



Fact Sheet No. 1:

Why Did New England Decide to Restructure its Electricity Markets?

What were the basic objectives for electricity restructuring in New England?

The restructuring of the New England market was the product of several years of negotiations and discussions among a wide range of market participants: utilities, regulators, customers, generators and others. From a public policy perspective, it was generally believed that a competitive wholesale market for power in New England could deliver more benefits to customers and the region than the regulated structure that had been in place for many years.

The utilities in New England, which had been regulated vertically integrated monopolies, had since 1971 joined together to run their systems on an integrated, but regulated basis, through an organization called NEPOOL. On the very last day of 1996, the NEPOOL members filed for approval to turn this regulated operation into a competitive market. The utilities would divest their generation — or spin it off into unregulated affiliates — and the competitive market would be run by an independent organization called ISO New England, which was charged with operating the grid reliably and running the new wholesale power market.

While there were many objectives for restructuring, a basic premise was that competitive forces would lead to lower prices, a higher level of investment and a more efficient and reliable power system.

Have these objectives been met?

Yes. For example, wholesale electricity prices in New England, adjusted for fuel costs and inflation, have declined by 16.5 percent during the four-year period from 2001-2004.¹ This has been the product of a substantial new investment in efficient generating plants, which have largely supplanted the region's mix of older, inefficient oil and gas-fired units. These units are cleaner as well as more efficient, so emissions of key pollutants have gone down even as electricity consumption has increased.

Another notable feature of this new competitive market regime is that these new generation investments have been made by private generators, not regulated utilities or their customers. So unlike the previous regulated system, where customers could be stuck with millions of dollars of costs from uneconomic “stranded” investments, this time customers are off the hook.

¹ ISO New England website, www.iso-ne.com. We have adjusted for inflation ISO New England's fuel-adjusted nominal value of 11 percent to yield a real decrease of 16.5 percent.