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Annual Review Concludes that New England's Wholesale Power Markets Operated Competitively in 2013

Rising natural gas costs drove wholesale electricity prices up

Holyoke, MA—May 6, 2014—The \$8.8 billion wholesale electricity markets in New England operated efficiently and competitively in 2013, 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 *2013 Annual Markets Report (AMR13)* concludes that higher wholesale power prices in the six-state region in 2013 were largely due to higher prices for natural gas, the predominant fuel used to generate power in New England.

"Wholesale power market outcomes in 2013 reflected the increase in natural gas prices last year," said David LaPlante, vice president of market monitoring. "While energy prices went up, they were consistent with the cost of production, which is a key indicator that the markets were competitive and efficient."

AMR13 examines the operation of the wholesale electricity markets administered by ISO New England to determine whether the markets are operating efficiently and competitively. The report presents an assessment of each market based on market data, performance criteria, and independent studies. The annual report includes recommendations to enhance the wholesale markets design, and outlines the improvements that have been accomplished during the year.

AMR13 notes that both the cost and reliability of New England's electricity system depend on the cost and availability of natural gas and fuel oil. Because natural gas generates the largest share of New England's power, high prices for natural gas have resulted in high wholesale electricity prices in the winter when the demand for natural gas is greatest. Similarly, the reliability of the region's electric grid is dependent on generators procuring sufficient natural gas and fuel oil to operate when needed.

Some highlights of the *2013 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 45%, from about

\$6.1 billion in 2012 to about \$8.8 billion in 2013. Electric energy comprised \$7.5 billion of the total in 2013.

- **Energy prices:** The average real-time price for wholesale electric energy rose 55%, from \$36.09/megawatt-hour (MWh) in 2012 to \$56.06/MWh.
- **Fuel costs:** The average price of natural gas, which set the wholesale electricity price in 69% of the hours in 2013, rose 76% last year, from \$3.95 per million British thermal units (MMBtu) in 2012 to \$6.97/MMBtu in 2013.
- **Consumption:** Electricity usage was 1.0% higher in 2013 than in 2012.
- **Reliability commitments:** Resources can receive payments in addition to energy market revenues, if needed, to cover their costs. This includes resources that do not clear in the energy market but are dispatched to help ensure the reliability of New England's power system. These additional payments increased 81% to \$158.7 million in 2013; about 70% of these payments were made in January, February, July, and December when several resources were dispatched for reliability due to tight or uncertain system conditions.
- **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 rose from \$29.8 million in 2012 to \$54 million in 2013, due, in part, to the purchase of increased amounts of reserves to ensure reliability. In all, ancillary services such as reserves, reliability commitments, and regulation cost about \$270 million in 2013, up from \$130 million in 2012.
- **Capacity:** The cost of capacity fell by 11% from \$1.19 billion in 2012 to \$1.06 billion in 2013. The report notes that from 2006 through the Forward Capacity Market (FCM) auction held in 2013, more than enough capacity has been available to meet the region's capacity requirement.
- **Demand resources:** Demand-side resources participating in the FCM declined 11%, from 1,724 MW in December 2012, to 1,535 MW in December 2013. Payments to demand resources totaled \$92.2 million in 2013, up slightly from the \$91.6 million paid in 2012.

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 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](#).