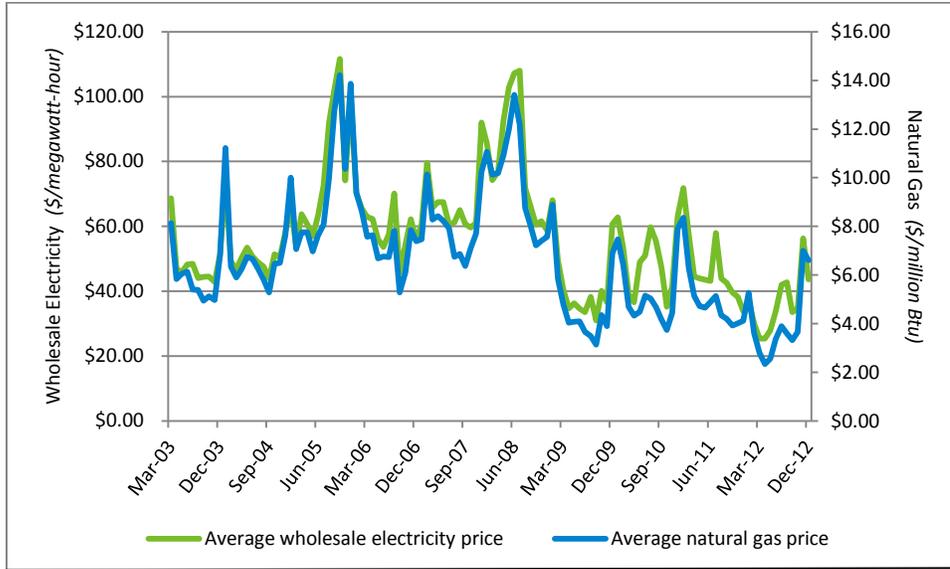
	2012*	2011	2008	2003**
Wholesale Electric Energy Market Value*** <i>(in \$ billions)</i>	\$5.2	\$6.7	\$12.1	\$5.6
Wholesale Electric Energy Price <i>(\$/MWh)</i>	\$36.09	\$46.68	\$80.56	\$48.59
Cost of Natural Gas <i>(\$/MMBtu)</i>	\$4.01	\$4.98	\$9.90	\$5.89

**2012 figures are preliminary*

*** Current wholesale electricity markets introduced in March 2003*

**** This includes the value of the electric energy market only. It does not include the capacity or ancillary services markets.*

Electricity Prices Track Natural Gas Prices



Average Natural Gas and Wholesale Electricity Prices in New England (2003 to 2012¹)

	Avg. natural gas price (\$/MMbtu ²)	Avg. wholesale electricity price (\$/MWh ³)
2003 ⁴	\$5.89	\$48.59
2004	\$6.77	\$52.13
2005	\$9.72	\$76.64
2006	\$7.32	\$59.68
2007	\$7.94	\$66.72
2008	\$9.90	\$80.56
2009	\$4.77	\$42.02
2010	\$5.21	\$49.56
2011	\$4.98	\$46.68
2012	\$4.01	\$36.09
% Change 2011 to 2012	-19.5%	-22.7%
% Change 2003 to 2012	-31.9%	-25.7%

¹ 2012 figures are preliminary.

² 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.

³ One megawatt-hour of electricity can serve about 1,000 average homes in New England for one hour.

⁴ Current wholesale market commenced March 2003