BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: :

CONSENT MARKETS, TARIFFS AND RATES - ELECTRIC :

CONSENT MARKETS, TARIFFS AND RATES - GAS :

CONSENT ENERGY PROJECTS - MISCELLANEOUS :

CONSENT ENERGY PROJECTS - CERTIFICATES :

DISCUSSION ITEMS :

STRUCK ITEMS :

- -x

958TH COMMISSION MEETING

OPEN SESSION

Commission Meeting Room

Federal Energy Regulatory Commission

888 First Street, N.E.

Washington, D.C.

Thursday, May 20, 2010

10:04 a.m.

APPEARANCES:

COMMISSIONERS PRESENT:

CHAIRMAN JON WELLINGHOFF (Presiding)

COMMISSIONER JOHN R. NORRIS

COMMISSIONER MARC SPITZER

COMMISSIONER PHILIP MOELLER

958TH OPEN MEETING

(10:04 a.m.)

CHAIRMAN WELLINGHOFF: Good morning everybody. Let's get started if we can. This is the time and place that's been noticed for the Open Meeting of the Federal Energy Regulatory Commission to consider the matters that have been duly posted in accordance with the Government in Sunshine Act.

Please join me for the Pledge of Allegiance.

(Pledge recited.)

CHAIRMAN WELLINGHOFF: Well since the April 15th meeting we have had 107 Notational Orders issued. I also wanted to mention, I think all of you know one of my priorities is energy efficiency; and efficient operation of the energy infrastructure system is important to the future of the energy industry.

On Tuesday, May 25th, the Commission is holding a public conference to explore issues related to efficiency in the operation of the natural gas system in this country. And so I would encourage all of you to come. The conference will allow interested parties to express views and suggestions regarding the ongoing efforts at the Commission to promote efficiency measures in the natural gas industry. And I think these are very important issues. The conference will commence, as I said, Tuesday, the 25th, at 9:00 a.m.

So with that, Madam Secretary, if we could move to the Consent Agenda, Please.

SECRETARY BOSE: Good morning, Mr. Chairman. Good morning, Commissioners.

Since the issuance of the Sunshine Act Notice on May 13th, 2010, Items E-15 and C-5 have been struck from this morning's agenda. Your Consent Agenda for this morning is as follows:

Electric Items: E-1, E-6, E-7, E-8, E-9, E-10, E-11, E-12, E-13, E-14, and E-16.

Gas Items: G-1 and G-2.

Hydro Items: H-1, H-2, and H-3.

Certificate Items: C-1, C-2, C-3, C-4, and C-6.

As required by law, Commissioner Moeller is not participating in Consent Item C-2. We will now take a vote on this morning's Consent Agenda. The vote begins with Commissioner Norris.

COMMISSIONER NORRIS: Aye.

SECRETARY BOSE: Commissioner Moeller.

COMMISSIONER MOELLER: Aye, noting my recusal on C-2.

SECRETARY BOSE: Commissioner Spitzer.

COMMISSIONER SPITZER: Vote aye.

SECRETARY BOSE: And Chairman Wellinghoff.

CHAIRMAN WELLINGHOFF: Vote aye.

SECRETARY BOSE: The first, and the only, presentation of a Discussion Item for this morning will be on Item A-3, concerning a report on the Energy Market and Reliability Assessment for The Summer of 2010.

There will be a Power Point presentation on this morning's Discussion Presentation Item. Steven Reich from the Office of Enforcement, and David Andrejcak from the Office of Electric Reliability, will be presenting this morning. They are accompanied by Lance Hinrichs from the Office of Enforcement.

MR. REICH: Mr. Chairman, Commissioners, good morning:

Today we are pleased to present the joint summer 2010 Energy Market and Reliability Assessment.

I would like to take this opportunity to thank Jeff Honeycutt of the Office of Enforcement, Ryan Jent of the Office of Enforcement, and Dave Burnham of the Office of Electric Reliability, for their diligence in bringing this presentation together.

(Slide.)

There are four key takeaways from this presentation.

First, NERC's demand projections for this summer are comparable to last summer's actual demand.

Second, wind capacity is up about 6.94 gigawatts

since last summer, bringing total nameplate capacity to about 34 gigawatts. The three regions experiencing the highest wind growth were RFC, the United Stations portion of MRO, and SPP. NERC's average on-peak wind capacity forecast is about 12 percent of the total nameplate capacity.

Third, changes in natural gas market dynamics are affecting forward power prices.

And fourth, very low snowpack in the Northwest is influencing not only power prices but gas prices as well.

Dave Andrejcak will now provide the reliability section of this presentation.

(Slide.)

MR. ANDREJCAK: Thank you, Steve.

Reflective of the economic downturn and mild weather in many parts of the country, NERC's assessment reported that the 2009 actual load was 3.8 percent less than the 2009 forecasted load.

While NERC forecasts that the temperatures this year will be closer to average, the continuing effects of the economic downturn keep the 2010 forecasted load comparable to the 2009 actual load.

As Steve will discuss later, the Northwest is expecting lower-than-normal hydro capacity this summer. However, since total capacity still substantially exceeds

the forecast demand, all regions have adequate reserves and NERC expects that they will be able to provide reliable service throughout the 2010 summer months.

(Slide.)

Last year we reported on vegetation-related transmission outages during the summer months which can negatively impact reliability. NERC's recent quarterly Vegetation Management reports show a decline in the number of vegetation-related transmission outages occurred during the summer of 2009.

Because all four reported outages were due to falling vegetation from outside the transmission rights-of-way, they did not result in violations of the transmission Vegetation Management Reliability Standard FAC-003.

This is the first summer since FAC-003 became effective in 2007 with no violations of the Standard due to vegetation contact.

(Slide.)

The NERC Summer Assessment reports that projected summer installed nameplate wind capacity will increase by about 6,900 megawatts, or 25 percent, from 2009 for a total nameplate capacity across the Nation of 33,897 megawatts.

According to NERC, the three regions experiencing the highest wind growth were RFC, with 2,200 megawatts added since last year; the United Sates portion of MRO, with

approximately 1,500 megawatts added; and SPP with approximately 1,200 megawatts added.

The average on-peak wind capacity for the 2010 summer is forecast to be 12.1 percent of nameplate capacity, which is lower than the 15.2 percent on-peak capacity forecasted last year.

This change is driven by revised methods for calculating expected on-peak wind capacity, particularly in MISO and SPP, that help forecasters better understand the amount of wind power available at system peak.

The on-peak capacity forecast varies by region from a low of 1.5 percent in SPP to a high of 23.7 percent in WECC.

Several regions reported continuing efforts to improve wind forecasting, integration, and monitoring tools. NERC projects that the integration of wind resources will be manageable for the 2010 summer.

(Slide.)

While NERC projects that demand-side management available to reduce peak load for the 2010 summer will decrease by about 9 percent to about 26,000 megawatts, this change is primarily because the forecast total does not include resources from markets for demand response that have closing dates in early June.

We expect that this summer's on-peak demand

response forecast will be comparable to last summer's, once it is updated to include resources acquired in these markets.

I will now turn it back over to Steve who will present the Market issues.

MR. REICH: Thanks, Dave.

(Slide.)

I will now turn to the outlook for electric prices. We look at summer forward electric prices to get a sense of how traders currently view the market for summer 2010 power.

Forward prices are not a predictor of actual Day Ahead prices, but by analyzing the trends in the Forward Prices we can better understand market factors heading into this summer.

Compared to summer Forward Power prices this time last year, 2010 prices are mixed. They are higher in the West, and relatively steady in the East. Compared to May 1, 2009, July and August Forward electricity prices were 38 percent higher in the Northwest on May 1, 2010, and 1 percent higher in PJM.

We note that just two years ago, Forward Power prices across the country were more than twice what they are today--all well over $100 per megawatt hour, and closer to $200 per megawatt hour in New York City.

There are two main reasons that the year-to-year price changes presented here are so different between regions.

First, changes in natural gas market dynamics this summer compared to last summer are having a significant effect on prices.

Second, expectations of decreased hydro-electric generation are pushing Northwest prices upward. Both of these factors are discussed in detail in subsequent slides.

(Slide.)

Throughout the country, natural gas market dynamics are changing. Prices in the Northeast are down relative to Henry Hub, while prices in the Midwest and West are up.

Last May coincided with the brief period in the Rockies Express Pipeline's lifespan when its primary delivery points were in the Midwest.

When REX extended its eastern terminus eastward--first to western Ohio in July, and then to eastern Ohio in November--the bulk of its deliveries moved eastward, too.

This shift moved over 1.5 billion cubic feed per day from Midwestern markets to the pipeline's intended Northeastern customers. This change, with the addition of another half bcf per day of production from the Marcellus shale in Appalachia, has pushed Northeastern basis prices

downward, while Midwestern basis has risen.

In the West, REX increased eastward competition for Rockies supplies, increasing Western gas prices relative to the Henry Hub.

(Slide.)

Natural gas storage levels have never been this high going into the summer. Prices for the winter strip are about $1 per MMBtu above current spot prices, proving an incentive to buy gas now, put it into storage, and sell it at winter prices.

Domestic gas production is now over 60 billion cubic feet per day, a level not attained since the early 1970s. These conditions, with increased storage capacity matched with relatively steady overall demand, have led analysts to forecast that inventory levels will reach 4,000 bcf this year for the first time.

Gas demand has been strong in the power generation sector. In the State of the Markets Report last month, we observed how competitive prices for gas and coal during much of 2009 had increased the use of gas for generation particularly in the Southeast.

This winter in the early months of 2010, gas prices rose relative to coal, and gas-fired generation lagged. Recently, gas prices have been falling toward coal again, and the competitive situation that arose last year

appears to have returned.

(Slide.)

Gas market effects are not the only reason for higher expected power prices in the West. This winter's snowpack in the Pacific Northwest and British Columbia reached just 70 percent of the historical average. Forecasts for runoff this Spring and Summer call for the 47th driest of 50 years of recorded data, and the lowest since 2001.

Diminished runoff will reduce the water available for hydro-electric generation and require the increased use of other resources, most likely gas-fired power plants.

Gas-fired power generation is more expensive than hydro. Increased gas demand for power generation in the Northwest will also put upward pressure on gas prices in the region.

These Northwest hydro conditions may test Western power markets, but new market structures, moderated demand due to the recession, and the availability of gas-fired capacity to meet the generation shortfall should reduce the risk of a general market dysfunction.

It should also be noted that the Bonneville Power Administration has reported that these low hydro conditions have decreased flexibility in hydro dispatch which may limit the agency's ability to use hydropower resources for

ancillary services during windy periods.

California's hydro-electric conditions going into the summer are closer to normal as the state received above-average snowfall this past winter. Nonetheless, imports from the Northwest are a key element of California's supply portfolio and the reduced availability of hydro generation will likely be felt in the market.

(Slide.)

Always the largest wildcard going into the summer is weather. The National Oceanic and Atmospheric Administration sees a warm summer in the West and in the Southeast. Colder than normal temperatures are forecast in the Midwest.

Major forecasters are predicting a more active hurricane season this year compared to last, with estimates ranging from 15 to 17 named storms, and 7 to 9 hurricanes. Last year there were few tropical weather events, with 9 named storms and 3 hurricanes.

In addition to the local effects of hurricanes, such as destruction of infrastructure and economic activity, they can affect the national market by closing wells and disrupting natural gas supply chains.

However, the effects of hurricanes on natural gas markets have likely been dampened by increased onshore production of shale gas from diverse reservoirs and a

decline in dependence on gulf production.

This concludes our presentation. We would be happy to answer any questions.

CHAIRMAN WELLINGHOFF: Thank you, Steve, and David, Lance. I appreciate the effort you put into this, and the whole team. This is very interesting and useful.

You know, Steve, I don't think I've ever seen a NOAA summer map that looks like that. They've got a huge swath of the country that has equal chance of being above normal, or below, which is kind of bizarre, but I won't even ask you about that.

David, let me ask you a question, though, about the vegetation and the outages. It looked like from your chart that 2009 the only outages we had from vegetation in relatively high-voltage lines was in the 230 Kv area? Was that right?

MR. ANDREJCAK: That's correct.

CHAIRMAN WELLINGHOFF: So why do we think we had that big decrease in 2009?

MR. ANDREJCAK: If you go back to the slide, as well, it's I guess focusing on the summer months from June through September. 230 lines are probably a lot more susceptible just to the type of nature of construction that they have versus say a 500 line. 500 typically are much later, much larger rights-of-way, and they're not so

susceptible to having the tree come into it from outside of the right-of-way.

CHAIRMAN WELLINGHOFF: Okay. And on the wind analysis that you did, it appears that we're going to have less wind this year available on peak. But as I understand it, that's just because of better forecasting. It's not that necessarily we had more last year available on-peak than we had this year; it's just that we had better forecasting now? Is that correct?

MR. ANDREJCAK: Yes. It's a better forecasting. And as the industry evolves, we're getting much better operational data. They're in a much better position to be able to expect what to get as they integrate into the market, which of course helps the folks in Enforcement as well to understand the markets better.

I'll give you one example. MRO last year was assuming they would have 20 percent as far as wind integration at the time. The number actually has changed this year to like 8 percent. The number also dropped for SPP from 8.5 percent down to 1.5 percent, which is much more reflective of the actual conditions that they have.

CHAIRMAN WELLINGHOFF: All right. Thank you.

Gentlemen? Questions? Comments? Commissioner Spitzer.

COMMISSIONER SPITZER: Thank you, Mr. Chairman.

I guess great minds think alike. You raised two of the three issues that I had.

On the vegetation management side, I think it's a credit to the industry to maintain their obligations with regard to vegetation management, and that is indicative of the work that Reliability has done, as well as the industry's commitment. And this has historically been a pretty profound challenge that the industry has met.

On slide 9 there's a discussion of the gas prices, and particularly falling to coal. I have been intrigued by this issue of displacement of coal-fired generation, particularly in the Southeast.

Do we have any speculation as to what the price point would be to have a recurrence of that phenomenon?

MR. REICH: I think the answer to that is that, because of coal and gas, their prices are moving targets. It's more kind of an element of the convergence of the two prices.

That said, I think we're at the price point now, from some of the things that I've seen. We've gotten movement toward the gas being more base-loaded, particularly in the Southeast. And it's very interesting. And just how subject this is to market forces, we've seen kind of a month to month change in where gas fits into the supply stack, as opposed to kind of the traditional view where everything is

pretty much fixed.

You know, you've got the hydro, the nuclear, you've got the coal, you've got the gas combined-cycle, then, you know, combustion turbines, the evolving fix. One of the really interesting things that have happened in recent years is that these have become much more fluid, particularly the gas part of the curve on the combined cycles moving over, you know, integrating with the coal side. And also actually just shifting over and switching with the coal side sometimes.

I think right now we're probably at the point, depending on where you are in the country, where there's the mix, and on some days in some circumstances actually a lot of gas on the baseload side.

COMMISSIONER SPITZER: I've seen the $4 number, but that obviously changes month to month.

MR. REICH: Correct. Correct.

COMMISSIONER SPITZER: And the conversion then causes the effect of tending to increase the price over time in response to the market. Is that $4 number, do you think, a valid number going forward for the summer?

MR. REICH: Ever since I joined FERC I got out of the gas forecasting.

(Laughter.)

COMMISSIONER SPITZER: Understandable.

MR. REICH: That said, what I can say is that on the physical fundamental side for gas supply, the physical fundamentals are we are at higher demand than we've been in over 30 years--not higher demand--higher supply than we've been in over 30 years.

Demand is at a low point over the past, as low as it's been in the past four, five years. There's a lot of gas going into storage, which is indicative of higher supply than demand. The fundamentals point to, you know, prices in the range that they're currently at, or perhaps--the physical fundamentals.

COMMISSIONER SPITZER: Thank you, Mr. Chairman.

CHAIRMAN WELLINGHOFF: You're welcome. Commissioner Moeller.

COMMISSIONER MOELLER: Thank you, Jon.

Similarly I'm interested in vegetation management. I think this is something we should highlight because of the fact that we've made improvement here. And I'm curious for Mr. McClelland's observations on it, as well. I think when we last kind of looked forward on big reliability issues your comments were we need to focus on trees, tools, and training. And trees appear to be at least relatively under control right now.

Would you agree with that assessment?

MR. McCLELLAND: (Knocking on wood) I would say

so, yes.

(Laughter.)

MR. McCLELLAND: I would also say, Commissioner, that the industry deserves credit for this. The Reliability Standards certainly highlight the need to maintain the vegetation management program, but industry has this. They've taken the initiative, and they've kept the tree contacts and the vegetation management under control.

There's also been I think particular focus by NERC as this being a fundamental issue. It was trees, tools, and training. The 2003 blackout of course had a tree associated with it, as did the prior blackouts that were named in that blackout report.

So industry understands it. They've gone after the issue, and I think this is reflecting their good work in this area.

COMMISSIONER MOELLER: Some good news. Good. Thank you.

Back to the forecasting on wind. Can you elaborate a little bit more on the revisions downward, down to 1.5 percent in SPP? I think you said 8 percent in USMRO, or MISO. Is that related to transmission access, market access, or is it solely just the quality of wind that is now being recalculated?

MR. ANDREJCAK: My impression from what I've been

able to understand is it's a much better understanding of their experience. It's more what the expectation is at this point. As time goes on and we have increased storage, there will be other issues that get involved with that, but right now we're dealing strictly with integrating wind into the markets. And those numbers are very reflective of what the actual, what they've received.

COMMISSIONER MOELLER: Okay. Again, quality of wind, not necessarily associated with lack of infrastructure?

MR. ANDREJCAK: Not lack of infrastructure.

COMMISSIONER MOELLER: To deliver the wind.

MR. ANDREJCAK: As far as that goes at this point, but it's more of the actual numbers they've got. And I'd also like to add one other thing. I would be remiss if I didn't thank the staff over at NERC, Mark Logby and John Moore, provided us with this data in advance of the NERC Summer Assessment, which actually comes out early next week. They were able to provide this for us for use today, and we do appreciate that.

COMMISSIONER MOELLER: Very good. Well it is certainly relevant, given the focus that we are all going to be putting on our NOI related to variable generation over the next year.

Finally, I would like to thank you for focusing

on the hydro issues in the Northwest, and for mentioning California as part of that. Because California gets a significant amount of their power from hydro. And your focus on the fact that we're in a better position now, given these challenges, than say we were in the Spring of 2000 where it followed three incredibly wet years, which helped to mask some of the flaws in the California market. And then we saw what happened when that drought hit in May of 2000.

So can you elaborate, though, a little bit more on the connection between why gas prices would go up when hydro conditions are down in the Northwest?

MR. REICH: Well, it's kind of a simple, straightforward answer, that demand doesn't change so you have to find the additional supply somewhere. And that supply is usually gas-fired generation.

There is a range of gas demand that goes into electric generation that's fairly wide in the West from, you know, the estimates I've seen, in ranges of kind of from 3 to 8 billion cubic feet a day. And so during usually high hydro periods, and you have a lot of generation from the hydro-electric dams, you don't have to run your gas plants as much. If you have to run your gas plants more to replace that, that's more gas demand and, as it turns out in the Northwest, you're probably getting your gas from Canadian

supplies because they're getting as much gas a possible from the Rockies. The Canadian supplies have recently tended to be a bit higher priced than the Rockies supplies, and that's what pushes up the price.

COMMISSIONER MOELLER: Well thank you. It was a great report. Appreciate your effort.

Mr. Chairman.

CHAIRMAN WELLINGHOFF: Commissioner Norris.

COMMISSIONER NORRIS: Thank you.

I guess in furthering our sensitivity to reliability these days, I have a question on the 230 as well. I know that that was the largest category the last four years. And I appreciate, David, that the characteristics of the line are different, making it more vulnerable to vegetation. Is that the largest category of miles of transmission lines, as well?

MR. ANDREJCAK: 230 is, just because there's so much of it out there, obviously; more of not really the highest primary transmission level, but it's the secondary, and there are many more miles than the 500. I wish I had that number right off the top of my head; I don't. But industry really should be commended for the work they've done with vegetation management on this issue. They have really focused on it, and it shows.

COMMISSIONER NORRIS: Good. Good. And just one

question on the gas markets.

Steven, I know, again, more good news on gas and that's great. Any reaction, or any insight into the oil spill? They're not saying now it will have any impact on the natural gas market. Is there anything we should be aware of, or concerned about that may impact?

MR. REICH: Well we have been keeping track of the impact of the oil spill on both gas markets and the electric markets. There might actually be something on the reliability side on that, but from what we understand the electric plants that are on the Gulf Coast are protected in terms of their coolant--the ones who use the Gulf Coast water for cooling.

MR. ANDREJCAK: Yes, and they are able to provide some sort of barrier, boom barriers as far as the once-through cooling issue. Barge traffic we don't think will be significantly disrupted for any of the Venezuelan coal, I guess, imports.

Additionally of course the rail supply is still strong throughout the country. And the reserves for the coal right now are sufficient in that area. So we don't really see any issues as a result of the oil spill directly impacting them at this point.

MR. REICH: On the gas side, we've seen some effect on gas production on a couple of rigs where the gas

is produced in association with oil, and there's been some-- there was some temporary shutdown of the gas flows and the oil flows to check on the mechanics of the rigs to make sure that the rigs were operating.

In terms of LNG, we're at a point economically where there's very little incentive to import LNG into the Gulf Coast LNG facilities. So there's no effect there.

So we've seen very little current effect on gas supplies.

CHAIRMAN WELLINGHOFF: Gentlemen, thank you very much for your presentation.

If there's nothing further to come before us, this meeting is adjourned.

(Whereupon, at 10:34 a.m., Thursday, May 20, 2010, the 958th Open meeting of the Federal Energy Regulatory Commissioners was adjourned.)