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New England's Wholesale Electricity and Capacity Markets Were Competitive in 2014

High natural gas prices in winter drove up the annual average power price

Holyoke, MA—May 20, 2015—Wholesale power markets in New England operated competitively last year, with prices that reflected the cost of production, according to the [2014 Annual Markets Report](#) issued 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 average real-time price of wholesale electric energy in 2014 rose about 13%, to \$63.32 per megawatt-hour (MWh), largely driven by higher fuel costs in the first quarter when extreme cold weather increased demand for natural gas, which generates almost half the electricity produced in New England. The resulting spike in gas prices caused wholesale power prices to rise.

Jeffrey McDonald, ISO New England's vice president of market monitoring, said, "When the cost of the fuel used most often to generate electricity goes up, wholesale power prices rise as well. Overall, 2014 weather was milder compared with 2013, but the extreme cold in January, February and March and the resulting high natural gas and power prices were the main reason for 2014's higher annual average power price. Lower oil and natural gas prices, combined with mild summer weather that contributed to lower energy usage, and the implementation of several ISO market enhancements that helped improve both reliability and market efficiency, brought generally lower wholesale electricity prices during the rest of the year.

"The wholesale electricity price trends we saw in 2014 tracked the fluctuations in fuel prices, which is what we expect from competitive markets. In fact, our structural measures of competitiveness for the near-term markets indicated a high degree of competitiveness among participants who provided energy and operating reserves in 2014," McDonald said.

Key findings of the *2014 Annual Markets Report*:

- **Wholesale electricity market value:** The total value of the region's wholesale electricity markets, including electric energy, capacity, and ancillary services markets, rose about 12%, from about \$8.8 billion in 2013 to about \$9.9 billion in 2014. Electric energy comprised \$8.4 billion of the total in 2014.
- **Wholesale energy prices:** The average real-time price for wholesale electric energy rose 13%, from \$56.06/MWh in 2013 to \$63.32/MWh.
- **Fuel costs:** The average price of natural gas, which set the wholesale electricity price in 70% of the hours in 2014, rose 15% last year, from \$6.97 per million British thermal units (MMBtu) in 2013 to \$7.99/MMBtu in 2014.
- **Consumption:** At 127,138 gigawatt-hours, total electricity usage in New England was 2.0% lower in 2014 than in 2013.

- **Reliability commitments:** Resources can receive payments, in addition to energy market revenues, to cover their costs if they are needed to help ensure the reliability of New England's power system. These additional payments increased 10% to \$173.7 million in 2014; about 62% of the payments stemmed from the need to operate more expensive generation during extreme cold weather in the first quarter of 2014.
- **Reserve prices:** Additional resources are maintained in reserve at all times so the system can recover from the unexpected loss of a resource. Reserve payments fell from \$54 million in 2013 to \$38.6 million in 2014. Reserve payments may be incurred during resource outages, extreme weather, or other events for which the frequency and magnitude vary each year.
- **Capacity:** The cost of capacity in 2014, resulting primarily from the third and fourth Forward Capacity Market (FCM) auctions held in 2009 and 2010, respectively, rose by 1% to \$1.06 billion. The report notes that the first seven auctions cleared with excess capacity but the eighth auction, conducted in February 2014 for the 2017-2018 capacity commitment period, concluded with a slight shortfall after 3,135 megawatts (MW) of existing resources announced plans to retire in 2017. The retirements triggered administrative pricing rules designed to protect consumers from higher capacity prices while still providing incentives for developers to build and retain resources.
- **Demand resources:** Participation in the FCM by demand-side resources, which include both energy-efficiency measures and active demand-response resources, increased 19%, from 1,535 MW in December 2013 to 1,821 MW in December 2014. Payments to demand resources providing capacity totaled \$90.3 million in 2014, up 3.2% from the \$87.5 million paid in 2013.

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 the markets' design and needed operational 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 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](#).

ABOUT ISO NEW ENGLAND

Created in 1997, ISO New England is the independent, not-for-profit corporation responsible for the reliable operation of New England's electric power generation and transmission system, overseeing and ensuring the fair administration of the region's wholesale electricity markets, and managing comprehensive regional electric power planning.



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