


Utility Segment Update

RETAC Meeting
March 5, 2015



Gas Supply

- Over the last several years, shale gas extraction from increasingly efficient horizontal drilling has dramatically reduced gas prices. For 2015, gas from shale is expected to produce half of the total US48 gas production.
- Also, for 2015, half of shale production is expected to come from the northeast fields of Marcellus and Utica. The northeast is expected to be net long gas by year-end.
 - Numerous pipeline infrastructure projects have been completed with many more under development to provide existing wells access to pipelines and to broaden distribution across the eastern US.
- Severe 2014 winter weather for the Northeast and Midwest reduced gas inventories to their lowest levels since 2005 and caused price spikes in some market areas. However, since then, continuing shale production increases and a relatively mild summer have set up the US to capably cover demand from the current very cold winter.
- The recent oil price plunge could eventually impact gas supply as almost half of the gas produced is associated with oil well output. But continuing drilling efficiencies, infrastructure improvements and developer cash flow needs should keep supply sufficient.

Coal Supply

- Generators expect Y/Y coal consumption to be comparable.
- No significant issues with coal availability.
- Inventories appear to be adequate in spite of the severe winter.
- Generators report rail service has improved since October.

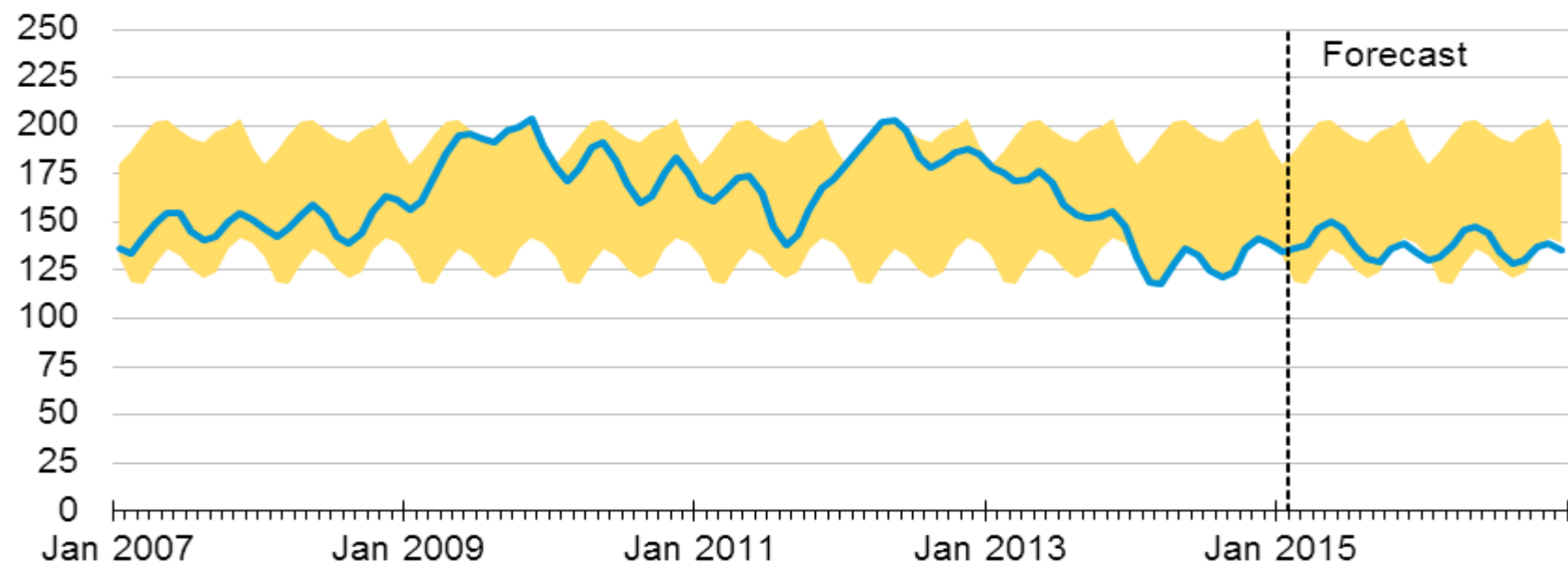
Coal Inventory

- Inventory positions have improved since October.
 - Low inventory was a primary concern.
 - Only one generator reported low inventory resulting from poor rail service.
- Rail service has modestly improved and low gas prices limited 4Q14 coal dispatch.
 - February rail service has been affected by severe weather.

Utility Coal Inventory Levels

U.S. Electric Power Coal Stocks

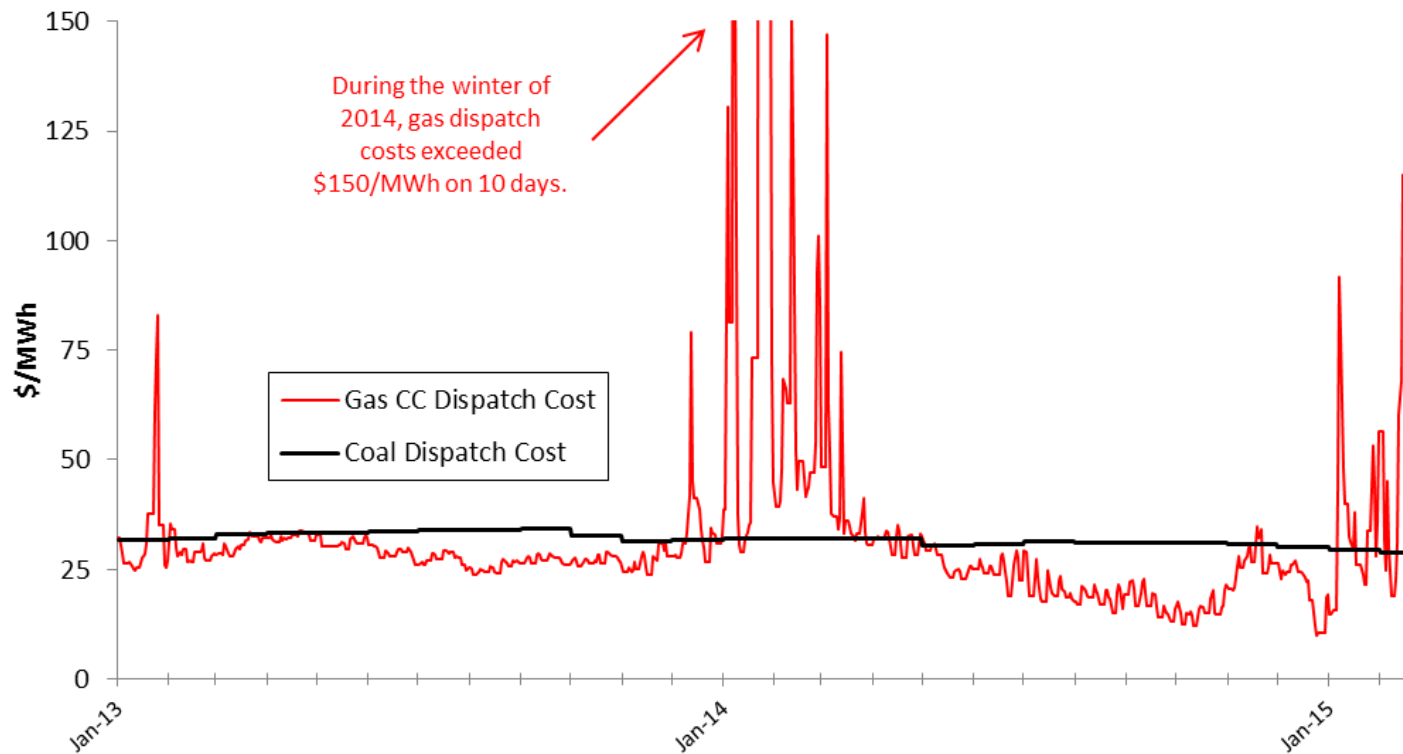
million short tons



Note: Colored band around stock levels represents the range between the minimum and maximum from Jan. 2007 - Dec. 2014.

Source: Short-Term Energy Outlook, February 2015.

Dispatch Cost of Coal & Gas CC Generation



Dispatch Cost: Coal = Delivered coal price X 10,000 heat rate + \$2/mwh VOM

CC = Tetco M3 gas X 7,000 heat rate + \$2/mwh VOM

Current Rail Service

- Service from western and eastern origins has improved.
 - Crew and power availability are better
 - Cycle times have improved
- Some respondents continue to purchase spot coal from alternate basins to avoid poor rail service in select freight districts.

Future View

- Fuel supply options are returning to historical norms however generators are carrying lower inventories.
- Generators will maintain strategy of enhancing flexibility.
- Rail service has improved but additional improvement is needed.