



# 2007 State of the Market Report New York Electricity Markets

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## New York ISO Electricity Markets

- The New York ISO (“NYISO”) operates the most complete set electricity markets in the U.S., which include:
  - ✓ Day-ahead and real-time markets jointly optimize energy, operating reserves and regulation. These markets lead to:
    - Prices that reflect the value of energy at every location;
    - The lowest cost units being started each day to meet demand;
    - Delivery of the lowest cost energy to New York’s consumers to the maximum extent allowed by the transmission network.
  - ✓ Capacity markets that ensure that the NYISO markets produce efficient long-term economic signals to govern decisions to:
    - Invest in new generation and demand response resources,
    - Maintain existing resources; and
  - ✓ The market for transmission rights allow participants to hedge the congestion costs associated with using the transmission network;

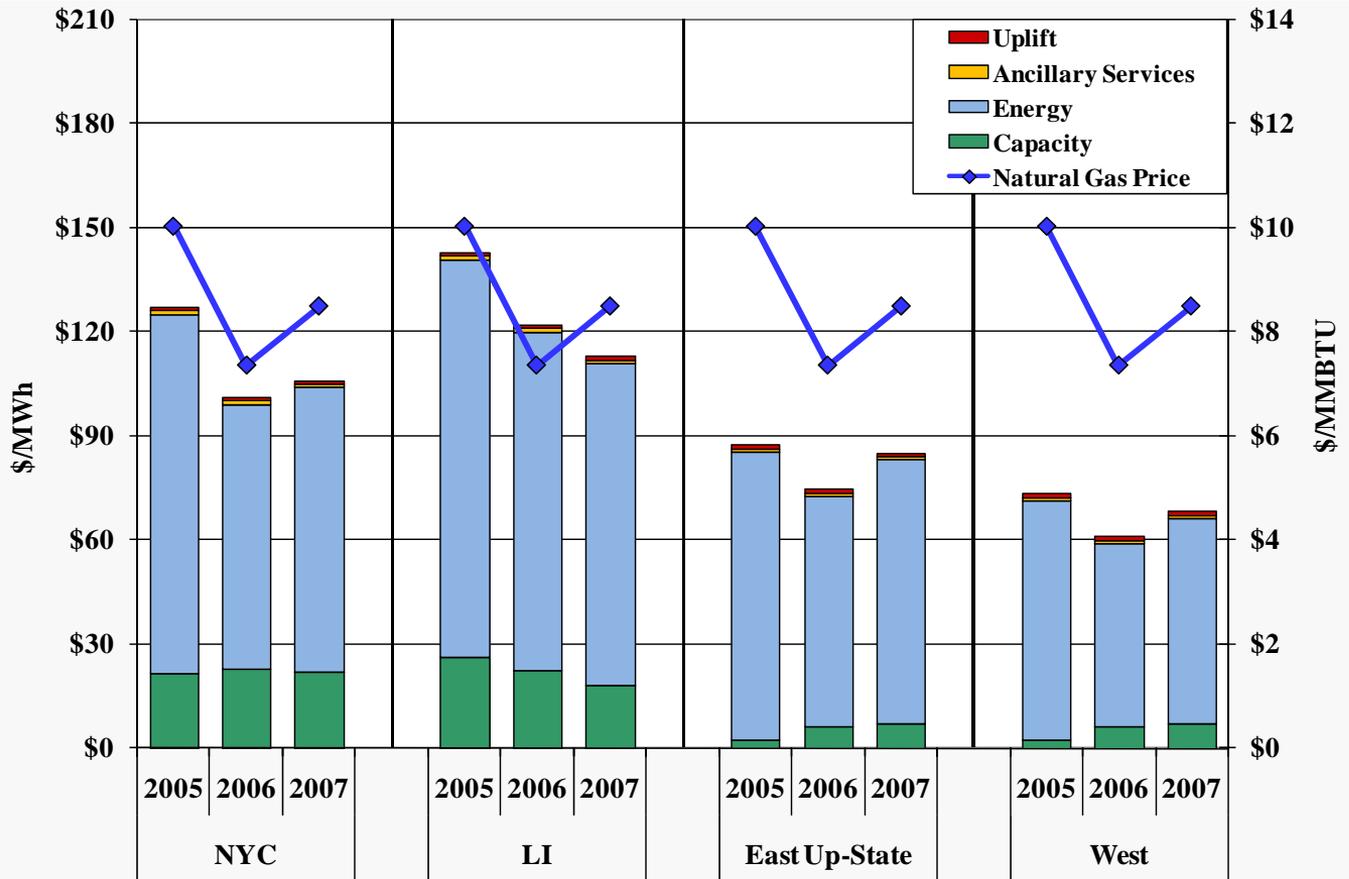


## Summary of Conclusions

- The energy and ancillary services (operating reserves and regulation) markets performed competitively in 2007.
  - ✓ We found no evidence that suppliers have been withholding generation to inflate energy or ancillary services prices.
  - ✓ Recent rule changes should address the competitive issues in the NYISO capacity market in 2008.
- Energy prices increased 6 to 12 percent in most areas, mainly due to higher fuel prices 2007 (natural gas prices increased 15 percent). The fuel price increases were partly offset by:
  - ✓ New transmission from New Jersey to Long Island in July 2007, which led to a 3 percent decline in Long Island prices.
  - ✓ Milder summer weather, which reduced the frequency of real-time shortages 80 percent relative to the summer of 2006.



# All-In Prices: 2005 to 2007



Note: Based on load-weighted average real-time energy prices, and weighted average costs for other components.



## Review of Results

- Overall, the results in the 2007 SOM report show that NYISO energy markets performed well in 2007.
- These markets are among the most advanced in the country and we found no indications that fundamental changes to the market design or products are needed.
- However, our report includes five recommendations focused on:
  - ✓ Improving the coordination of imports and exports, particularly with New England;
  - ✓ Establishing capacity requirements in Southeast New York; and
  - ✓ Addressing a limited number of operational aspects of the markets.
- In the long-term, the NYISO markets are structured to provide the economic signals needed to maintain adequate supply resources, demand resources, and transmission capability.