

New York Independent Market Monitor: Statewide Prices Down; Generation Up, Congestion Down in NYC

“The New York Independent Market Advisor confirms that competitive markets work well for consumers – meeting their generation needs and lowering costs while responding efficiently to demand changes.”

John E. Shelk
President & CEO, Electric Power Supply Association

MARKETS PERFORMED WELL – COSTS DOWN

- “The energy and ancillary services (operating reserves and regulations) markets were very competitive in 2006.” (2006 State of the Market Report, New York Electricity Markets: David B. Patton, Ph.D., Potomac Economics, Independent Market Advisor, May 2007, p. 4)
- “Prices fell by 20 to 30 percent in most areas in New York. These reductions were primarily due to: substantially lower natural gas prices in 2006 and substantial new generation added in New York City in 2006. Close to 1000 MW of new capacity was added in the City, which reduced the power flows and congestion into the city.” (p. 4)
- “Total congestion costs decreased by more than \$200 million in 2006. Day-ahead and real-time congestion costs totaled more than \$770 million in 2006 compared to \$990 million in 2005.” (p. 10)
- “Substantial new capacity became available in New York City during this period. Approximately 500 MW in January 2006 and another 500 MW in May 2006. Demand response has increased by approximately 130 MW over the 23 months shown.” (p. 150)

COMPETITION EFFICIENTLY MEETS MARKET NEEDS

- “Regarding long-run price signals, the report shows that prices in 2006 would not support investment in new generation in most locations. These signals are correct in the short-term because there is a surplus of generation in most areas and prices are very competitive. However, investors should expect these signals to improve over the next few years as the surplus dissipates.” (p. 7)
- “This analysis also shows that market signals have tended to shift in favor of investment in baseload and intermediate resources that, while more costly to build, are lower cost to run and produce more electricity. Over time, the markets provide efficient incentives to invest in a diverse array of generating resources, demand response resources, and transmission.” (p. 7)

GREATER CONVERGENCE BETWEEN DAY-AHEAD AND REAL-TIME MARKETS

- “Price convergence was better in 2006 than in 2005, as reflected by smaller differences between average day-ahead and average real-time energy prices.... One reason why convergence between day-ahead and real-time prices is important is because most generation is committed in the Day-Ahead Market – good convergence leads to the most economic commitment for the actual conditions in real time. Good convergence is also compatible with efficient incentives for generators.” (pp. 43-44)
- “Systematic differences between day-ahead and real-time prices were generally smaller in 2006. Several factors helped improve convergence:
 - New capacity was installed Astoria West in January 2006 and in Astoria East in May 2006. This has substantially reduced congestion within New York City.
 - In May 2006, the NYISO began to use a more detailed network model for real-time scheduling that was already being used in the Day-Ahead Market. This has improved the consistency of congestion patterns between the day-ahead and real-time.” (p. 51)