Winter Energy Market
Assessment 2005 – 2006

Item No.: A-3
October 20, 2005
Tight Supplies Mean Small Changes Can Magnify Price Effects

FERC Staff Will Rigorously Review:

- Supply Adequacy
- Trading
- Infrastructure
- Electric Markets
Supply Concerns Drive Gas Prices

Sources: Staff analyses of 10/18/05 NYMEX futures data, Bloomberg and Platts.
Summer Demand and Hurricanes Have Reduced the Storage Surplus

Source: Staff analysis of Form EIA-912, Weekly Underground Natural Gas Storage Report, data through week ending October 7, 2005.
Natural Gas Production Outlook is Uncertain

Sources: Staff derivation from CERA, Monthly Gas Briefing: A Band of Uncertainty, September 19, 2005; CERA, Here We Go Again: Hurricane Rita Adds to Hurricane Katrina’s Supply Shock, September 23, 2005; EIA Short-Term Energy Outlook, October 12, 2005; Lehman Brothers Q205 Nat Gas Production/Supply Overview, August 31, 2005 and Baker Hughes.

2005 figures are estimates and adjusted for shut-in production.
Greater LNG Imports Expected

- Projected to increase 0.6 – 1.0 Bcf/d over last winter
- Will depend on netbacks, global supplies, and competing demands
- Biggest increases expected at Lake Charles

Anticipated Year-on-Year Changes

- Chart assumes 2 Bcf/d of shut-in supply this winter
- Colder weather and/or greater supply losses would increase already high prices and further erode demand

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<td>10% Warmer Demand</td>
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High Northeast Prices Expected Due to Capacity Constraints

Sources: Staff analyses of 10/18/05 NYMEX futures and data from Platts.
Electricity Prices are Rising With Higher Fuel Costs

- Wholesale prices for this winter are about double last winter’s actual prices. The chart shows:
  - Fraction of electricity from gas in 2004
  - Averages of day-ahead contract prices in past two winters

![Chart showing electricity prices and fuel costs](chart.png)
Other Electric Winter Issues

- Reliability of electric supply under gas scarcity conditions.
  - ISO-NE’s cold-weather procedures
- Behavior of RTO and other markets during gas price spikes
  - Scarcity gas price effects
  - Penalties when pipelines restrict takes
- Availability and prices of other fuels (coal, oil)
FERC Staff Will Closely Monitor Winter Markets

- Establish Threshold Price Levels for Request of Transactional Level Data
  - Prices
  - Basis Relationships
- Monitor Storage Levels and Information
- Watch Pipeline Utilization
  - Critical Notices
  - Tolerances
- Obtain Timely Market and Operational Data
- Respond to Complaints
  - Hotline
  - Industry Tips