

### Volume 290 June 12, 2012

The electric power generation sector's turn away from coal and toward natural gas is likely to be a gradual one over the next decade, according to a report from Moody's Investors Service.

"A sustained period of low natural gas prices makes natural gas the preferred fuel for generating electricity, economically trumping all other alternatives," said Jim Hempstead, Moody's Senior Vice President infrastructure finance group, and author of the report, "Shift in Electric Generation Mix Favors Natural Gas, Renewables at the Expense of Coal." The shift to gas is likely to be gradual because electric generation assets are capital-intensive and long-lived, and because utilities and regulatory authorities will seek to maintain a diversified generation mix, he said.

"From a credit perspective, the pace of change in the generation supply mix will also be gradual, leaving a reasonable amount of time for issuers to take proactive steps to revise their plans and mitigate the risks. We see the regulated and public power utilities as better positioned to adapt to these shifts than the unregulated power companies and merchant power projects," Hempstead said.

Total U.S. economic expansion will help to increase energy sales over the next decade, but improvements and a more aggressive deployment of energy efficiency will help keep the growth rate of total electric power volumes "modest," according to the report.

"Increased demand for natural gas generation supplies will raise prices at the margin, but will not be sufficient to rebalance the fundamentals behind natural gas production and demand," said Hempstead. "We think natural gas prices would need to reach approximately \$7.00-8.00/Mcf before the sector will begin to aggressively switch back to other fuel sources."

Fuel switching "has largely run its course," Hempstead said. "Generation switching from coal to natural gas is limited by physical constraints, including growing coal piles at many plants."

But this is expected to be the fourth consecutive summer of coal-to-gas switching and the largest amount of switching yet, according to the Natural Gas Supply Association. Electric utilities are forecast to use 17% more natural gas, or about 3.9 Bcf/d, this summer than a year ago because of coal-to-gas switching on low gas prices, according to a recent outlook by NGSA. Electric utilities should double the amount of switching from coal to gas-fired power plants compared with a year ago, which would account for 6.1 Bcf/d of gas versus last summer's 2.9 Bcf/d.

### Electricity Pricing Areas – Jun 12, 2012

#### June

On-Peak	Per kWh
West Hub	\$0.03953
NI Hub	\$0.03245

### ComEd Average Day Ahead LMP Electric Price

Time Period	Average per Kwh
June 1 - June 30	\$0.03851
July 1 thru July 31	\$0.05170
Aug 1 - Aug 31	\$0.04064
Sep 1 - Sep 30	\$0.03058
Oct 1- Oct31	\$0.02968
Nov 1- Nov 30	\$0.02816
Dec 1 - Dec 31	\$0.02971
Jan 1 -Jan 31	\$0.03043
Feb 1-Feb 29	\$0.02963
Mar 1 thru Mar 31	\$0.02894
April 1 - April 30	\$0.02659
May 1 - May 31	\$0.02816
June 1 thru June 11	\$0.02599

### Extended Temperature Forecast: Chicago Area

	Tue	Wed	Thu	Fri	Sat
High	76	71	82	89	91
Low	57	58	65	70	73

