

ISO New England State of the Market Report 2006

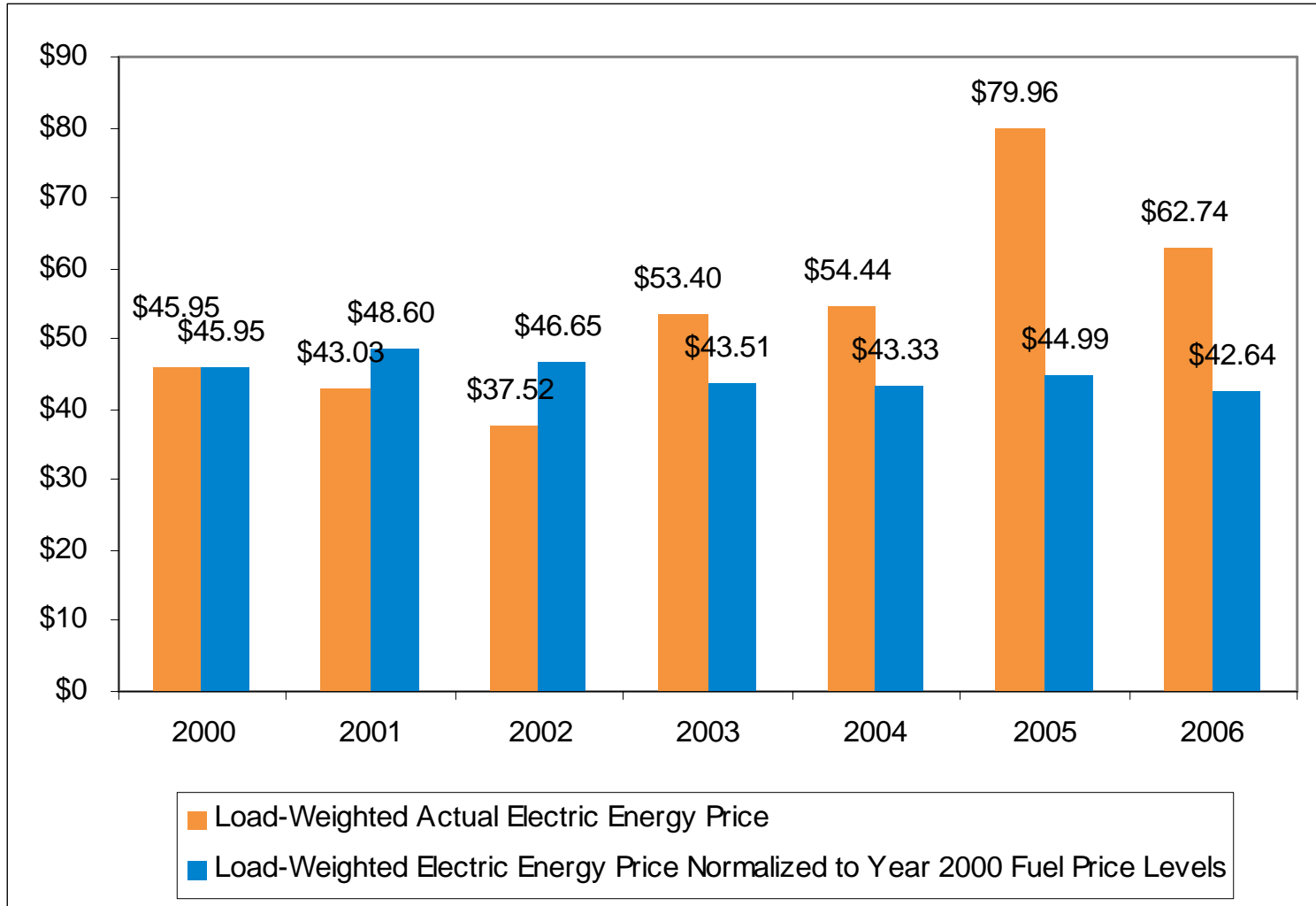
*NEPOOL Annual Meeting
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*Hung-po Chao, PhD
Director, Market Monitoring*

State of the Markets 2006

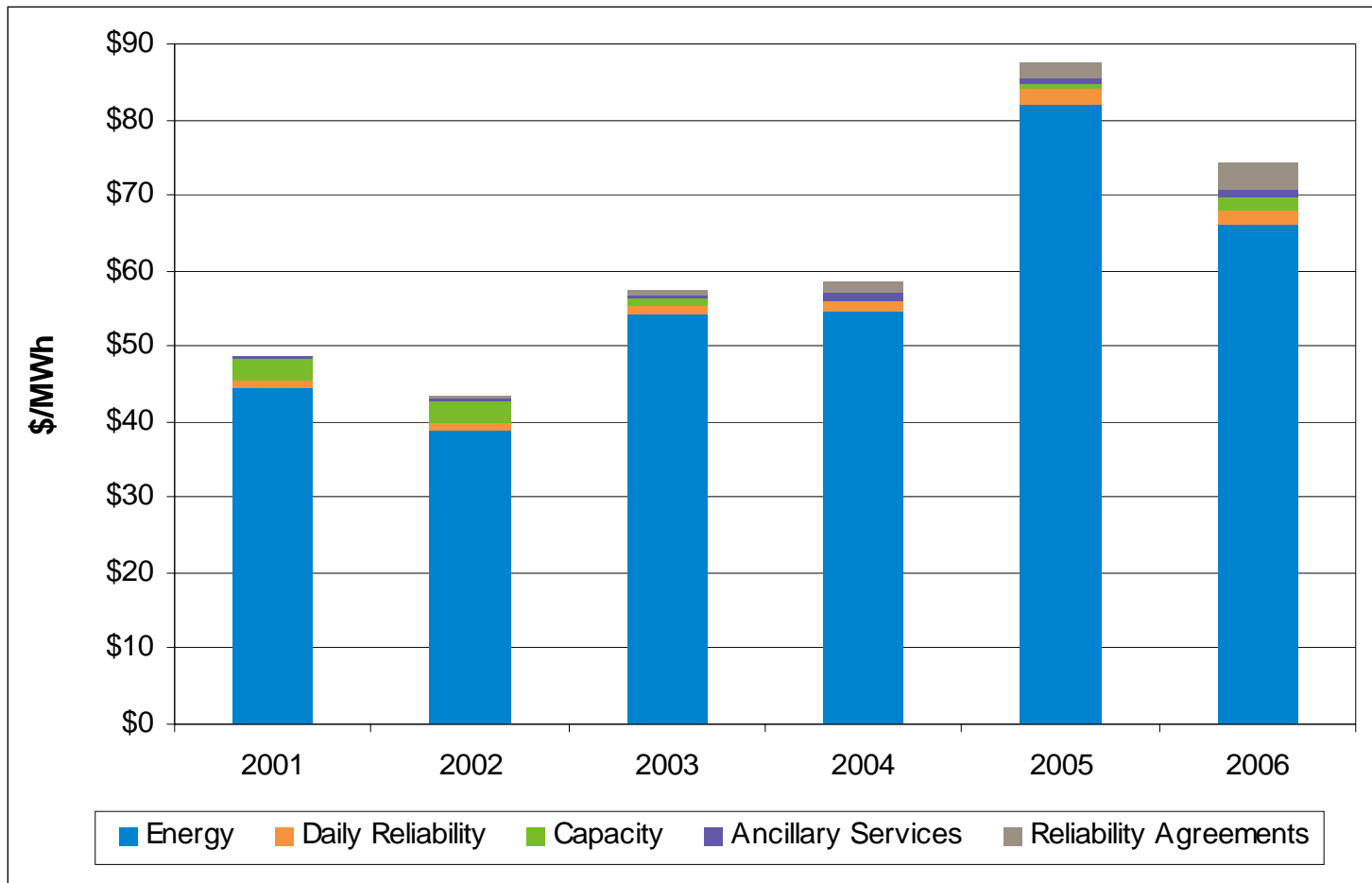
- 2006 Overview
 - Wholesale electricity prices were consistent with those expected in a competitive market
 - Markets supported reliable system operations
 - Record demand response on peak-load day with negative operable capacity margin
 - Successful implementation of Locational Reserve Markets
 - Efficient reserve pricing with co-optimization of energy and reserves
 - Transition to Forward Capacity Market initiated
 - Progress toward complete market structure to increase investment and improve demand participation

Fuel adjusted price



All-In Market Cost Metric, 2001 - 2006

New England Wholesale Electricity Market Cost Metric: Energy, Daily Reliability, Capacity, Ancillary Services and Reliability Agreements

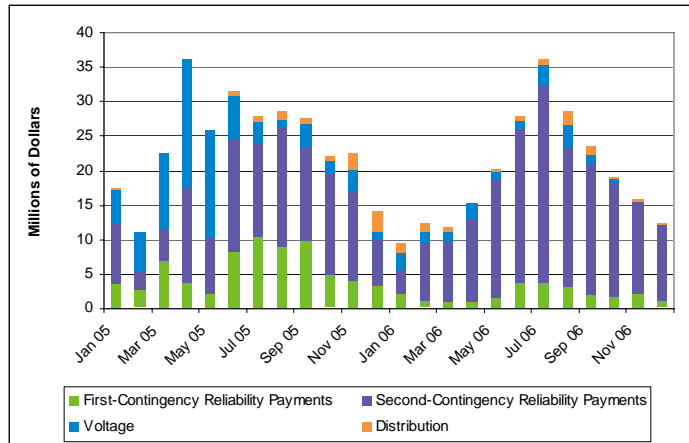


Support of Reliable System Operations

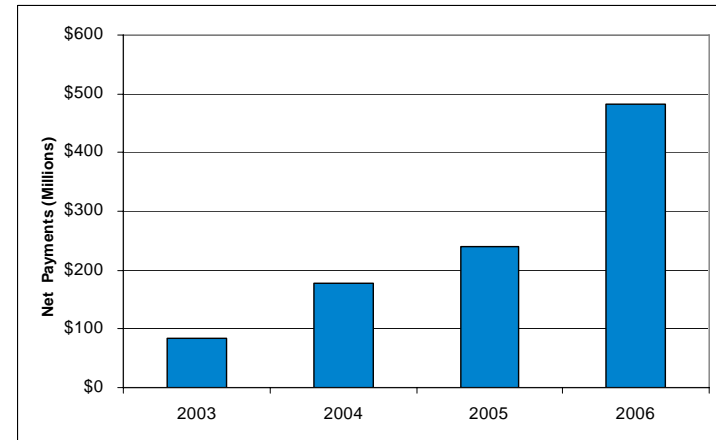
- Wholesale electricity markets successfully supported reliable system operations throughout 2006
 - ISO successfully managed several system events
- New Record Peak Load set August 2, 2006
 - Negative operable capacity margin during peak-load hour
 - Demand Response programs provided 597 MW of load reduction during the peak hour and a high of 625 MW later in the day

Efforts to Reduce Reliability Costs

Daily Reliability Payments



Reliability Agreement Payments



- Daily Reliability Payments (“Uplift” charges) depend on local conditions and are expected to continue to decline as transmission expansion projects bring more power into import-constrained areas.
- Reliability Agreement Payments (“Reliability Must-Run” charges) have risen largely because of contracts with two older plants, which have been terminated after introduction of Forward Capacity Market (FCM).

Long-Term Investment

- Investment in transmission was active
 - Components of NSTAR 345 kV Transmission Reliability Project in service during 2006 (October 2006)
 - Ward Hill Upgrades (July 2006)
 - Phase I of SWCT 345 kV Transmission Reliability Project completed (October 2006)
- Minimal change in generation capacity
 - No “New” capacity
 - 110 MW increase from 2005 resulting from
 - Existing resource re-ratings
 - Existing capacity coming from behind the meter
 - Re-activation of a resource

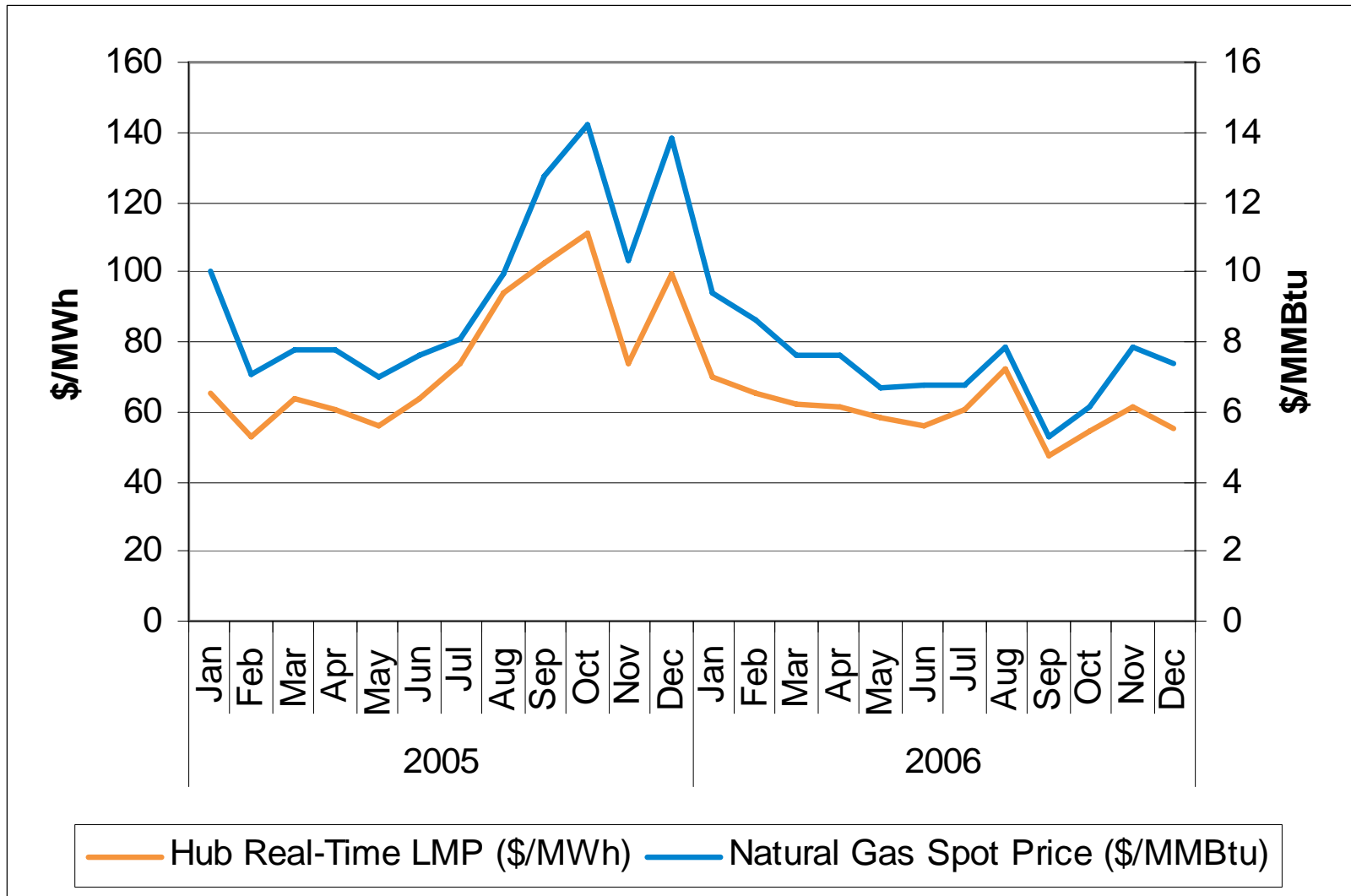
Market Improvements in 2006

- Reserve Market Improvements (ASM II)
 - Locational Forward Reserve Market
 - Locational requirements
 - Portfolio bidding
 - Bilateral transactions for reserve obligations
 - Locational Real-Time Reserve Pricing
 - Locational pricing of TMSR, TMNSR and TMOR
- Forward Capacity Market (FCM) Settlement Agreement
 - Transition payments of the FCM replaced ICAP market in December 2006
 - FCM is expected to attract new investment and foster competition
 - Long-term contracts provided by the FCM will also enable better risk management

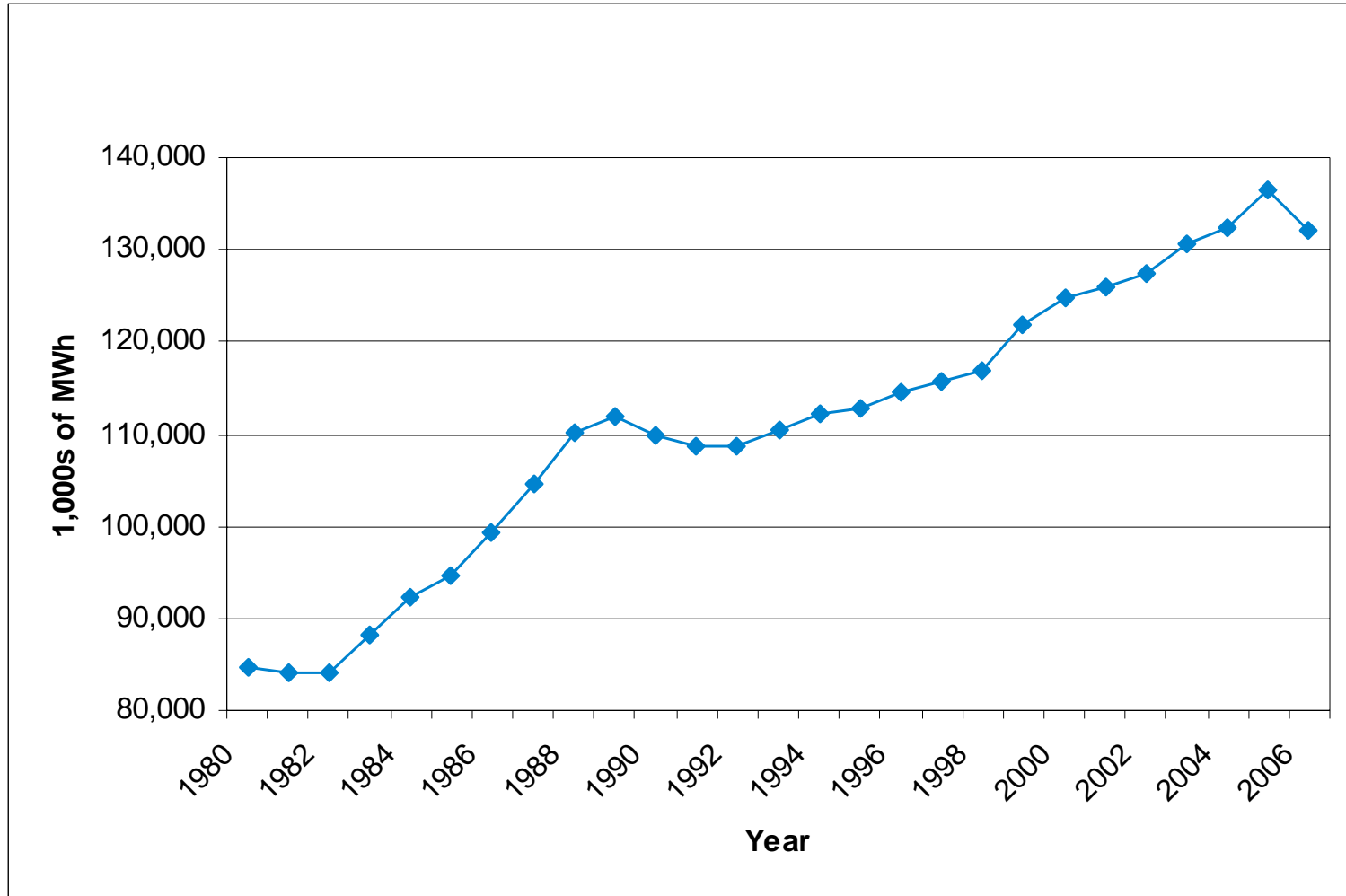
Market Outlook

- Markets entering a new phase
 - Market structure is now largely complete
 - Focus shifted from design to improvement
- Market improvement is inherently a collaborative effort
 - Market monitor should be independent but not isolated
- Continue to improve performance, transparency demand participation

Electricity Prices track Natural Gas Prices



Drop in Annual Net Energy for Load

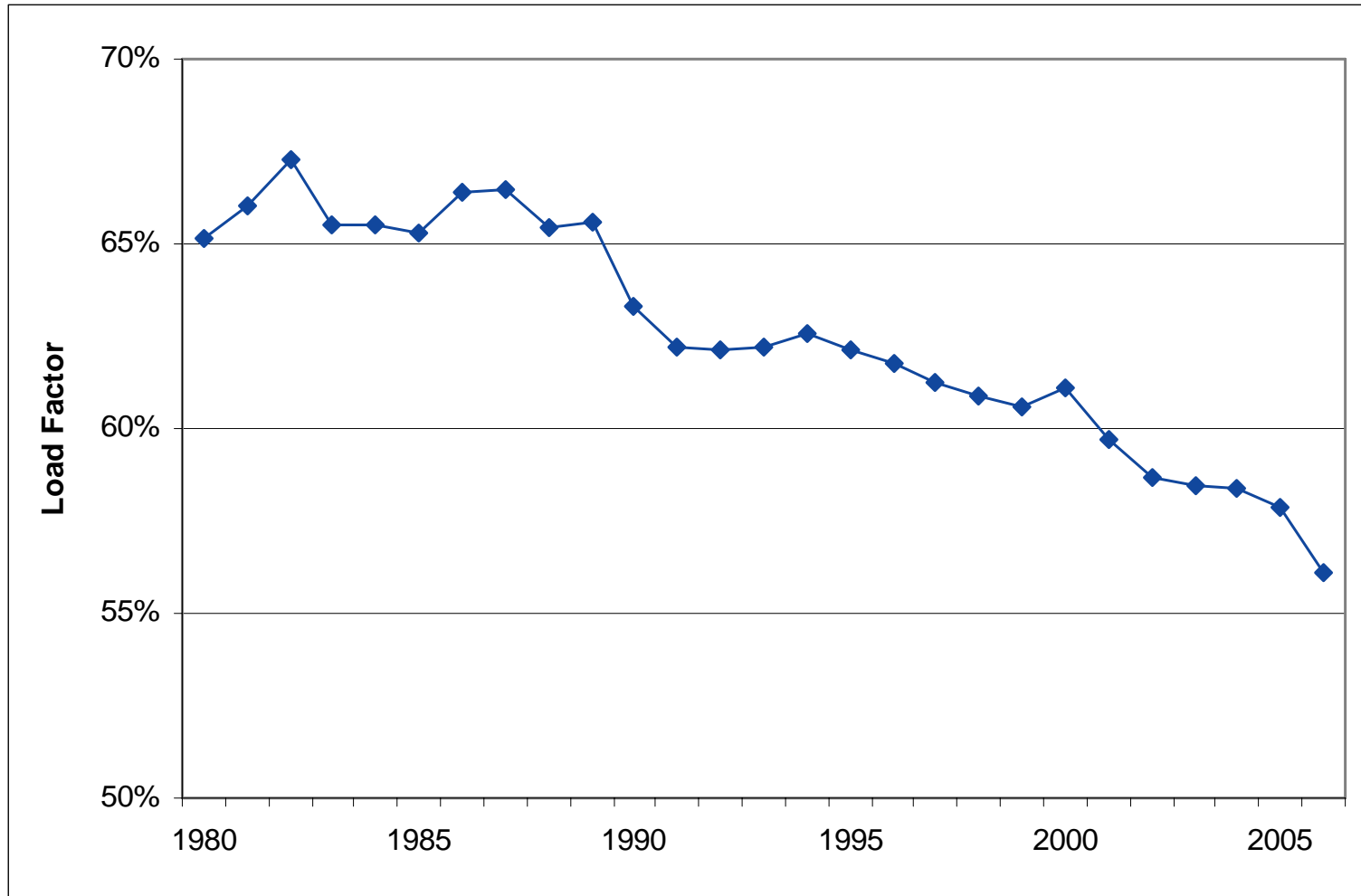


Energy and Peak Load

Annual NEL decreased while annual peak-load increased

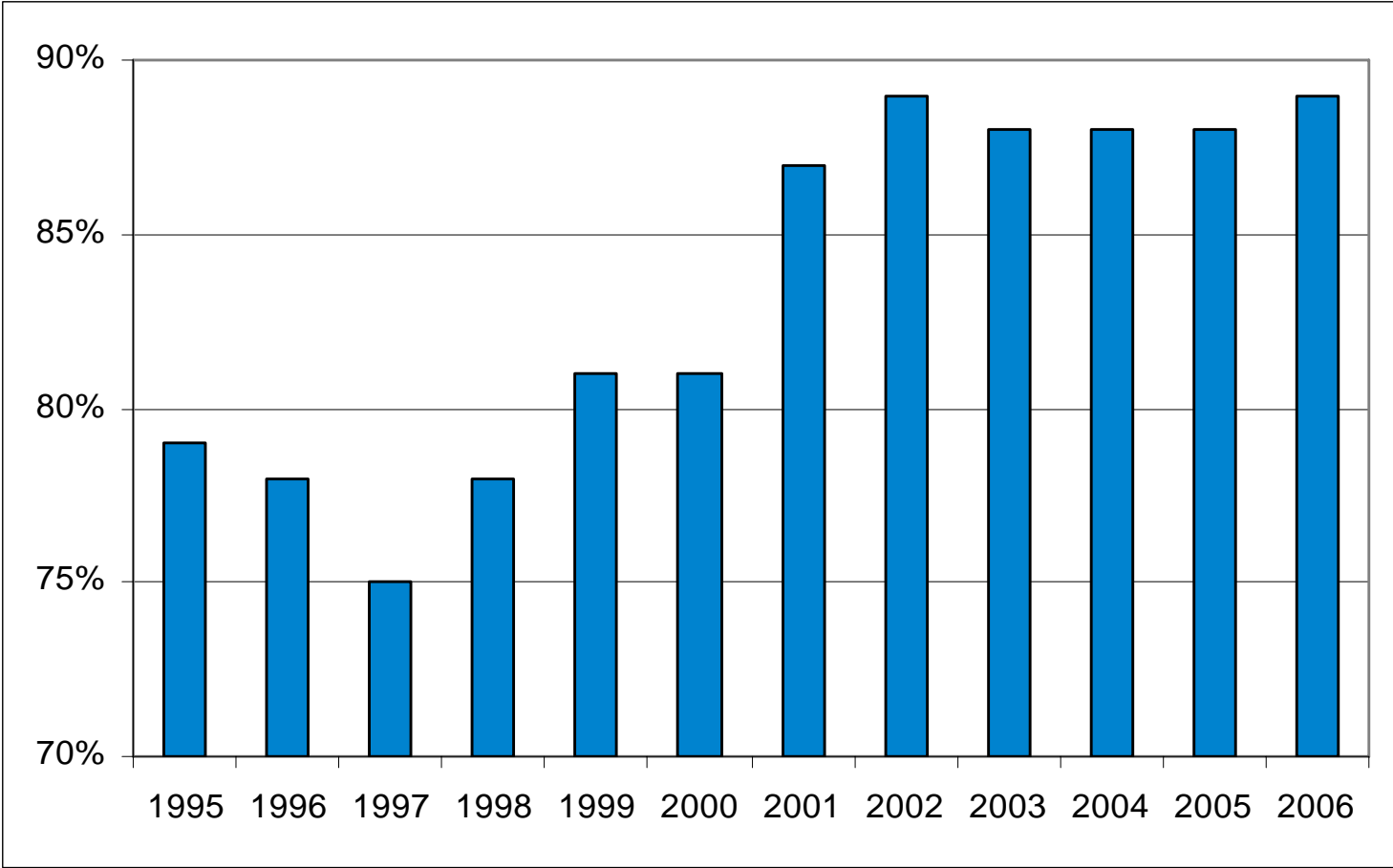
	2005	2006	Change	% Change
Annual NEL (MWh)	136,376,000	132,078,000	-4,298,000	-3.2%
Normalized NEL (MWh)	134,625,000	132,480,000	-2,145,000	-1.6%
Recorded peak demand (MW)	26,885	28,130	1245	4.60%
Normalized peak demand (MW)	26,545	26,940	395	1.50%

Continued Decrease in Load Factor



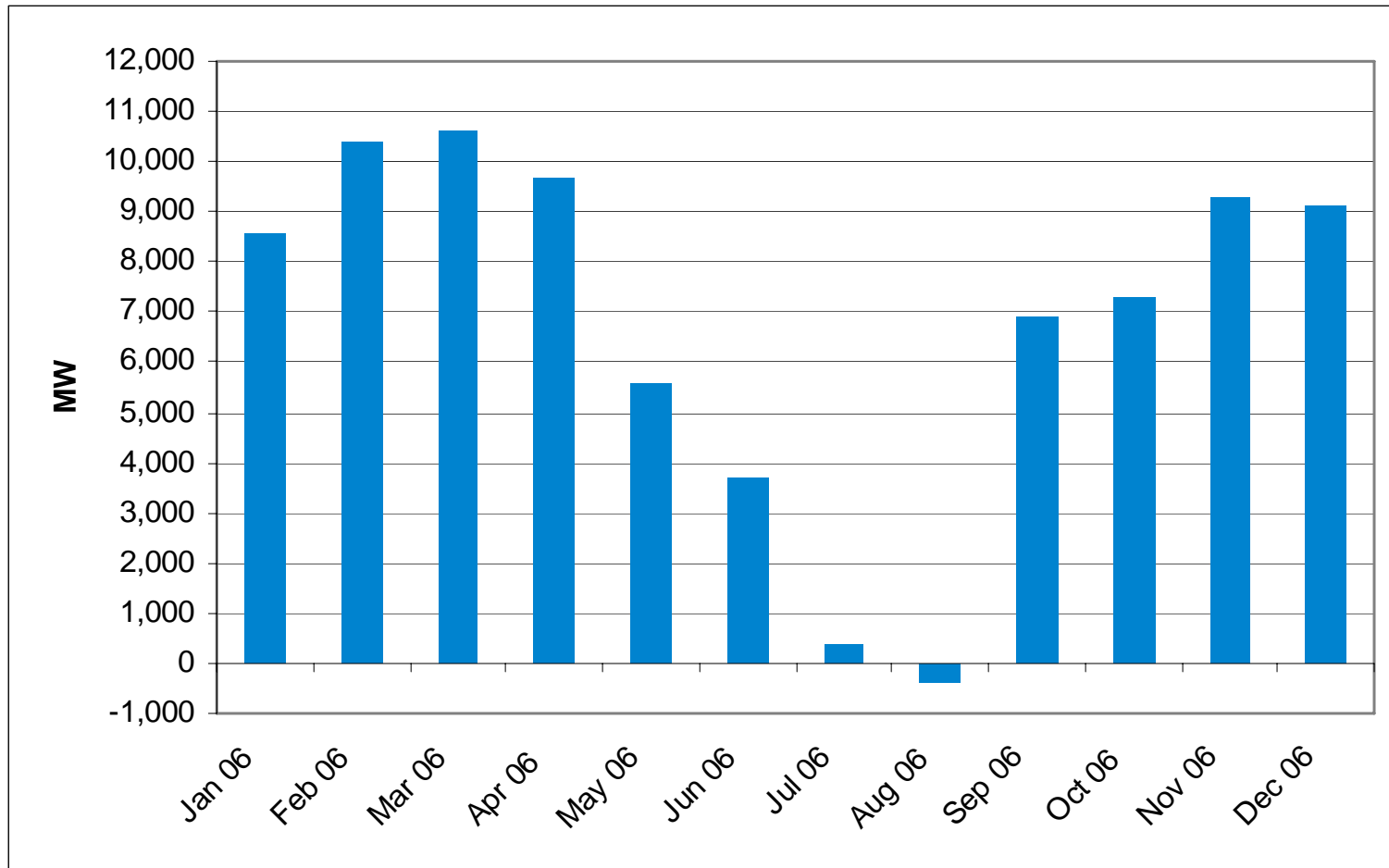
Generator Availability Remains High

Annual Weighted Equivalent Availability Factors



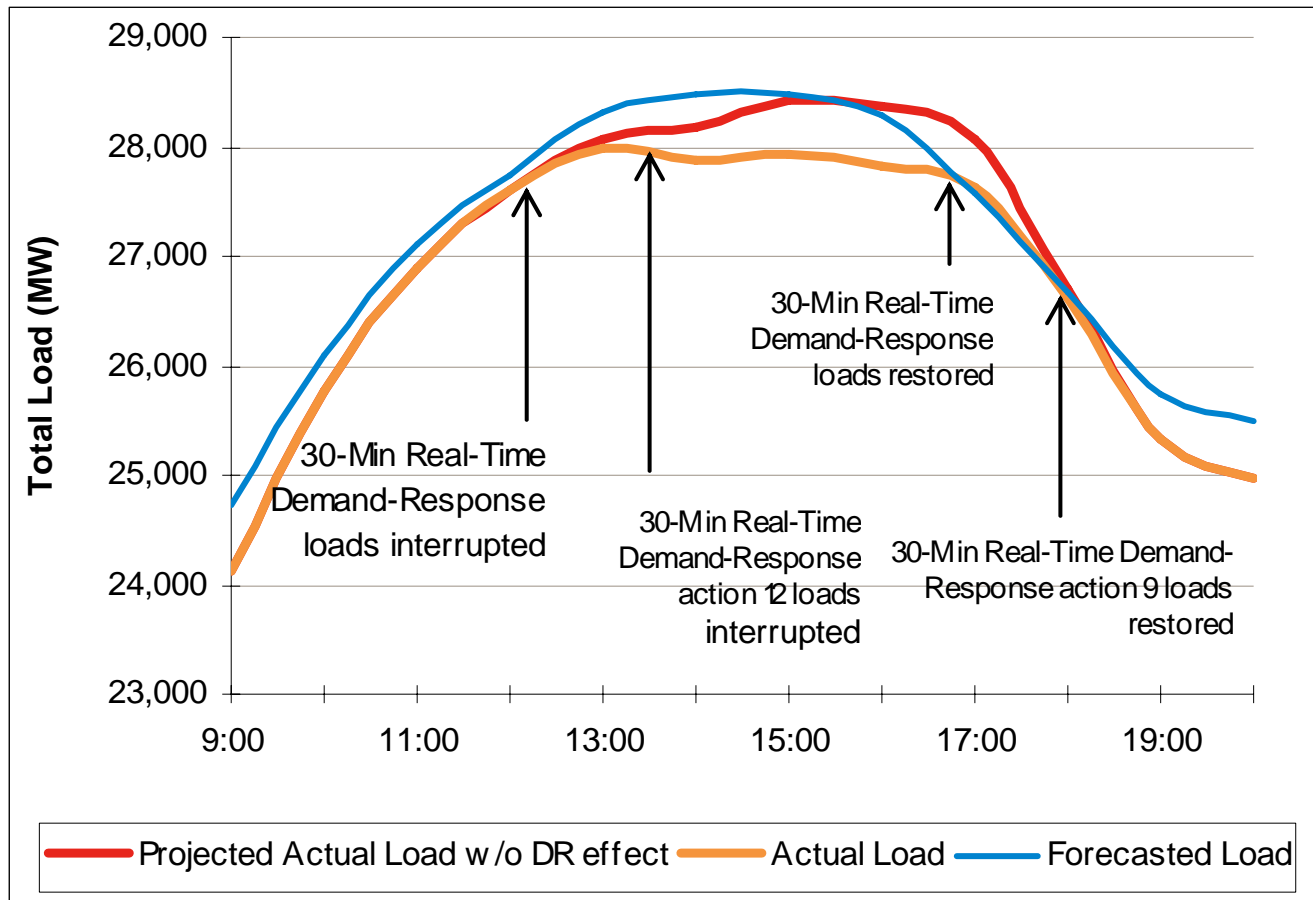
Negative Capacity Margin In August 2006

Monthly Peak-Hour Operable Capacity Margin



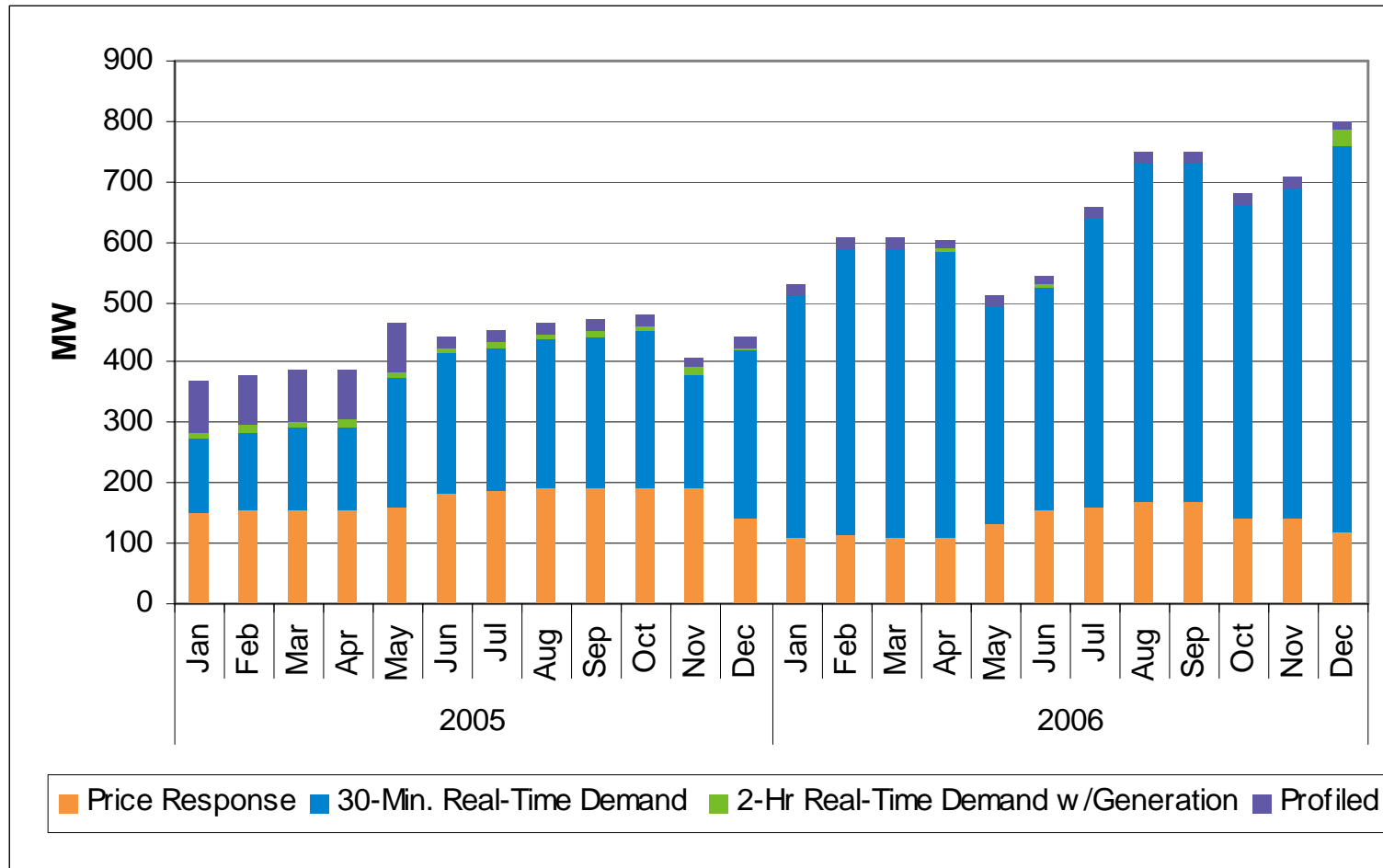
Demand Response Programs Shave Peak Load

Effect of Demand Response Programs on August 2, 2006



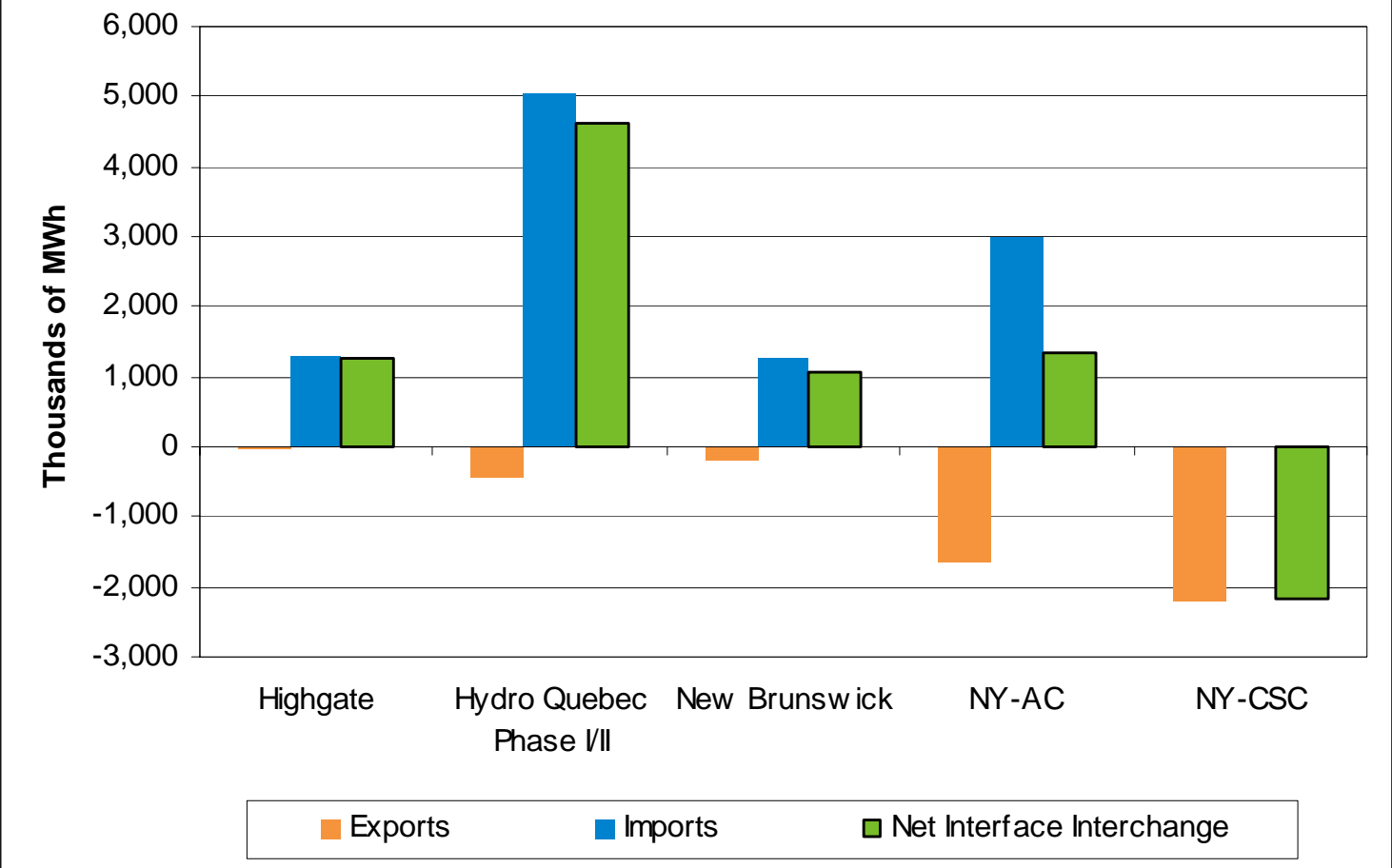
Demand Response Participation

Monthly Enrollments in Demand-Response Programs, 2005 and 2006



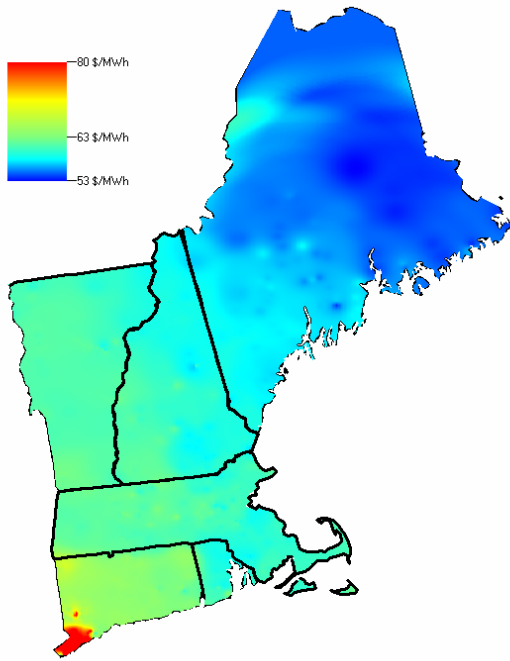
New England Remains a Net Importer

Imports and Exports by Interface

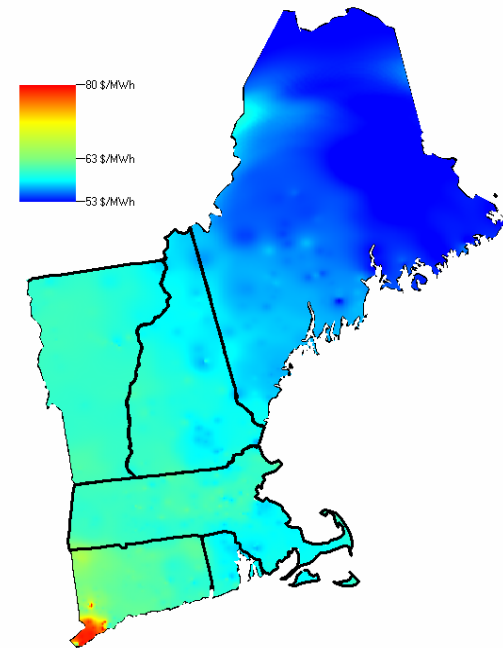


Continued Price Separation

Day Ahead

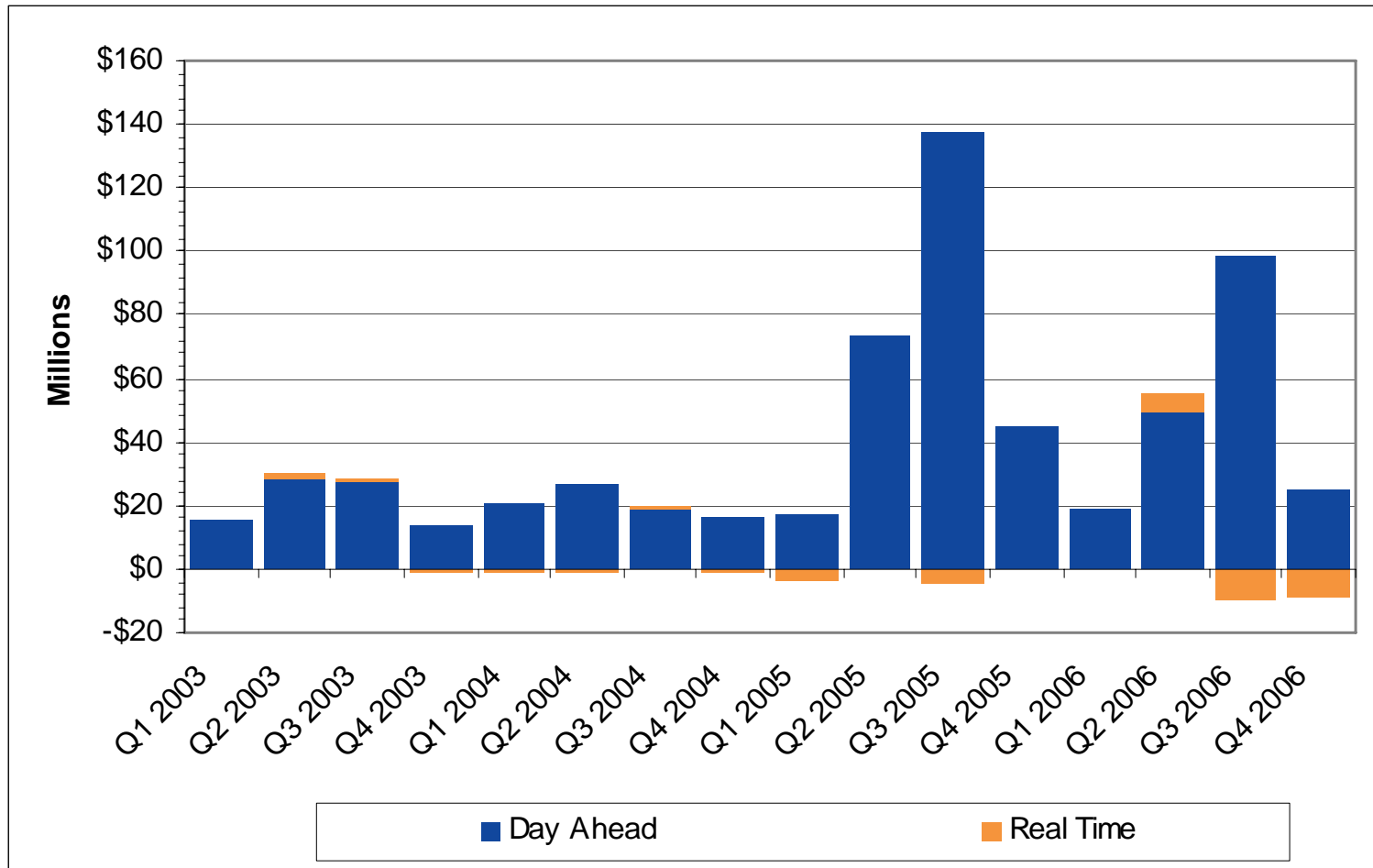


Real Time



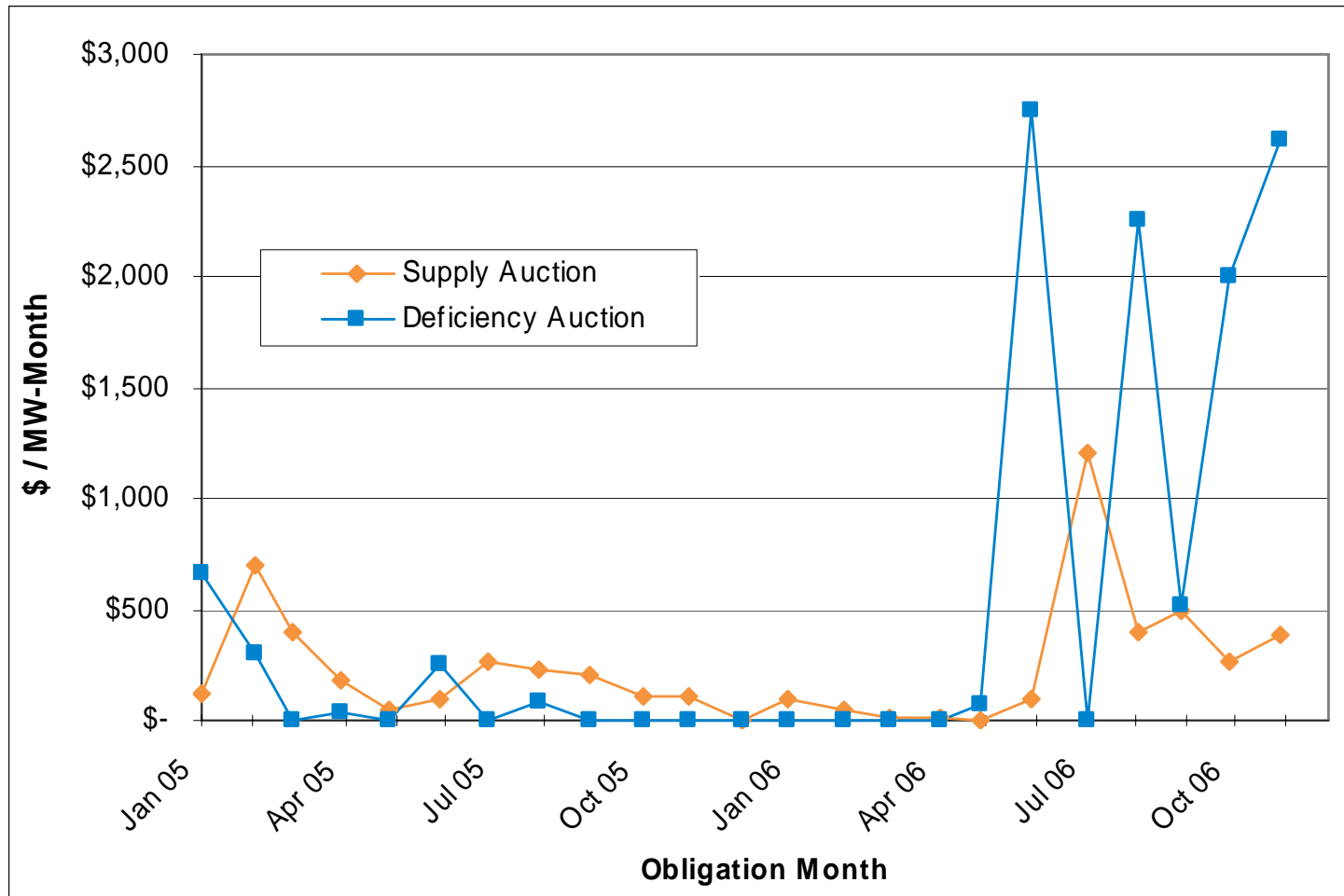
2006 Average Nodal Prices (\$/MWh)

Annual Congestion Costs Decreased

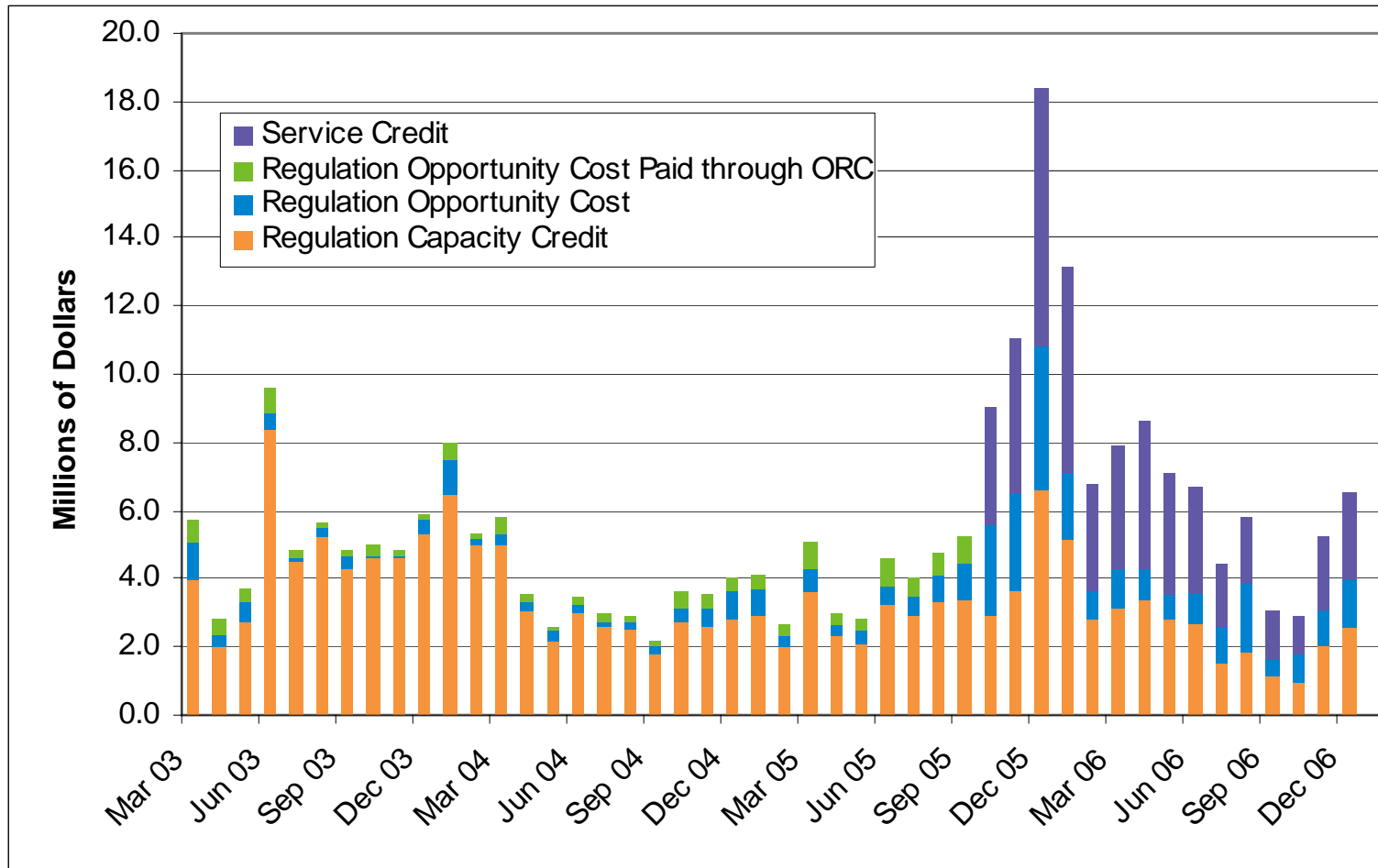


ICAP Market Prices

2006 Capacity Market Prices Higher and More Volatile



Total Regulation Payments Decreased



Locational Forward Reserve Auction Results

Reserve Zone	Product Type	Total Supply Offers (MW)	Cleared Supply (MW)	Clearing Price (\$/MW-Month)
Rest-of-System (outside SWCT, CT, NEMA)	TMNSR	948.48	565.6	\$4,200
Rest-of-System (outside SWCT, CT, NEMA)	TMOR	735.4	232.4	\$4,200
SWCT	TMNSR	90	90	\$14,000
SWCT	TMOR	304	304	\$14,000
CT	TMOR	265	265	\$14,000
NEMA/Boston	TMNSR	60	60	\$14,000
NEMA/Boston	TMOR	257	257	\$14,000

- SWCT, CT and NEMA/Boston Reserve zone targets not met
 - Clearing price equal to offer cap
- Prices paid to resources delivering forward reserve reduced by \$3,050/MW-Month FCM Transition Payment

Real-Time Reserve Pricing Results

- Part of ASM II project implemented October 1, 2006
- Positive Real-Time reserve price in at least on reserve zone during 238 hours (11% of total hours)
- Reserve price > \$50 in less than 1% of hours for each zone
- Zero price for Rest of System TMOR in 100% of hours
- Net Real-Time reserve payments of \$1.6 million

Forward Capacity Market (FCM)

- FCM market rules filed with FERC February 15, 2007
 - Orders issued April 15 and June 5, 2007
- FCM Transition payments replaced ICAP payments starting in December 2006
 - December 2006 transition payments total \$101.4 million based on 33,239 MW of UCAP supply (\$3,050/MW-Month)
 - Demand entry notable

Forward Capacity Market

- ISO and market participants engaged in qualification process for February 2008 auction
 - FCM new capacity “show of interest” of 12,400 total MW including 2,400 demand response MW
- First FCM auction to be held February 2008 for June 2010 delivery period

FCM Features

- Installed Capacity Requirement (ICR) forecasted 3-5 years into future
- Design allows for capacity prices to vary by capacity zone
- New capacity resources clearing in FCA can opt to receive FCA price for 1 to 5 years
- Primary Forward Capacity Auction
 - Descending clock auction
 - Project sponsors submit quantities offered, not prices
- Annual, Seasonal, and Monthly reconfiguration auctions

2006 Key Market Conclusions

- Market outcomes reflect underlying supply and demand conditions
- Market evolution providing needed investment signals and incentives
 - Ancillary Services Market Project fully implemented
 - Full year of regulation market
 - Locational Forward Reserve Market auction
 - 3 months of Real-Time reserve pricing
 - FCM design submitted to FERC
 - ICAP Auction replaced with FCM Transition Payments
- Markets supporting reliable operations through stressed system conditions
 - Three record peak-load days
 - Negative operable capacity margin during peak hour

Questions?