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PRESS RELEASE

**For Immediate Release**

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**Region's New Wholesale Electricity Marketplace Successfully 'Switched On'**

*Redesigned Power Market Will Encourage  
Conservation, Investments in New Plants and Transmission Lines*

**Holyoke, MA – March 3, 2003** – ISO New England Inc., operator of the region's bulk power system and wholesale power exchange, today announced that New England's re-designed wholesale power market opened for business early Saturday morning, replacing the current market system with a new method for buying and selling wholesale power in the region, called Standard Market Design (SMD).

"ISO New England is pleased with the cut-over to the new wholesale marketplace," said Gordon van Welie, President and Chief Executive Officer of ISO New England Inc. "A new era in the electricity industry in New England has begun."

SMD was a 22-month development effort that included developing computer systems and business processes, software testing and certification from an independent software auditor, and several market trial simulations. Implementation of SMD will ensure that the cost of congestion is reflected fairly in electricity prices, which will improve transmission planning, alleviate transmission congestion, provide incentives for generators to locate where they are most needed and encourage conservation.

"We will continue to closely monitor the performance and results of the new computer systems and business processes, and, as we did this weekend, we'll move quickly to resolve any issues that may arise," stated van Welie. "In addition, we will continue to work with market participants to assure their successful transition to this new market environment."

To address any outstanding issues that market participants may encounter in the start-up phase of the new marketplace, ISO New England has augmented its regular Customer Services help desk with a temporary 'SMD Solution Center.' The SMD Solution Center is a service center where market participants can report their start-up problems and will remain operational until all these issues and concerns have been resolved.

In accordance with federal policy, SMD represents a major re-design of New England's wholesale electricity marketplace and features two core components, locational marginal pricing (LMP) and a multi-settlement system for energy. This re-design will benefit New England because it more accurately reflects the cost of wholesale power and provides direction for infrastructure investment.

Under SMD, wholesale power will no longer be priced uniformly across New England, a pricing system that did not accurately price the cost of transmission congestion. As of March 1st, the cost of transmission congestion will be priced at a market rate, based on the location where the congestion occurs. As a result, SMD ends the subsidies for congestion costs that consumers in non-congested areas of New England have been paying.

Eight pricing zones went into effect on March 1st, one for each of the following states: Connecticut, Maine, New Hampshire, Rhode Island, and Vermont; and three pricing zones for Massachusetts: one western and central Massachusetts, one for northeastern Massachusetts and Greater Boston, and one for southeastern Massachusetts and Cape Cod.

## Region's New Wholesale Electricity Marketplace Successfully 'Switched On'

SMD offers a number of additional benefits to New England by:

- Providing clear economic signals indicating where investment in the bulk power system is needed, including the location of new generating units, expansion of transmission facilities and participation in demand-side management programs—elements needed in a well-functioning market to alleviate constraints, increase competition, and improve the system's ability to meet power demand.
- Providing the correct price signals to influence economic and efficient real-time market behavior and expand the options for energy transactions, making the market more liquid, more competitive, and more economically efficient.
- Providing mechanisms to hedge against volatility and uncertainty of real-time prices and to hedge against higher wholesale prices caused by congestion costs.
- Reducing trading barriers across electricity markets in the Northeast that will increase competition and trading choices offered to wholesale market participants.

K In addition to the "real-time" market for energy, SMD also introduces a second, "day-ahead" energy market. This structure will provide financial certainty for market participants because prices will be "locked in" in the day-ahead market. Since 1999, approximately 25 percent of all wholesale power has been traded through the internet-based market administered by ISO New England.

Early clearing prices indicate generally comparable wholesale prices across pricing zones in the region, with only small price differences. Those price differences were primarily due to differences in the level of energy that is lost in the process of delivering electricity to different locations; very little was due to transmission congestion occurring on the system.

The price levels have been affected by the significant increase in natural gas prices. The price of natural gas has increased more than 60 percent in the past week, jumping from \$9.99/mmbtu to \$16.15/mmbtu, and is causing volatility in electricity prices. New England's new day-ahead market is serving its intended purpose of offering a more stable alternative to purchasing power in the real-time market during periods of price volatility.

"The prices we have been seeing are consistent with those in other wholesale markets in the Northeast," said van Welie. "This is further evidence that the system is operating as it was designed and intended."

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*For more than five years, ISO New England Inc. has been the not-for-profit corporation responsible for the day-to-day reliable operation of New England's bulk generation and transmission systems with an installed capacity of 30,000 megawatts. In addition to operating the bulk power grid, ISO New England is the administrator of the region's wholesale electricity marketplace and the Open Access Transmission Tariff on behalf of the New England Power Pool.*