

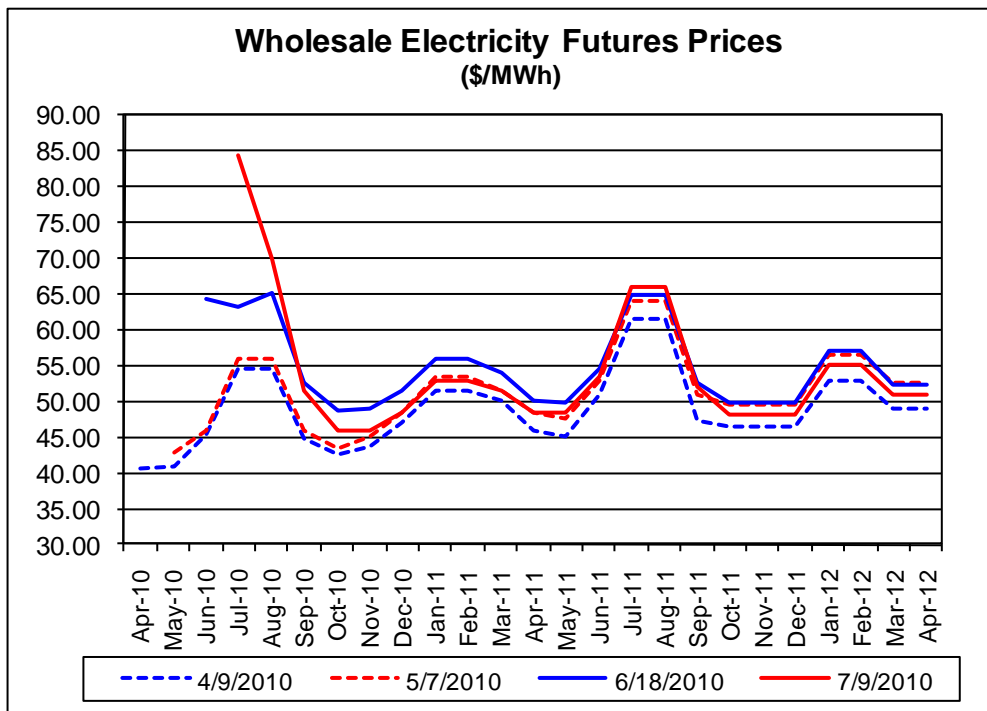
**Electricity Price Outlook
Wholesale Electricity Futures Prices as of July 9, 2010**

by

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Outlook

This is the Office of Technical and Regulatory Analysis’ (“OTRA”) assessment of electricity prices as of July 2010. Based on futures prices for July 9, 2010, the outlook for wholesale electricity prices are somewhat mixed over the next 12 months.¹ As of July 9, the futures prices for July 2011 and August 2011 are lower than the respective monthly futures prices for July 2010 and August 2010, but the 2011 futures prices are generally higher for months further out. Compared to the previous month, the July 9 futures prices were higher for the nearest term months of July and August, but the July 9 futures prices were generally lower for the months further out.



Changes in fuel costs are an important driver of changes in electricity prices. In the July 2010 Short-Term Energy Outlook (“STEO”), the Energy Information Administration (“EIA”) indicates that **“residential retail electricity prices during the first half of 2010**

¹ The direction of wholesale prices may be reflected in electricity futures prices, when comparing near-term and long-term futures. See the Wholesale Electric Market Assessment below.

were about the same as in the first half of 2009. However, rising fuel costs for natural gas and coal generation are likely to push up retail prices later this year, causing prices over the entire year to grow by about 0.8 percent. Increased fuel costs should push residential prices higher by about 2.7 percent during 2011.”² With respect to the South Atlantic Division, which includes the District of Columbia, EIA now expects residential electricity prices to decrease slightly in 2010, compared to the previous year.

For District customers, the general trend in the wholesale price of electricity will be reflected in the generation rate component of retail customers’ electricity bills. Based on PEPSCO’s revised Standard Offer Service (“SOS”) generation rates—effective June 1, 2010—the average residential customer should experience a *decrease* of about 1.6 percent. Since generation rates account for about 80 percent of the bill, residential customers may experience an annual average *decrease* of 1.2 percent in their bills. The actual impact on District residential customers is affected by the use of contracts from earlier solicitations, so that only a portion of the District’s default power supply is exposed to the current prices.

The following sections provide a brief discussion of some of the factors affecting this outlook, including the weather, the economy, and fuel prices.

Weather

Weather variations have an impact on energy price formation. As of July 15, 2010, the National Oceanic and Atmospheric Administration (“NOAA”) indicated that its outlook for the months of August, September and October 2010 calls for above normal seasonal mean temperatures for the Northern Rockies, the Great Basin and the Desert Southwest, extending eastward into West Texas and for the entire eastern half of the nation east of the Great Plains. NOAA also states that the above normal temperatures in the eastern U.S. are consistent with the developing La Nina and with decadal temperature trends in parts of the Southeast and Northeast. In addition, both the expectation of La Nina conditions and decadal warming trends contribute to enhanced changes of above normal temperatures in the West. The remaining parts of the nation show equal chances of above, near, or below normal temperatures. Sustained higher temperatures will provide support for cooling demand, placing upward pressure on energy prices.

Economic Activity

A recovery in economic activity should tend to reduce any downward pressure on fuel costs and, in turn, retail electricity prices. EIA indicates that the U.S. real gross domestic product (“GDP”) is expected to recover in 2010 with a projected growth of about 3.3 percent—following a *decrease* of 2.4 percent in 2009.³ Separately, in the semiannual *Monetary Report to the Congress*, Federal Reserve Chairman Bernanke stated that the economic expansion that began in the middle of last year is proceeding at a moderate pace,

² STEO (July 2010) at 7.

³ STEO (July 2010), Table 1.

supported by stimulative monetary and fiscal policies.⁴ However, the housing market remains weak, with vacant or foreclosed houses weighing on home prices and construction. Moreover, an important drag on household spending is the slow recovery in the labor market and the uncertainty about job prospects. Chairman Bernanke goes on to indicate that a significant amount of time will be required to restore the jobs that were lost over 2008 and 2009. With nearly half of the unemployed having been out of work for longer than six months, long-term unemployment not only imposes near-term hardships on workers and their families, it also erodes skills and may have long-lasting effects on workers' employment and earnings prospects.

Fuel Prices

Oil

In its July 2010 Outlook, EIA indicates that its **“view of the world oil market is largely unchanged from recent Outlooks. EIA forecasts that world oil prices will rise slowly as an expected renewal of global economic growth leads to higher world oil demand and members of the Organization of the Petroleum Exporting Countries (OPEC) continue their support of prices near current levels.”**⁵ EIA goes on to report that **“WTI crude oil spot prices averaged \$75.34 per barrel in June 2010 (\$1.60 per barrel above the prior month's average), close to the \$76 per barrel projected in the forecast in last month's Outlook. EIA projects WTI prices will average about \$79 per barrel over the second half of this year and rise to \$84 by the end of next year.”**⁶

For the electric power sector, EIA's latest estimate shows residual and distillate fuel oil prices both **rising** by at least 26 percent in 2010—following a decrease of more than 35 percent in 2009. In the PJM Interconnection region, generation from fuel oil accounted for less than 1 percent of the fuel mix in 2009.

Natural Gas

EIA states that the **“Henry Hub spot price averaged \$4.80 per MMBtu [million Btu] in June, \$0.66 per MMBtu higher than the average spot price in May. The forecast price for the second half of 2010 averages \$4.68 per MMBtu, \$0.32 per MMBtu higher than last month's Outlook. The risk of hurricane outages and the projected reduction in drilling activity combine to strengthen prices through the year. A small decline in U.S. production alongside increased consumption leads to higher prices in 2011; the projected Henry Hub spot price averages \$5.17 per MMBtu.”**⁷

⁴ *Monetary Policy Report to Congress*, July 21, 2010.

⁵ STEO (July 2010) at 2.

⁶ STEO (July 2010) at 3.

⁷ STEO (July 2010) at 6.

EIA’s outlook currently shows natural gas prices to the power sector **increasing** in 2010 by about 16 percent—up to \$5.45 per mmBtu. In 2009, natural gas prices to the power sector decreased by nearly 50 percent. In the PJM Interconnection region, generation from natural gas accounted for roughly 10 percent of the fuel mix in 2009—up from 7 percent in 2008.

Coal

EIA reports that the **“2009 delivered electric-power-sector coal price increased by about 7 percent despite decreases in spot coal prices, lower prices for other fossil fuels, and declines in coal-fired electricity generation. This higher cost of delivered coal reflects the impacts of longer-term power-sector coal contracts initiated during a period of high prices and rising transportation costs. The projected electric-power-sector delivered coal price increases slightly (by 1.4 percent) to average \$2.24 per MMBtu in 2010, and then declines to an average of \$2.19 per MMBtu in 2011.”**⁸ In the PJM Interconnection region, generation from coal accounted for about 50 percent of the fuel mix in 2009—down from roughly 56 percent in 2008.

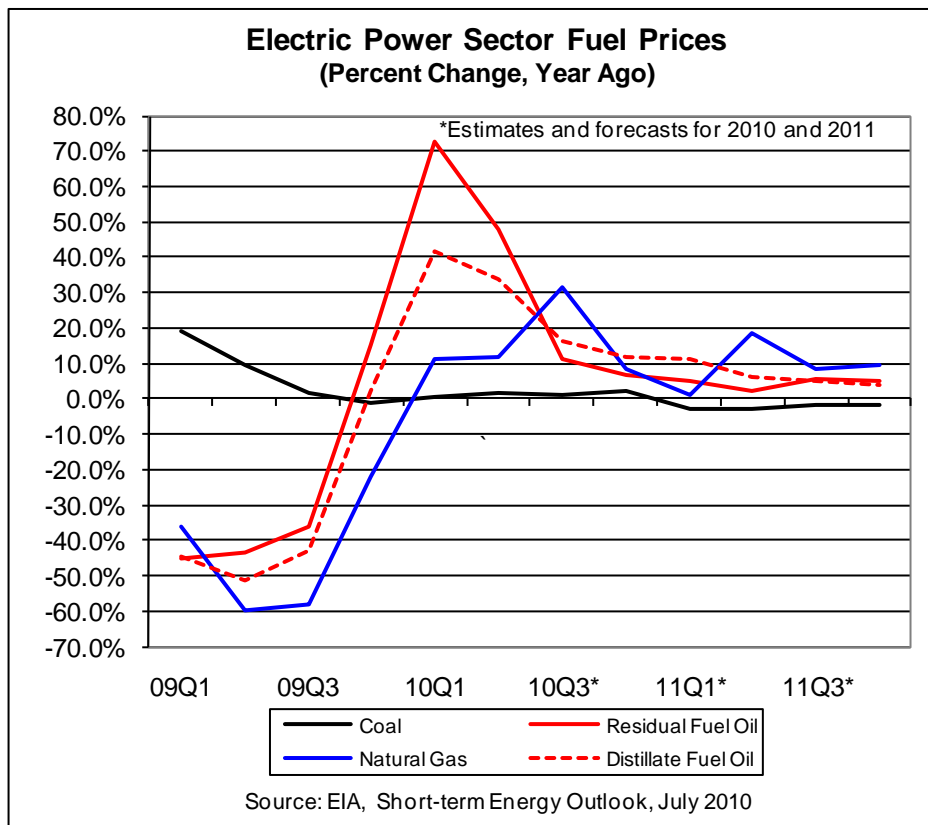
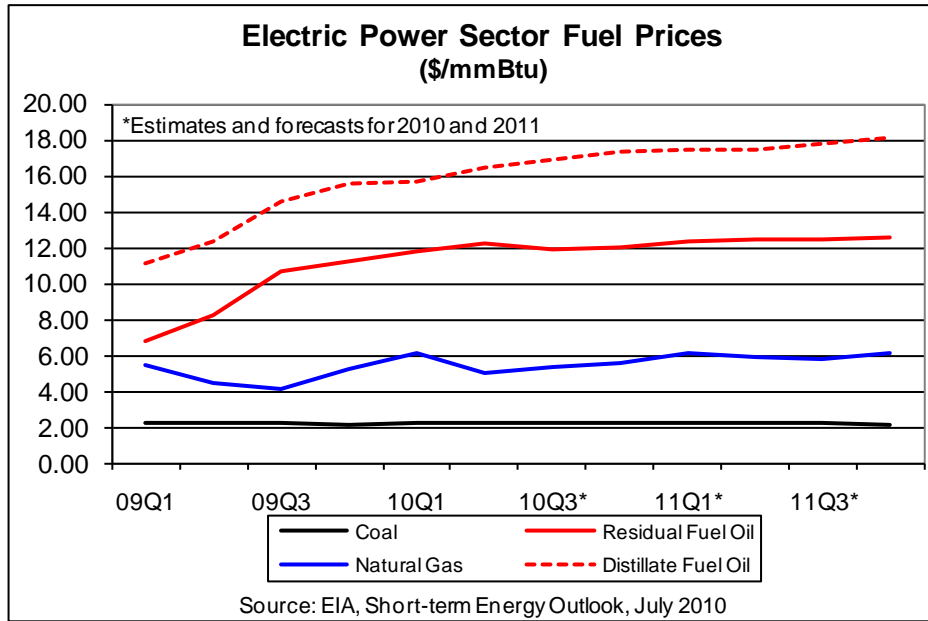
**Electric Power Sector Fuel Prices
(\$/mmBtu)**

Date	Coal	Residual Fuel Oil	Distillate Fuel Oil	Natural Gas
09Q1	2.26	6.80	11.10	5.45
09Q2	2.23	8.26	12.30	4.43
09Q3	2.20	10.65	14.59	4.07
09Q4	2.15	11.24	15.55	5.18
10Q1	2.27	11.74	15.70	6.06
10Q2	2.27	12.20	16.44	4.95
10Q3*	2.22	11.86	16.94	5.35
10Q4*	2.20	12.00	17.38	5.60
11Q1*	2.21	12.33	17.49	6.13
11Q2*	2.21	12.47	17.46	5.88
11Q3*	2.18	12.50	17.76	5.81
11Q4*	2.16	12.60	18.10	6.12

*Estimates and forecasts for 2010 and 2011.

Source: EIA, Short-term Energy Outlook, July 2010.

⁸ STEO (July 2010) at 7 and 8.



Wholesale Electric Market Assessment Information

Price of Electricity Futures for July 9, 2010

Price Information

Twelve Month NYMEX Strip Components PJM Spot Market Price
7-9-10 \$/MWh 7-9-10 \$/MWh

for \$/kWh, divide by 1000

		<u>7-9-10 data</u>	<u>6-18-10 data</u>	<u>Current Only Available</u>
July	10	84.38	63.12	72.56
August	10	69.99	65.10	
September	10	51.43	52.48	
October	10	45.95	48.58	
November	10	46.02	48.92	
December	10	48.50	51.43	
January	11	52.95	55.85	
February	11	52.95	55.85	
March	11	51.50	54.00	
April	11	48.50	50.00	
May	11	48.40	49.69	
June	11	53.46	54.60	

The above are energy prices only. Transmission and distribution rates are not included.

* PEPCO DC Zone Locational Marginal Price (Hourly integrated LMP for hour ending 1000)

Weather Forecast

1. Current for next few days to one week:

<http://www.cnn.com/Weather/>

<http://home.accuweather.com/>

2. National Oceanic and Atmospheric Administration, Climate Prediction Center Outlook:

<http://www.cpc.ncep.noaa.gov/>