

For Immediate Release

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Market Report: New England's Wholesale Electricity Costs Down Significantly in 2009

Assessment shows that region's markets are competitive

Holyoke, MA—May 18, 2010—Falling wholesale electricity prices that mirrored last year's steep decline in fuel costs are among the indicators that New England's wholesale electricity markets were competitive in 2009, according to ISO New England Inc., the operator of the region's bulk power system and wholesale electricity markets.

The *2009 Annual Markets Report*, issued today by the Internal Market Monitor at ISO New England, reports that wholesale electric energy costs fell dramatically in 2009, in line with falling fuel costs as well as lower demand for electricity due to economic conditions. Electric energy costs fell 50% while congestion costs fell 79%.

"In a competitive market, changes in a product's price will track the cost of inputs. Fuel costs fell about 50% last year and electric energy prices followed suit," according to David LaPlante, Vice President, Market Monitoring at ISO New England. "This close relationship is a strong indication of the competitiveness of New England's wholesale electricity markets."

The wholesale markets report prepared annually evaluates a variety of factors that make up the overall cost of wholesale power to determine whether the markets are working as designed. These factors include electric energy prices, fuel costs, consumption levels, transmission congestion, costs to run power plants to maintain system reliability, and costs to run power plants to maintain required reserve margins.

Key findings in the *2009 Annual Markets Report* include:

- **Electricity costs.** The cost of electric energy in New England fell 50%, from \$10.6 billion in 2008 to \$5.3 billion last year, reflecting lower fuel prices and near-record hydroelectric production, as well as lower demand. The average real-time hub price dropped from \$81/megawatt-hour (MWh) to \$42/MWh.
- **Fuel costs.** The cost of all major fuel types fell dramatically—natural gas prices fell by 54%; distillate fuel oil, 43%; and coal, 46%. Factoring out fluctuations in fuel prices, average electric energy prices in 2009 were comparable to the fuel-adjusted prices observed since 2000.

- **Consumption.** Demand for electricity was 3.7% lower than in 2008; when the year-to-year variations in weather are factored out, demand was down by 2.2%.
- **Congestion.** The costs associated with managing constraints on the flow of electricity fell \$96 million, or almost 80%, from \$121 million in 2008 to \$25 million in 2009. This drop is due to the completion of new transmission infrastructure, which reduced the frequency of constraints that limited the flow of lower-cost power into some areas.
- **Reliability costs.** The cost to operate power plants in specific locations to ensure reliability fell by \$189.7 million, or almost 90%, to \$22.3 million, not only due to decreased operating costs resulting from transmission upgrades, particularly in Southwest Connecticut, Greater Boston, and Southeastern Massachusetts, but also because of lower fuel costs.
- **Reserve prices.** Total reserve payments fell from \$16.8 million in 2008 to \$7.9 million in 2009. Reserve payments in 2008 were unusually high due to overnight shortages of reserves.
- **Demand resources.** The number of megawatts (MW) of enrolled demand resources rose about 17% in 2009, from 2,546 MW in December 2008 to 2,998 MW in December 2009.
- **Generator availability.** The amount of time generators were available to produce electricity has held steady since the mid-2000s, when it increased to 87% from a low of 81% in 2000.

The Internal Market Monitor analyzes each wholesale electricity market based on market data, performance criteria, and independent studies. An External Market Monitor also analyzes New England's wholesale electricity markets for competitiveness. The Internal Market Monitor reports directly to ISO New England's Board of Directors, giving the function the independence needed to serve as an objective overseer of the markets. 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.

The full report is available [here](#).