



2009 Summer Energy Market Reliability Assessment

Item No. A-3
May 21, 2009

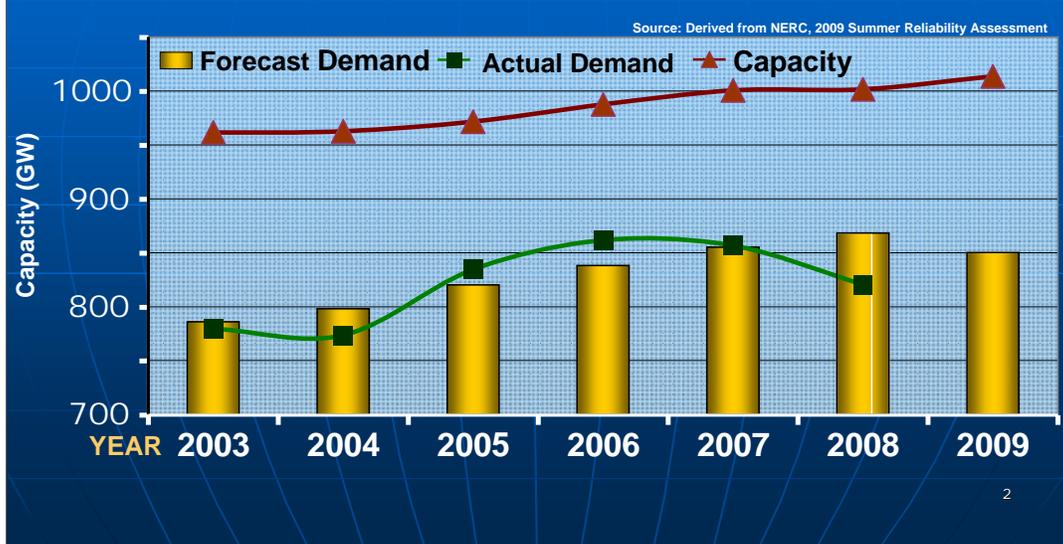
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Slide 1

Mr. Chairman, Commissioners, good morning.

This PowerPoint presentation will be posted on the Oversight section of FERC.gov following this presentation.

NERC Forecast

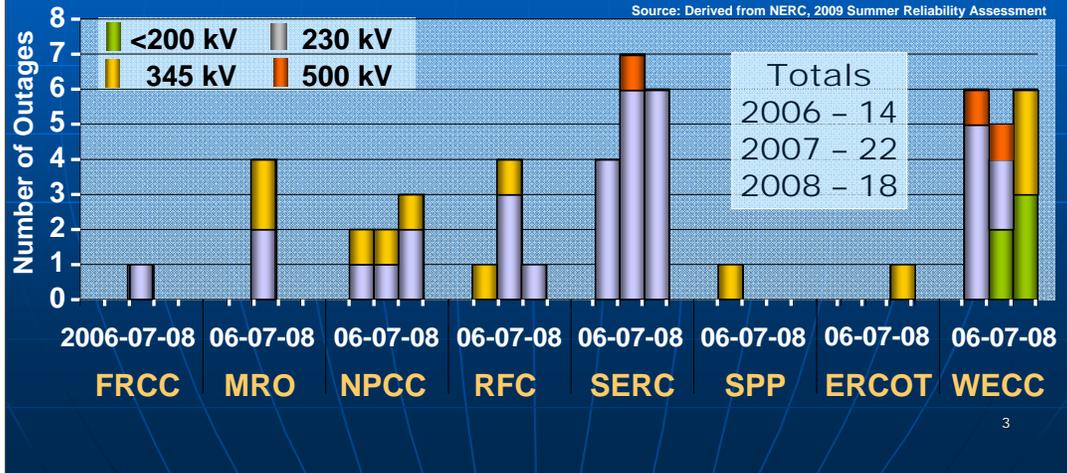


Slide 2

Reflective of the economic downturn, the 2008 actual load was somewhat less than the 2008 forecast load. With this downturn expected to continue, the 2009 forecast is lower than the 2007 and 2008 projections.

Since total capacity substantially exceeds both the expected actual and forecast demand, all regions have adequate reserves and expect to provide reliable service throughout the 2009 summer months.

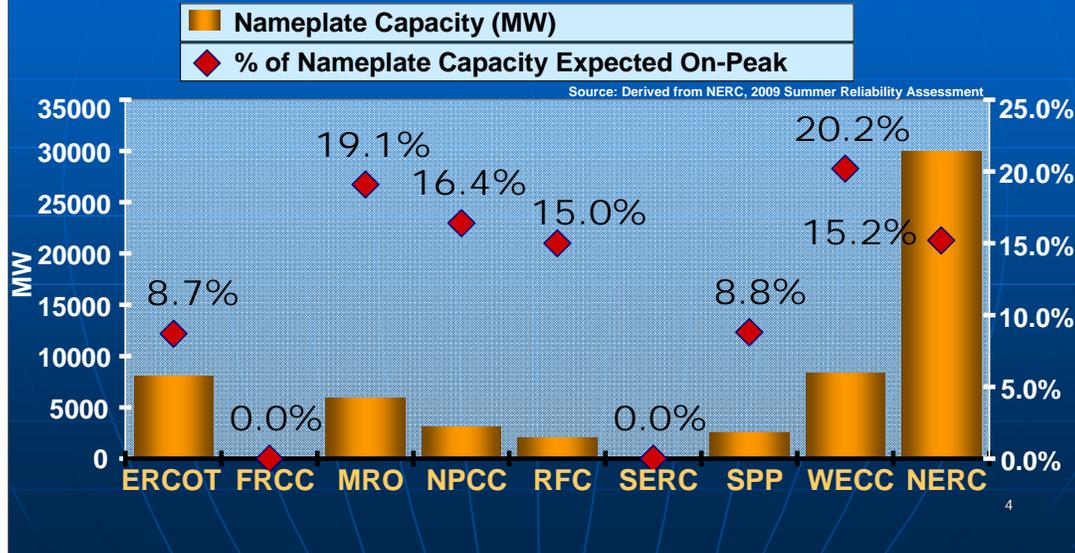
Vegetation-Related Transmission Summer Outages: 2006-08



Slide 3

One of the largest historical causes of outages is vegetation related issues. The ERO's Summer Assessment report shows that vegetation related outages continue to remain a concern. Of note, there has been little or no improvement in SERC and WECC regions since mandatory standards were enacted in 2007.

Wind Resources for 2009 Summer



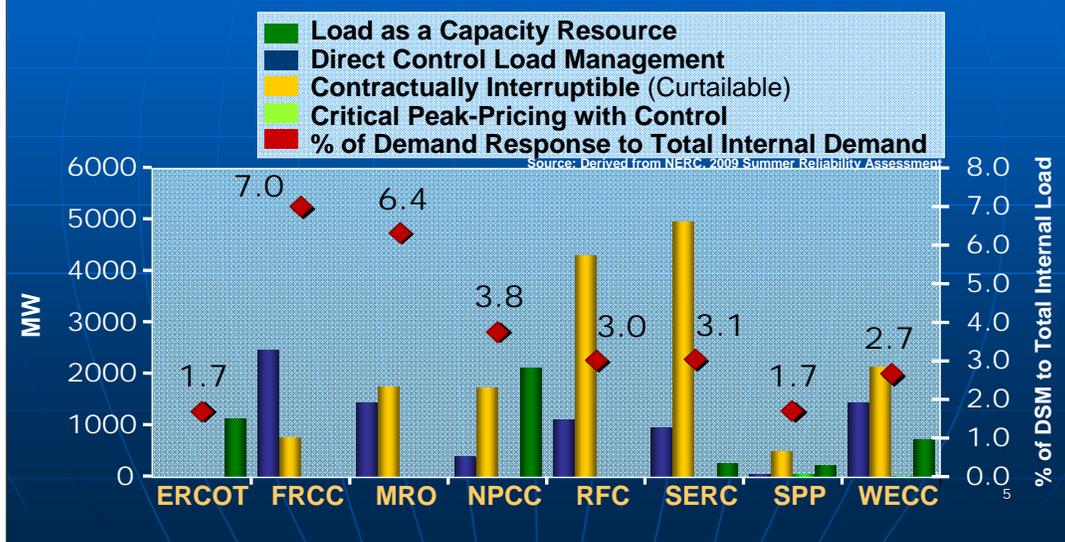
Slide 4

The expected average on-peak capacity for the 2009 summer is forecast to be 15.2 percent of nameplate capacity, which represents an on-peak increase of 21.5 percent or 805 MW from the 2008 summer assessment.

The NERC Summer Assessment reports projected summer installed nameplate wind capacity will increase by 9,252 MW, or 45 percent from 2008 to 2009, for a total nameplate projected capacity across the nation of 29,945 MW.

As wind resources are less predictable and follow the availability of wind rather than demand, different patterns in the use of transmission capacity can emerge. With the addition of over 9,000 MW of wind, the regions have projected an increase in transmission congestion for the 2009 summer, particularly during low demand periods. Some regions report the need to provide additional ancillary services, such as operating reserves, to address the challenges of managing the variability of wind resources. Albeit a challenge, the integration of these substantial wind resources is projected by NERC to be manageable for the 2009 summer.

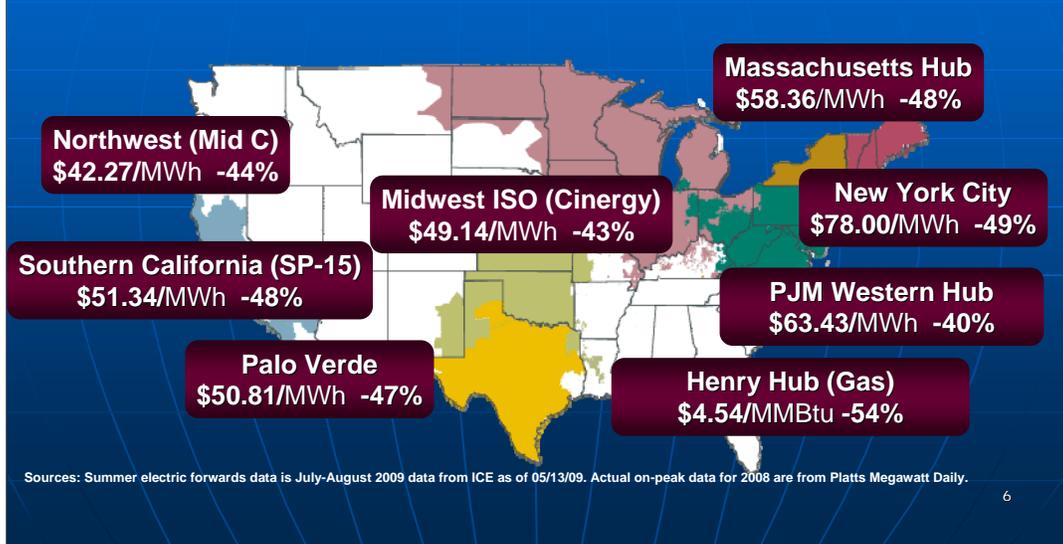
Demand Side Management



Slide 5

Demand response, which will be utilized to reduce peak load for the 2009 summer, is projected to increase by 8 percent. This is more than a 2,200 MW increase from last summer. NPCC and FRCC project significant increases in demand response while ERCOT, MRO, SERC, SPP, and WECC projections remain relatively flat.

Summer 2009 Forward Prices Lower Than 2008 Actual Prices



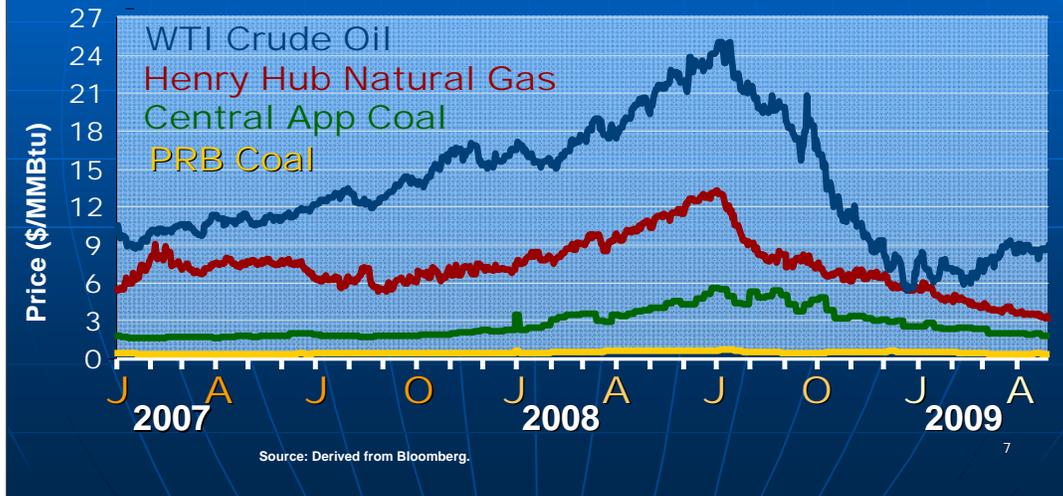
Slide 6

I am going to discuss the prospects for energy markets this summer.

Last year at this time, we saw market participants paying high prices to secure supplies for the summer. This year the market has stepped back. Forward prices indicate that people are able to purchase summer power today at prices about half of what they were last year. In fact, in most regions, forward power prices now are far below where they've been in years. We haven't seen prices this low in New York and PJM since 2004. The last time forward prices were this low in the West, at SP-15, Mid Columbia and Palo Verde, was 2002.

Expectations for lower power prices this summer is chiefly attributable to weaker market fundamentals affecting loads and fuel prices. The next slide shows the drop in fuel prices.

Gas Prices Are Low and Supplies Are Abundant



Slide 7

Fossil fuel prices, across the board, are 50 to 80% lower than last year at this time. Like electricity, gas prices have dropped to levels not seen in years. Recent bid week prices have averaged less than \$4/MMBtu at every pricing point in the country, though there has been a slight reversal of this pricing trend recently.

Oil and coal prices have also declined from their unprecedented 2008 highs as inventories have grown. U.S. crude oil stocks are 14% above last year's levels; according to Stifel, Nicolaus, an equity research firm, electric generator coal stockpiles exceed last year's levels by 17% and exceed their 10-year average by 29%.

With lower prices for gas, we have not seen much of a decline in gas demand. While industrial demand has fallen over the past several months relative to last year, demand for gas to fuel electric power plants has been increasing as gas prices have, as indicated in this chart, become increasingly competitive, not only with oil but also, on a regional basis, with coal.

Yet, natural gas supplies are abundant heading into the summer months. Last week, the Energy Information Administration reported storage levels of 2,013 Bcf, 23 percent above the five-year average and only 3 percent below the all time high for this early in the injection season. Inventories would have to increase at an average of about 60 Bcf/week to meet all time highs at the beginning of heating season. Recently, we have seen injections of about 100 Bcf/week.

Productive capability associated with last year's unprecedented drilling will still be at high levels. Many companies have cut back on drilling (the rig count has fallen by more than half since last year's peak), but many of the new wells brought online last year will still be active.

We are expecting a reemergence in LNG imports. LNG imports are already twice as high as last year; the global LNG market has excess supply available due to lower worldwide demand, full overseas inventories, and the addition of new LNG liquefaction capacity; and due to its size, maturity, and flexibility, the US is one of the few places able to absorb excess LNG.

Last year, utility gas supply managers faced the dilemma of having to replenish a large percentage of their storage capacity in the face of rising gas prices. This year, both the capacity that needs to be replenished and the cost of gas to replenish it are down. Robust inventories mean less gas will have to flow to storage during those days that downstream gas-fired generators are running their hardest.

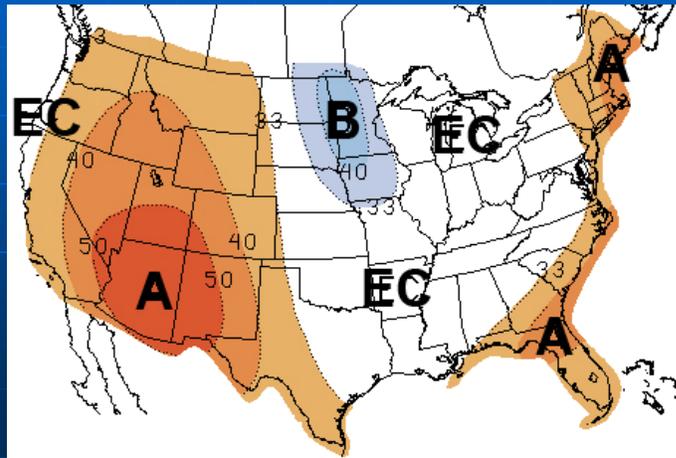
NOAA's Current Mid-summer Outlook Indicates Warmer than Normal Weather on the Coasts

**EC = Equal chances
for A, N, B**

A = Above

N = Normal

B = Below



Slide 8

Always the largest wildcard going into the summer is weather. There is some disparity in forecasts regarding the outlook for the country east of the Continental Divide; as shown in this slide, The National Oceanic and Atmospheric Administration sees a warm summer on the East Coast, but other forecasting services are predicting more normal temperatures. On the other hand, there appears to be a general consensus that it will likely be a warm summer in the West.

Last year, a late snowmelt increased the availability of hydro power during the months when cooling load began ramping up. Snowmelt patterns in the West are closer to normal this year; therefore, we would expect an incremental increase in demand for gas-fired generation early this summer. This increase should be accommodated with the high reserves of gas sitting in Western storage. The fields could easily be filled by July except for storage operator restrictions on fill rates.

As always, hurricanes can change the market by closing wells and disrupting supply chains. Last year's hurricanes Gustav and Ike were particularly disruptive, interrupting 2.9 Bcfd, approximately 5% of US supplies. Although NOAA has not released its hurricane season forecast, other meteorologists are saying that the hurricane season will be slightly less active than normal.

Nonetheless, the supply outlook is much more robust this year due to geographic diversification of gas production. Specifically, the combination of new Rockies supplies flowing eastward coupled with a more unconventional gas flowing from East Texas and northern Louisiana makes the US much less susceptible to devastating Gulf hurricane outages. Moreover, Florida now has access to liquefied natural gas stored at Elba Island via the Cypress Pipeline. In 2005, 20% of total U.S. production was from federal waters in the Gulf, compared to about 13% last year.

Milestones for Monitoring

- CAISO MRTU
- Energy efficiency in PJM's forward capacity auction
- Southern Company energy auction
- Rockies Express Pipeline extension

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Slide 9

I also want to take a couple of minutes to note a few market milestones that have recently occurred or are planned for this summer that Market Oversight will monitor.

Market Oversight has been paying close attention to California's transition to its MRTU market. We have spoken to market participants, and there appears to be a sense that the day-ahead market is functioning smoothly and that the pricing signals it is producing reflect system conditions. With the real time market, however, significant, intermittent price spikes in the San Diego region have caused concern and indicate technical issues with MRTU that need to be worked through. The Cal-ISO is working to resolve these issues, and we have been in almost daily contact with the ISO and the market monitor. Market Oversight will continue to closely monitor the evolution of the MRTU as we proceed into the summer months.

For the first time, PJM included energy efficiency as a resource in its May forward capacity auction. The Commission approved this change in March. Last year's ISO-NE's capacity auctions for 2010 and beyond showed that energy efficiency could be incorporated as a valuable resource accounting for 30% of the demand resource capacity cleared. Initial accounts from PJM's auction indicate that energy efficiency projects accounted for 10% of the demand resources cleared.

Outside the organized markets, late last month, Southern Company initiated its energy auction system which the Commission approved last December. OEMR and OE staff attended the launch and met with the auction administrators and the Independent Auction Monitor. We have observer status online to observe auction results, and we will continue to assess the progress of this experiment.

On the fuel supply side, the Rockies Express Pipeline is expanding eastward, with a planned online dates by this summer for interconnections in Illinois, Indiana and Ohio. The opening of the first phase of REX had a major impact on the balance of gas supplies, the value of transportation, and, therefore, the price of gas to consumers in the Rockies, Midwest, Southwest and California. This next phase of REX will establish greater connectivity between Western and Eastern markets and could narrow transportation differentials from the Rocky to the Appalachian mountains and displace Gulf gas, affecting gas prices at the Henry Hub. We have already seen some hints of the market prices adjusting to the new capacity—the basis between the Rockies and Appalachia has fallen by 1/3rd.



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This concludes our presentation, we'd be happy to answer any questions.