



## Summer Energy Market Assessment 2004



*Office of Market Oversight and Investigations  
Federal Energy Regulatory Commission*

**Presented to:  
Federal Energy Regulatory Commission  
Washington, DC  
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# Summer Assessment Overview

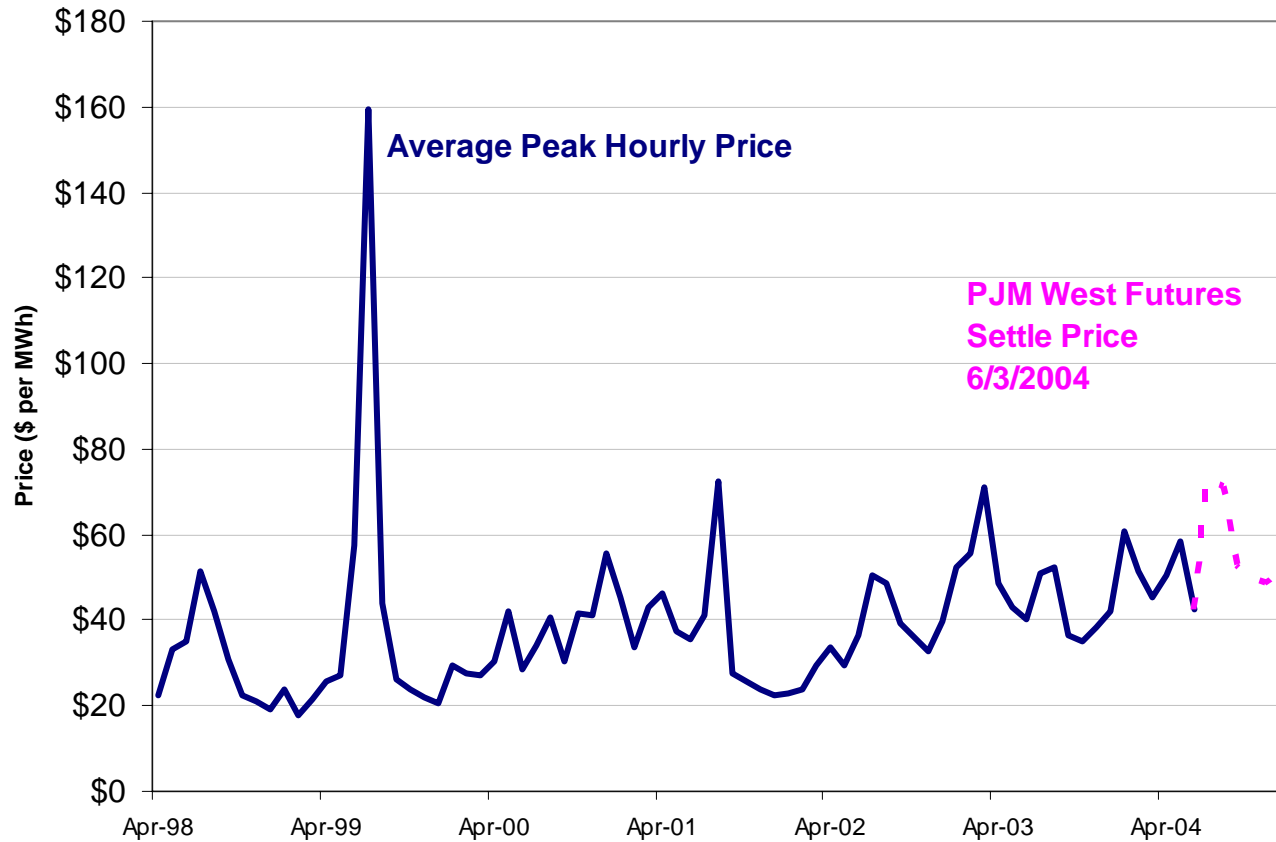
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- This summer may be difficult for energy customers given forecasts for high fuel and electric prices.
- The Commission has taken actions since the market problems of 2000 – 2001 that will help avert a recurrence of misbehavior.
- The public will demand and deserves explanations for the costs they will face this summer.
- OMOI has identified 9 priority items towards which we will direct special attention to maintain effective market oversight this summer.



# Markets Indicate Electricity Prices are Likely to Remain Fairly High Through Summer of 2004

PJM West Historic Prices and Futures Price Curve Going Into Summer 2004



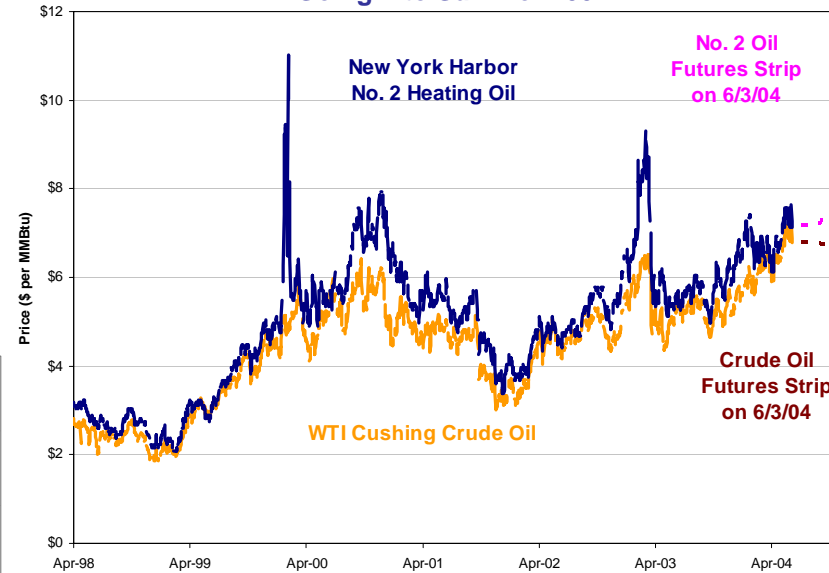


# Futures Prices of Electric Fuel Sources Indicate Price Pressure Will Continue

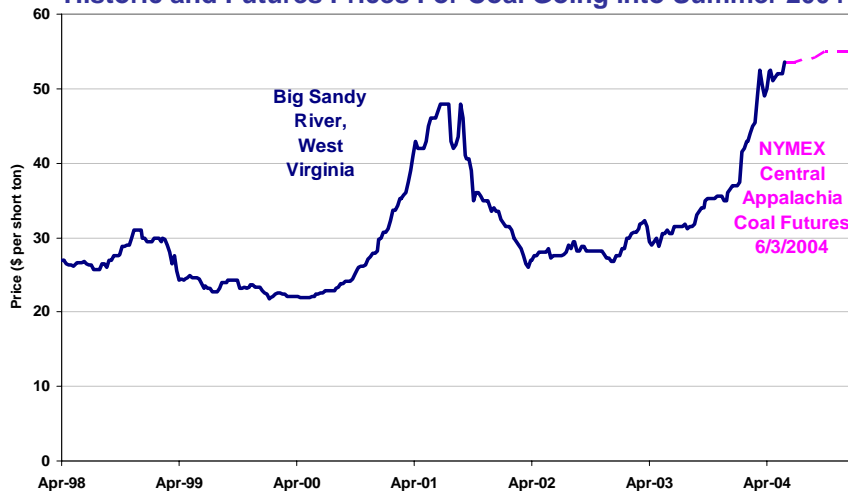
Historic and Futures Prices For Natural Gas Going into Summer 2004



Historic and Futures Prices For Crude and Fuel Oil Going into Summer 2004



Historic and Futures Prices For Coal Going into Summer 2004





# Commission Actions Since 2000 – 2001 and RTO/ISO Mitigation Programs Should Help Promote Open and Competitive Markets

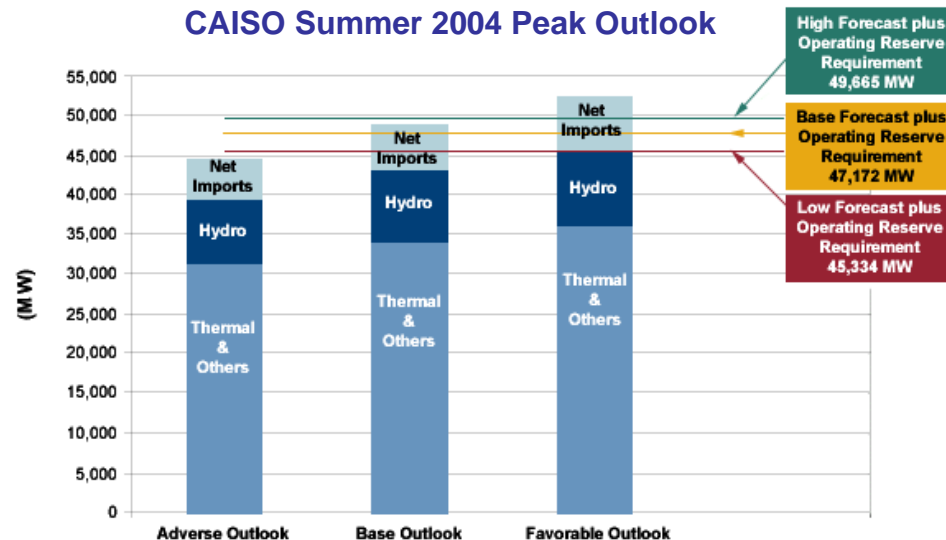
- Quality of price information available to energy markets has improved over the last year:
  - Company processes are improving and data reported has increased.
- New Behavior Rules decrease likelihood of manipulation of energy markets:
  - Behavior Rules for buyers and sellers of electricity and natural gas were adopted by the Commission December 2003.
  - Remedies include loss of profits or even loss of authority to trade.
- New Standards of Conduct requirements to take effect September 1, 2004:
  - Separate transmission businesses of pipeline and utility companies from energy marketing, sales and other unregulated businesses.
  - Implementation is already underway.
- Mitigation programs have evolved beyond basic bid caps:
  - All ISOs and RTOs include some form of bid cap and mitigation approaches to address local market power.
  - Some ISOs and RTOs also incorporate ex-ante offer price mitigation.



# California Electric Supply Appears Tight for this Summer

- Low reserve margins due, in part, to inadequate construction of generation and transmission given 4% load growth
- Outside-California hydroelectric generation tight this year.
- Conservation and demand response programs appear to have declined.
- Already tight power supplies may be particularly tight in southern California due to:
  - Congestion in SP15 limits import flexibility
  - Derate of Pacific DC Intertie for maintenance
  - Lower hydro supplies in southern portion of state

CAISO Summer 2004 Peak Outlook

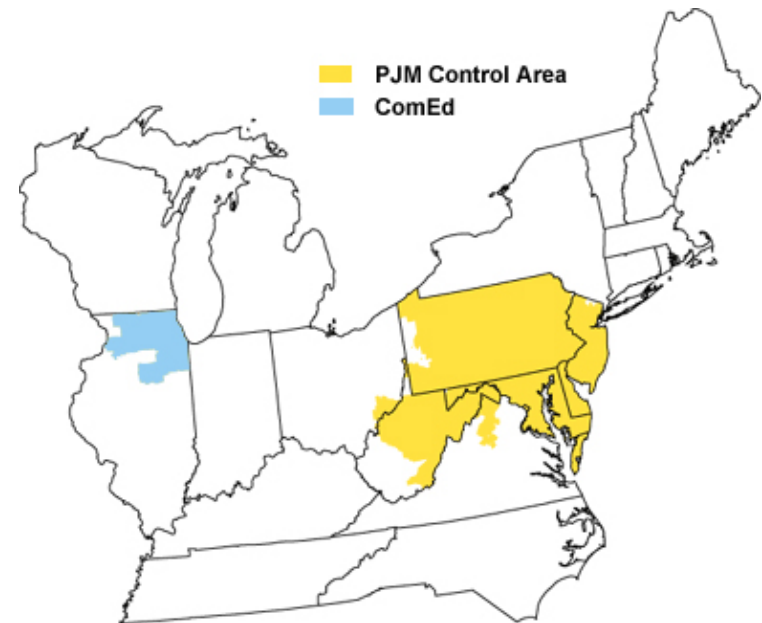




# Commission Staff will Monitor PJM's Integration of ComEd

- Integration adds complexity to peak-period dispatch and market operations.
- PJM generation should increase competition in less robust northern Illinois markets.
- Generation in the ComEd control area should complement PJM supplies, increasing dispatch efficiency.
- Integration has started smoothly under low and moderate load conditions.
- Unanticipated challenges already encountered, such as confusion over the 500 MW pathway.

PJM Control Area and ComEd





# NYC and Long Island Markets Face Operational Complexities and Policy and Market Uncertainties

## Operational complexities

- Slim capacity margins -- though slightly better than past years
- Strong Q1 2004 New York City economic growth could signal higher-than-expected load growth.
- Reliable operation requires coordination among NYISO, PJM, and ISO-NE.

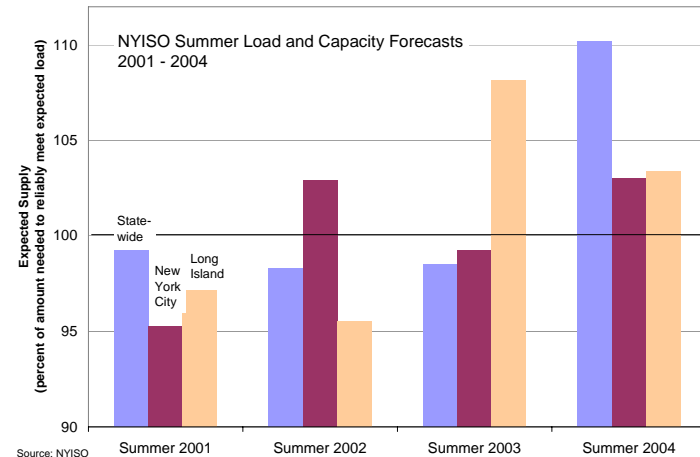
- Communication protocols between ISOs were reviewed and tested after blackout.
- Branchburg transformer derating in PJM may limit transfers to NYC in some conditions.
- Cross Sound Cable unavailability.

## Policy uncertainties

- Status of Norwalk CT – Northport NY line replacement
- Cross Sound Cable/Secretary of Energy determination.

## Market uncertainties

- Possibility that NYISO scarcity pricing will activate for first time
- Refinements to NYC bid mitigation may reduce amount of mitigation.
- Status of Cross Sound Cable



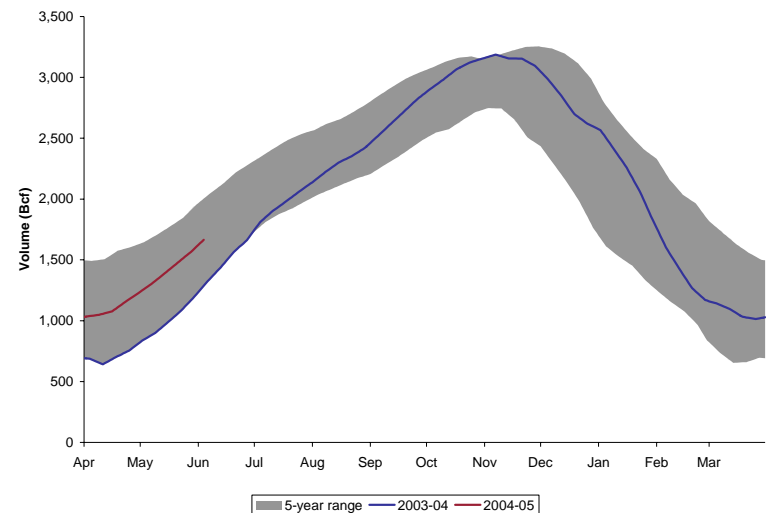




# Natural Gas Price Could be More Volatile this Summer than Last

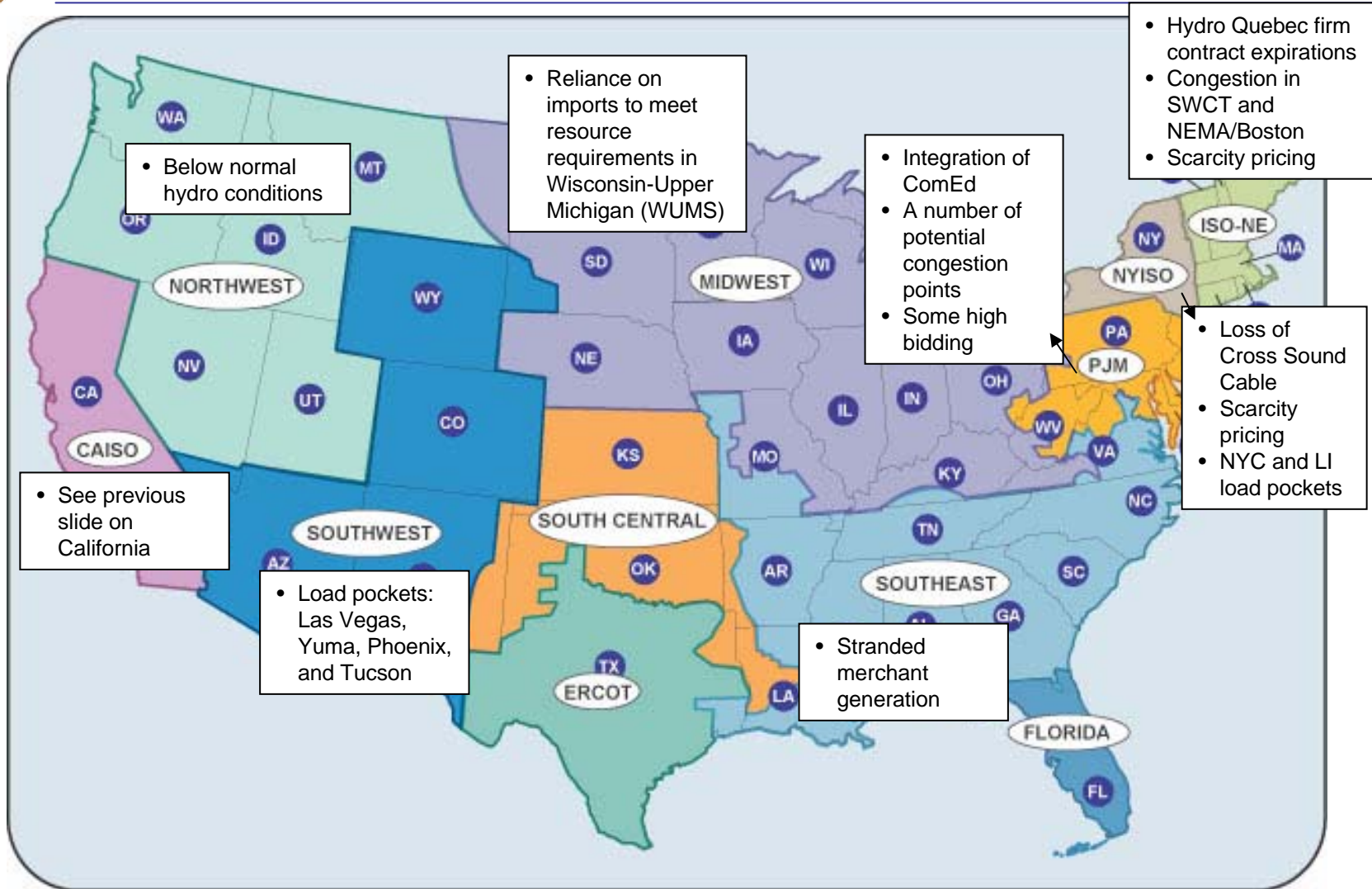
- Concern remains regarding U.S. productive capacity.
- Hot weather this summer could result in periods of intense demand for natural gas for electric generation – increased dependence on gas for generation could make volatility more significant this summer.
- Anticipated winter demand will make storage refill a high priority with little regard to price.
- Storage is in better shape this year compared to last (365 Bcf above the 2003 level of 1,119 Bcf as of May 30, 2004).
- Together, storage and electric demand could result in short-term competition for gas supply.

Total U.S. Working Gas in Storage May 28, 2004





# Regional Issues Could Emerge Based on Local Capacity and Consumption





# OMOI's Planned Monitoring Priorities Anticipate Summer 2004 Conditions

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- National electricity prices and trading activity
- Natural gas storage injections and reporting
- Hydroelectric generation in the Western U.S.
- California electric markets
- Electric fuel prices and trading activity
  - Natural gas
  - Fuel and crude oil
  - Coal
- Progress in ComEd's integration into PJM
- New York City markets
- Local market activity:
  - Load pockets
  - Transmission congestion
  - Generation outages
- Other, non-public priorities



# Contributors

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