

Volume 386 May 6, 2014

Power

The US Supreme Court ruled last week that the Environmental Protection Agency did exceed its authority in issuing a rule aimed at limiting power plant emissions that cross state lines, a decision that could lead utilities to shutter older coal fired facilities. This provided the support needed to catapult power valuations higher, despite the fact that this piece of regulation is expected to have a minimal impact on pricing. The EPA'S Mercury & Air Toxics Standard, which goes live on April 16, 2015, already addresses the sulfur, and to a lesser extent, the ozone emissions which the CSAPR aims to regulate. Once the market has a chance to digest the news, term valuations will likely come down, although it's important to remain cautious given what has been a very unbalanced market as of late.

Prices

Following a spike and pullback during winter months, prompt NYMEX natural gas prices have rallied in recent weeks to encourage a faster build up in stocks, and we see continued upside risks to our near-dated forecasts. There is a lot of natural gas demand in the US power sector that can move into coal, so prices have risen to the \$4.70-5.00 level where gas to coal switching is very significant. While near-dated contracts in 2014 have surged, calendar 2015 and 2016 prices have only moved up modestly. As a result, prices are now encouraging coal burn near-term, but are not yet incentivizing a big ramp up in drilling activity across the country.

Electricity Pricing – May 6, 2014 Com Ed Historical Average LMP Electric Price

| Time Period | Average per Kwh |
|----------------|-----------------|
| Apr. 2013 | \$0.03821 |
| May,2013 | \$0.03501 |
| Jun,2013 | \$0.03215 |
| Jul,2013 | \$0.04067 |
| Aug,2013 | \$0.03112 |
| Sep,2013 | \$0.03274 |
| Oct,2013 | \$0.03183 |
| Nov,2013 | \$0.03087 |
| Dec,2013 | \$0.03432 |
| Jan,2014 | \$0.07837 |
| Feb,2014 | \$0.06204 |
| Mar,2014 | \$0.05165 |
| Apr 1 – Apr 30 | \$0.03870 |

Extended Temperature Forecast: Chicago Area

| | Tue | Wed | Thu | Fri | Sat |
|------|-----|-----|-----|-----|-----|
| High | 64 | 83 | 84 | 77 | 70 |
| Low | 51 | 66 | 64 | 65 | 48 |

