Docket No. 11-035-200
UIEC Ex. ___ (JRM-5)

SNL

SNLFinancial

Friday, May 18, 2012 5:45 PM ET Exclusive

FERC staff: Market participants expect lower power prices this summer; reliability issues possible

By Glen Boshart

Presenting its summer 2012 assessment during FERC's May 17 open meeting, agency staff said it is keeping a close eye on a few areas of the country that could encounter some electric reliability issues this summer if certain matters are not resolved or they experience extreme weather conditions.

One such area is Texas, where staff noted that the Electric Reliability Council of Texas Inc. is forecasting a reserve margin of 13.2% under normal weather conditions, about a half a percentage point lower than its reserve margin target of 13.75%. Worse still, ERCOT is anticipating that load could exceed projected capacity if the state experiences another hot summer like the one last year and sees higher-than-normal forced generation outages, staff said.

Both ERCOT and the North American Electric Reliability Corp. have blamed the low reserve margins in Texas on load growth outpacing generation development despite the recession, and on several years of hot summer weather increasing load forecasts.

The good news, Office of Electric Reliability staffer David Andrejcak told the commission, is that while drought remains a concern in Texas, ERCOT believes that the region received enough winter precipitation to maintain reservoir levels and provide sufficient cooling water through the summer months. ERCOT also expects more than 1.4 GW of demand response to be available this summer, and possibly more if the grid operator resorts to public appeals for conservation.

After Commissioner Philip Moeller asked further about the Texas situation, Andrejcak said demand response "should help quite a bit" should power supplies become tight in ERCOT this summer, and he said he feels fairly confident that reliability will be maintained.

Other potential trouble spots

Andrejcak said staff also is closely following the situation in Southern California, where the San Onofre nuclear power plant between Los Angeles and San Diego has been shut down for repairs. The report explained that an extended outage of that plant will make less energy available and limit transfers into the San Diego area from the Los Angeles basin.

"Without San Onofre, Southern California, and particularly the San Diego area, could see very low reserve margins," reported Alan Haymes of FERC's Office of Enforcement.

However, the report said that even lacking San Onofre's 2.3 GW of capacity, NERC expects reserve margins in California as a whole to still be slightly above the regional target of 15.1%. The reactivation of two mothballed units at the Huntington Beach facility is expected to help the situation by providing additional capacity in the Los Angeles basin and supporting additional transfers into San Diego. Staff also noted that entities in the area are working to increase demand response and conservation measure participation.

Haymes said New England also could be a potential trouble spot, even though under normal weather and system conditions the region's power supplies are expected to be adequate. The report explained that the problem is not lack of electricity capacity but rather uncertain supplies of liquefied natural gas that the Mystic power plant, which helps power the greater Boston area, depends upon to generate electricity.

Driving the uncertainty is the recent sabotage of a major pipeline in Yemen that is used to deliver natural gas to an export facility from which it is then shipped to New England in the form of LNG, Haymes explained in response to a question by one of the commissioners. Well aware of the situation, though, the ISO New England Inc. has been working with generation and transmission companies in northeastern Massachusetts and the Boston area to develop special operating plans that can be used to manage a shortage situation, the report added.

Capacity reserves appear adequate in the rest of the country, Andrejcak observed, with no significant increases in retirements foreseen for this summer. However, a number of utilities in the Eastern Interconnection have announced their intentions to retire older fossil fuel generating units over the next few years, with some retirements in the PJM Interconnection LLC beginning as early as this fall.

What about energy prices?

Turning to electricity prices, Haymes said market participants are expecting low gas prices to drive generally lower prices in the electricity markets. Regional forward power prices are $7 per MWh to $22 per MWh less than similar forwards a year ago, although the report cautioned that actual power prices could be far different if the summer turns out to be extremely hot.

With that in mind, the report noted that the National Oceanic and Atmospheric Administration is predicting a warmer-than-normal summer across most of the country, with the exceptions of the Pacific Coast and the northern tier of the nation, where normal temperatures are expected. NOAA foresees the greatest chance of above-average temperatures to be in an area centered in Arizona and New Mexico.

Haymes further noted that early forecasts for the hurricane season from Colorado State University call for lower-than-normal activity in the Atlantic this summer, and suggested that even if a greater number of hurricanes than expected should occur, their effects on natural gas markets will be minimal given the increased production of shale gas and new gas pipelines and other infrastructure.

If the San Onofre outage continues into the summer, Haymes said, all of Southern California may see elevated prices compared to Northern California and neighboring regions, especially during periods of high demand.

With regard to hydropower, the report said snowpack in British Columbia and parts of the U.S. Northwest came in at average or above-average levels this year, while levels in California are well below average. However, the report added that reservoir levels in California "are closer to normal owing to good hydrologic conditions last year." The report also said the abundance of hydro production in the Northwest will benefit the California and Southwest markets, with transmission lines from the Northwest into California well-loaded.

The report noted that NERC is projecting summer installed nameplate wind capacity to increase by about 3.4 GW, or about 9%, from 2011, for a total nameplate capacity across the nation of approximately 40 GW. The average on-peak wind capacity for the 2012 summer is forecast to be 11% of nameplate capacity, ranging from 2.2% in the Southwest Power Pool to 26% in the Mid-Continent Area Power Pool.

In other conclusions, staff said that while regional differences in natural gas prices persist, they are much less variable than in past years because new pipeline infrastructure has reduced bottlenecks significantly. The report also said the shift from coal-fired to natural gas-fired generation is expected to have limited market effects, although coal plant revenues are expected to be lower going forward.

Copyright © 2012, SNL Financial LC
Usage of this product is governed by the License Agreement.

SNL Financial LC, One SNL Plaza, PO Box 2124, Charlottesville, Virginia 22902 USA, (434) 977-1600

Docket No. 11-035-200
UIEC Ex. ___ (JRM-5)

CASWELL-MASSEY
America's Original Since 1752
FREE Shipping
For limited time only
Use code: SCFS12
CLICK HERE
caswellmassey.com

Individual.com
IT'S NEWS TO YOU
For free personalized news click here!

Select a date:
May 23, 2012

FERC Summer Forecast Predicts Low Natural Gas Prices

May 23, 2012 (Close-Up Media via COMTEX) --

The Federal Energy Regulatory Commission's (FERC) summer assessment revealed that low natural gas prices are expected to continue to exert downward pressure on electricity prices this summer, although there could potentially be more volatility in Southern California, Texas and Boston, where power generation capacity reserves are tighter.

4 Ways to Avoid Running Out of Money During Retirement

If you have a $500,000 portfolio, download the guide by *Forbes* columnist Ken Fisher's firm. Even if you have something else in place, this must-read guide includes research and analysis you can use right now. Don't miss it!

Click Here to Download Your Guide!

FISHER INVESTMENTS™

According to a release, the natural gas surplus and sub-$2-$2.50/MMBtu prices are expected to step up the switching of generation facilities from coal-fired to gas-fired, according to FERC's "Summer 2012 Energy Market and Reliability Assessment" report, which was presented at the Commission's regular meeting, Natural Gas Intelligence reported.

The reserves of power generation capacity to meet normal electricity demand this summer appear adequate, but there are three potential trouble spots -- Southern California, Texas and Boston, the Commission staff report said. Summer outages could cause price volatility in these power markets, but in general the market will be dominated by low natural gas prices.

"The most prominent market driver for energy markets this summer will be the cost of natural gas, which has fallen to prices last seen a decade ago...Gas prices at the recent lower level can be expected to have a significant impact on electric markets." FERC expects the gas surplus condition to continue through the summer, causing gas prices to stay near their present levels.

In addition to the low prices, "the ability of the natural gas-fired plants to obtain sufficient fuel does not appear to be a significant factor or a market concern during the upcoming summer. In particular, capacity in long-haul pipelines is generally sufficient to avoid disruptions in the use of natural gas for electric generation for this summer," FERC noted.

((Comments on this story may be sent to newsdesk@closeupmedia.com))

Top 10 Stocks for 2012

These 10 stocks are set to crush the market in 2012.

In fact, Warren Buffett just bought 9.3 million shares of one of these stocks.

Click here for more on these stocks.