



# Winter Energy Market Assessment 2005 – 2006

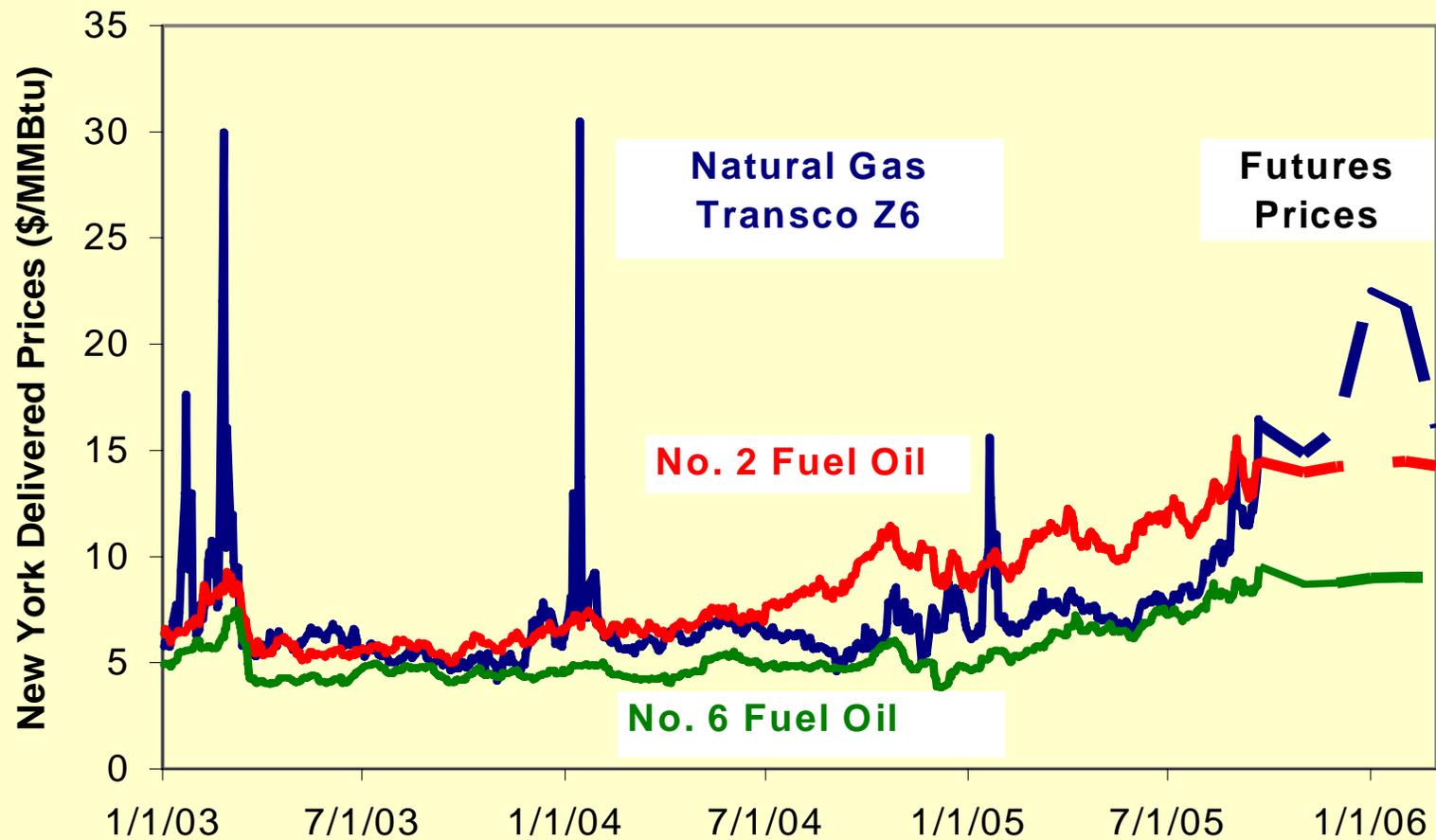
Item No.: A-3  
October 20, 2005

# Tight Supplies Mean Small Changes Can Magnify Price Effects

FERC Staff Will Rigorously Review:

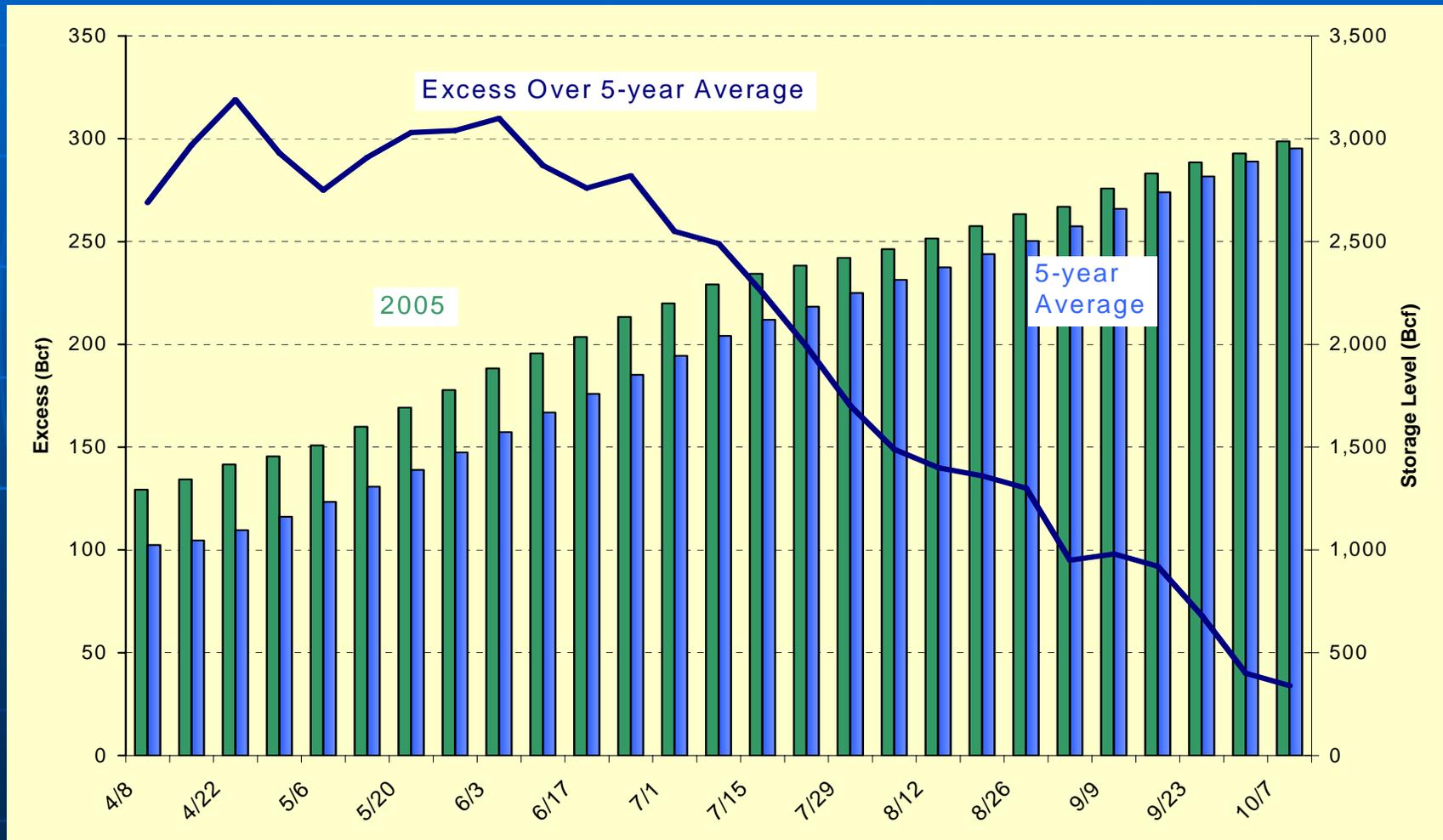
- Supply Adequacy
- Trading
- Infrastructure
- Electric Markets

# Supply Concerns Drive Gas Prices



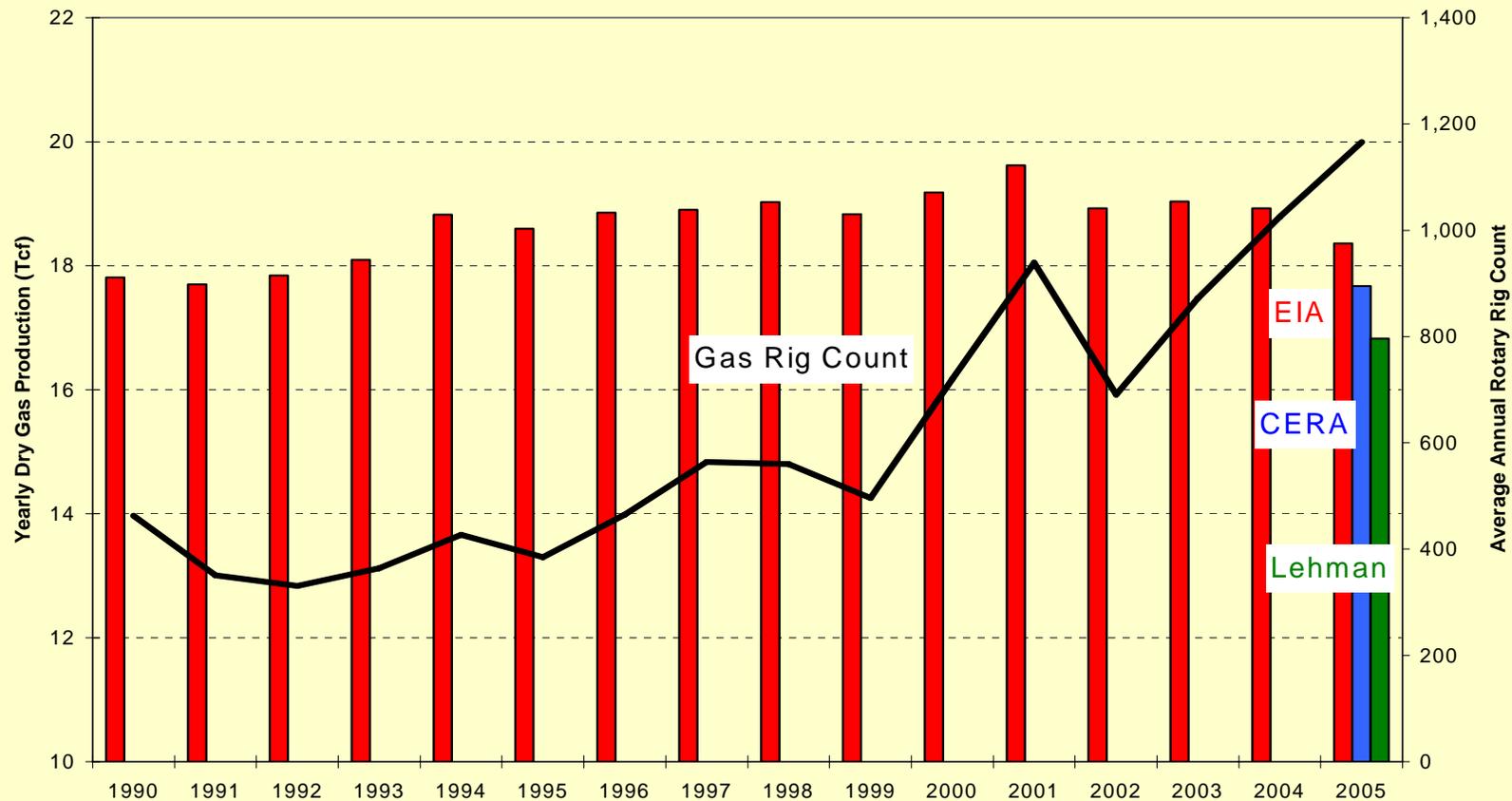
Sources: Staff analyses of 10/18/05 NYMEX futures data, Bloomberg and Platts.

# 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

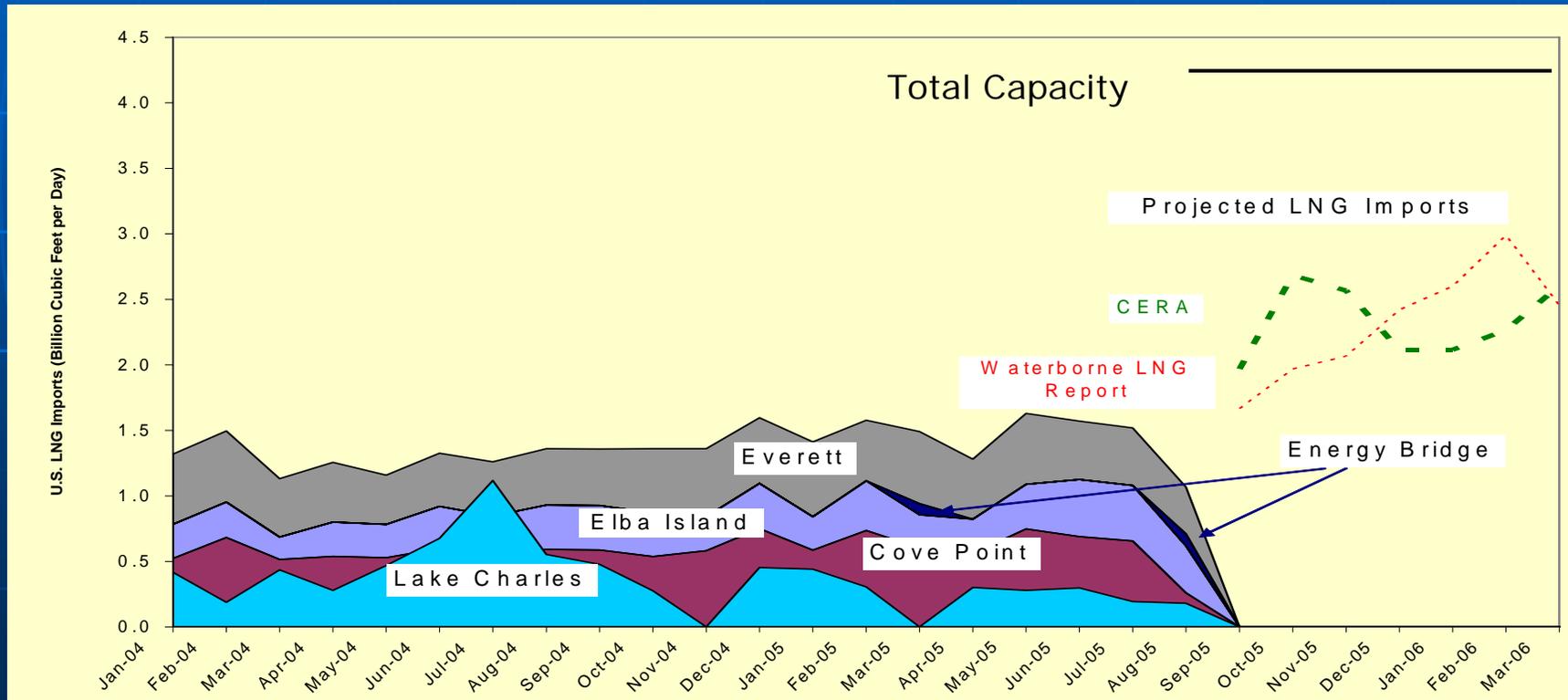


2005 figures are estimates and adjusted for shut-in production

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.

# Greater LNG Imports Expected

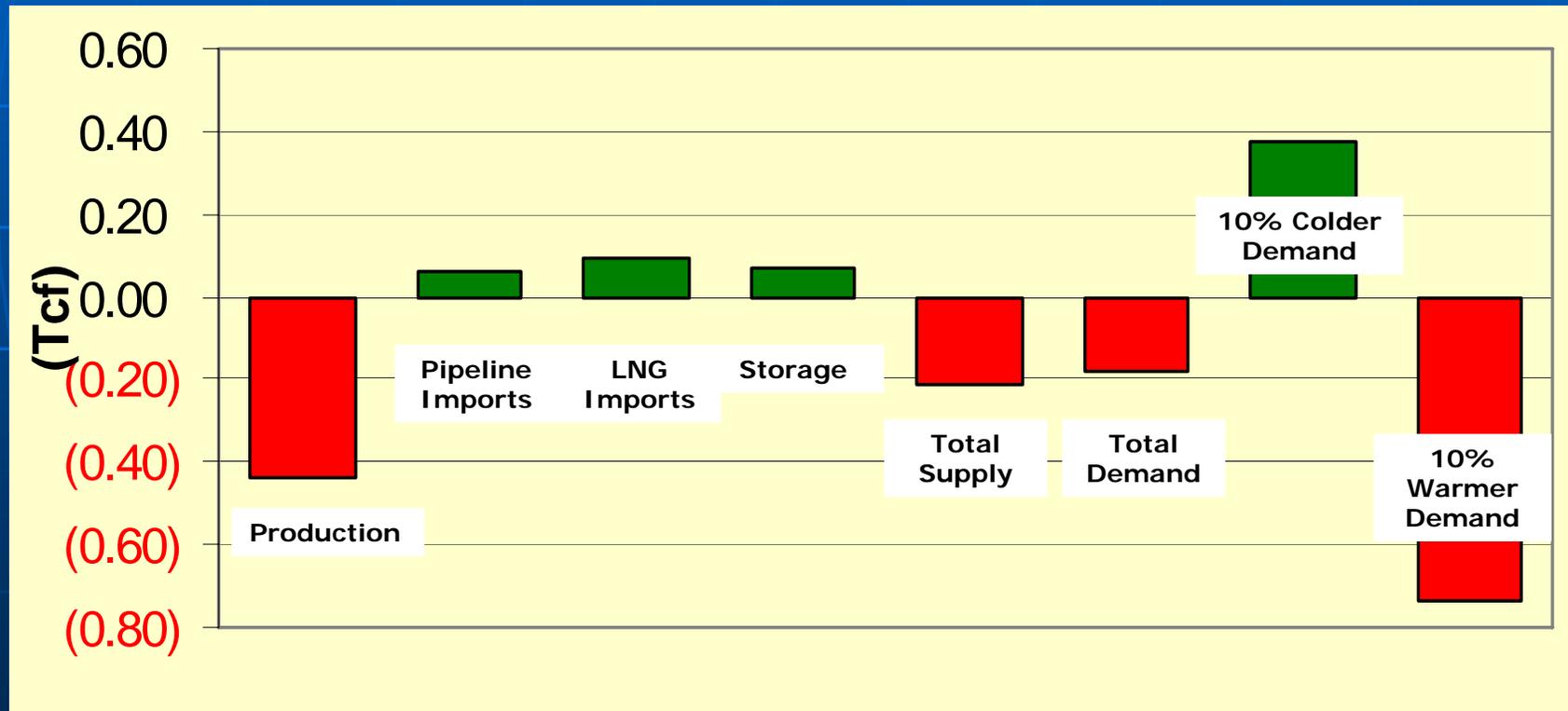
- Projected to increase 0.6 – 1.0 Bcf/d over last winter
- Will depend on netbacks, global supplies, and competing demands
- Biggest increases expected at Lake Charles



Sources: Staff analyses of *U.S. Waterborne LNG Report*, September 29, 2005 and October 12, 2005; CERA, *If the Price is Right: The Potential for Additional U.S. LNG Imports in the Aftermath of Hurricane Katrina*, September 20, 2005, *Rising U.S. LNG Needs for Winter Heating Season Face Limited Supply Availability*, October 11, 2005, *North American Natural Gas Outlook*, September 20, 2005; and Energy and Environmental Analysis, *Natural Gas Domestic Production and Demand Forecast*, October, 2005.

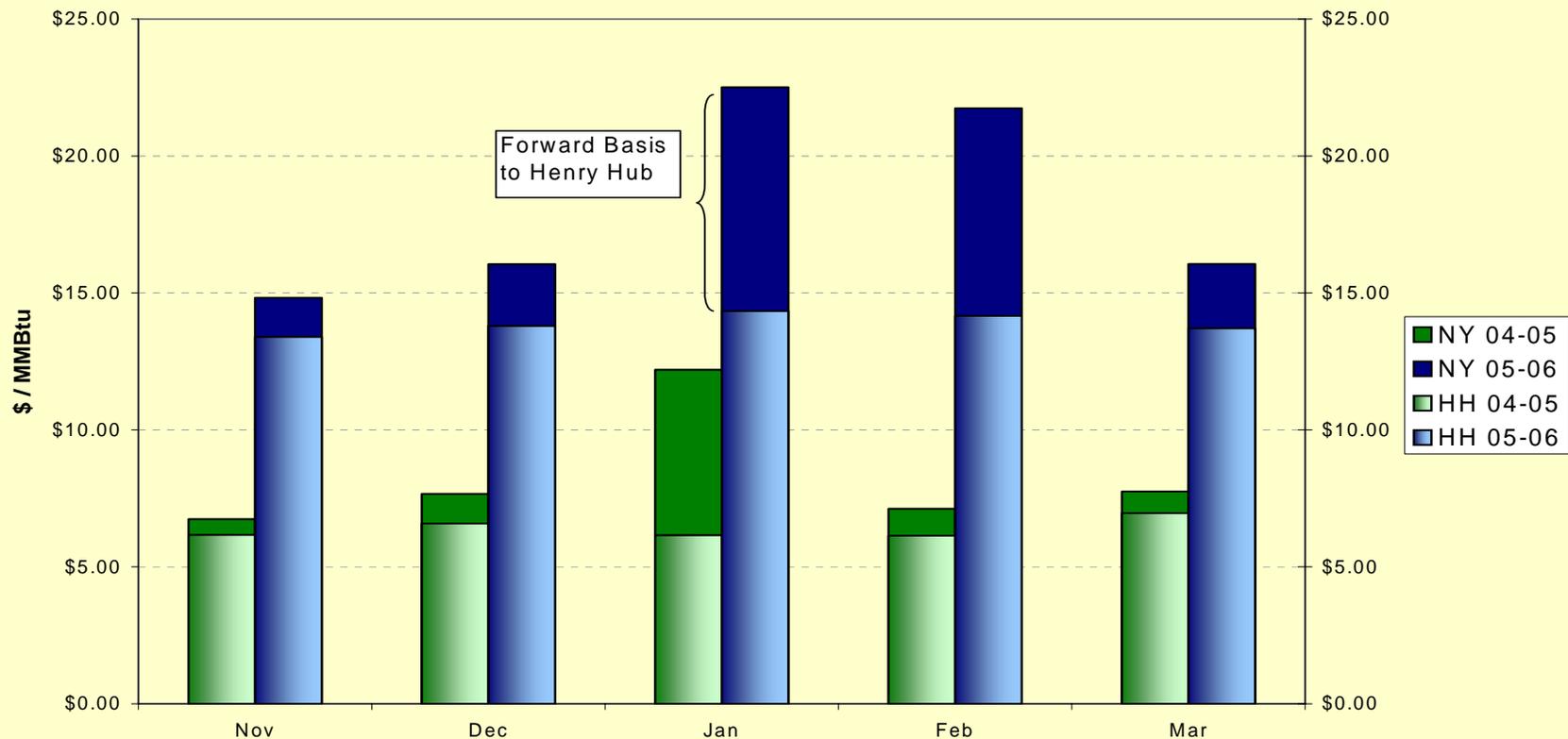
# Anticipated Year-on-Year Changes

- 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



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 and EIA *Short-Term Energy Outlook*, October 12, 2005.

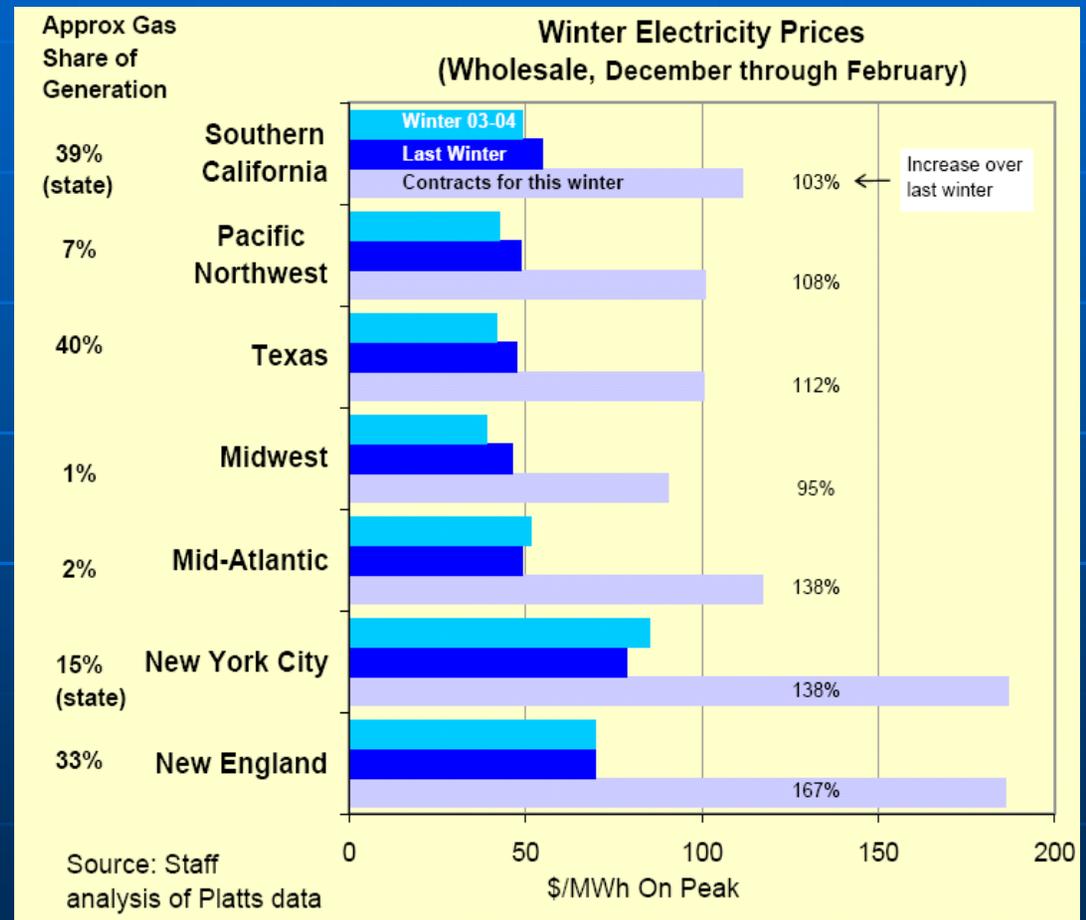
# High Northeast Prices Expected Due to Capacity Constraints



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
  - Contract prices for December 2005, January 2006, and February 2006 as of 9/23/05
  - Averages of day-ahead contract prices in past two winters



# 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