

Energy Markets in a Recovering Economy

What Market Indicators Should Building Owners and Managers Consider When Making Energy Purchase Decisions?

Key Drivers of Natural Gas and Electric Market Prices

* Near Term (*within the next year*)

- U.S. Natural Gas Supply and Demand Balance
- Natural Gas Storage Inventories
- Weather
 - ✓ Impacts End-Use Customer Demands for Gas and Electricity
 - ✓ Impacts Electric Generation Demand for Gas
- US vs International Gas Prices and LNG Demand
- Natural Gas Supply Disruptions
- Electric Generating Unit Availability

* Intermediate Term (*one to three years*)

- Natural Gas Drilling Activity
- Industrial Activity
- Completion of New Gas Pipeline and Electric Transmission Facilities
- Major Supply Disruptions (e.g., Katrina & Rita)

* Long Term (*three years or longer*)

- Changes in Economic Activity (Both Domestic & Foreign)
- Energy Consumption Patterns (Including Impacts of Conservation & Energy Efficiency)
- Governmental and Environmental Policies Affecting Energy Production and/or Use
- Changes in Technology (Including drilling, production, and end-use technologies)
- Changes in the Composition of the U.S. Electric Generation Portfolio

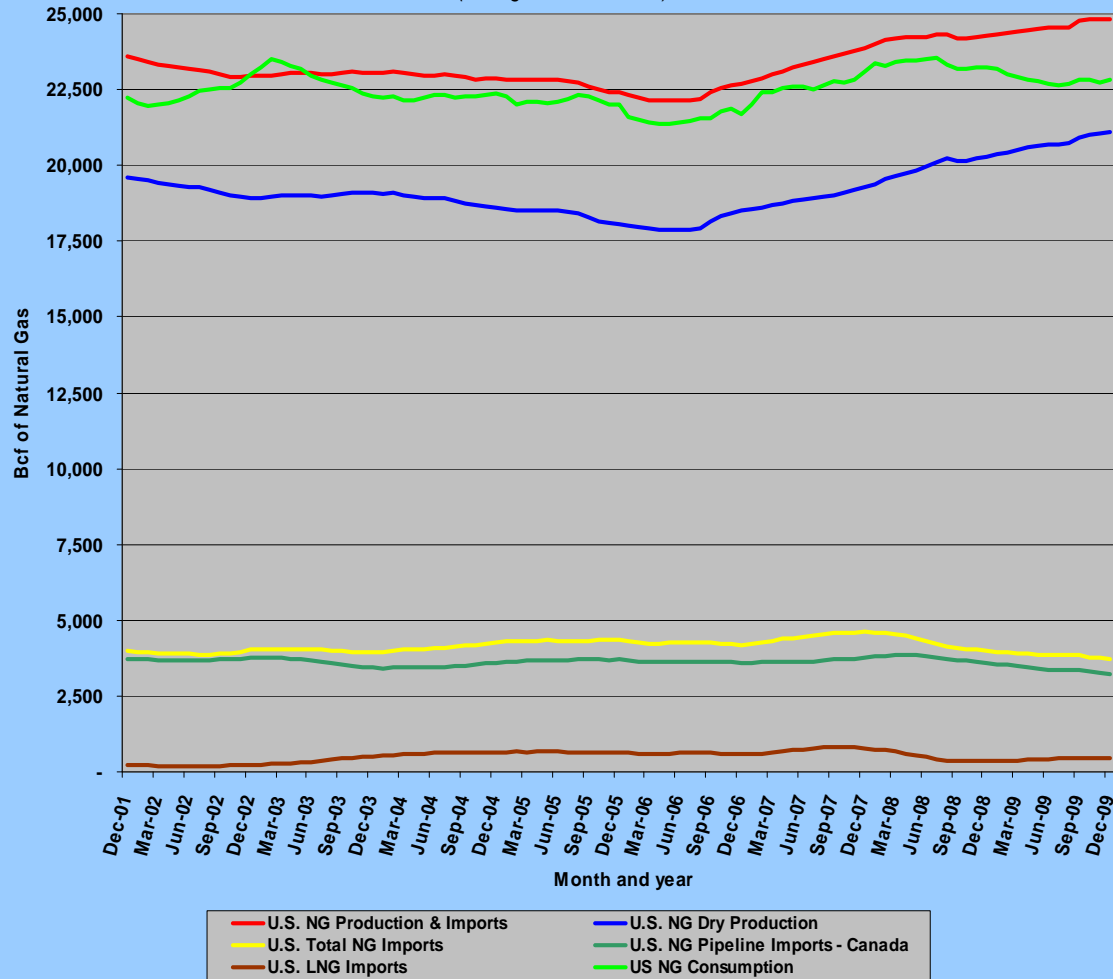
Near-Term Market Drivers

*Factors Expected to Influence
Natural Gas and Electric Prices
Over the Next 6 to 12 Months*

U.S. Natural Gas Production, Imports & Demand

December 2001 - December 2009

(Rolling 12-Month Totals)

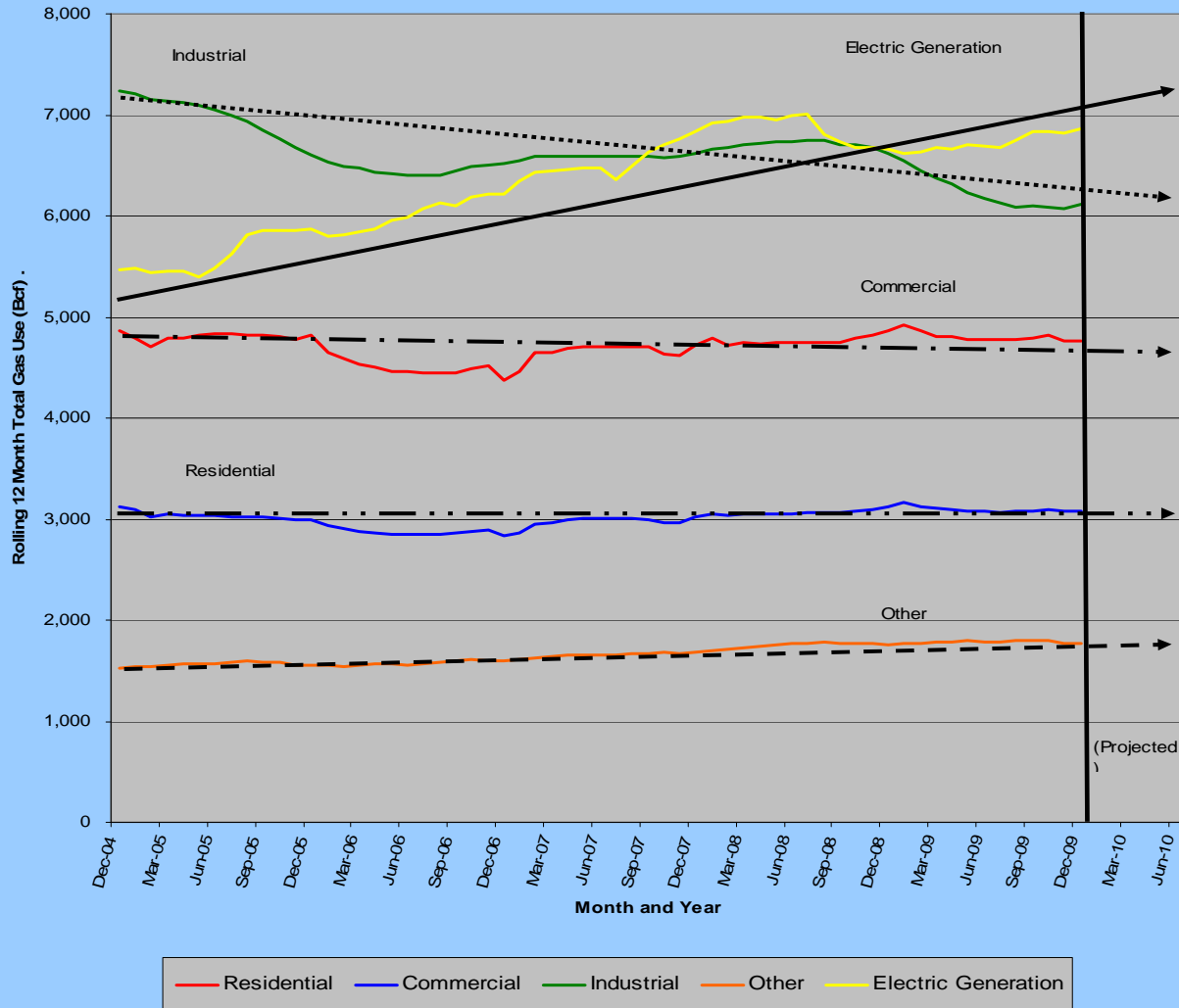


Key Observations:

- * The gap between US **supply** and **demand** for natural gas is the largest in the last 10 years.
- * US **demand** for natural gas appear to have turned upward since mid-2009.
- * US natural gas **production** has sustained a strong three-year upward trend despite the economic recession.
- * Both **Pipeline** and **LNG** imports of Natural Gas have declined noticeably.

US Natural Gas Use by Sector

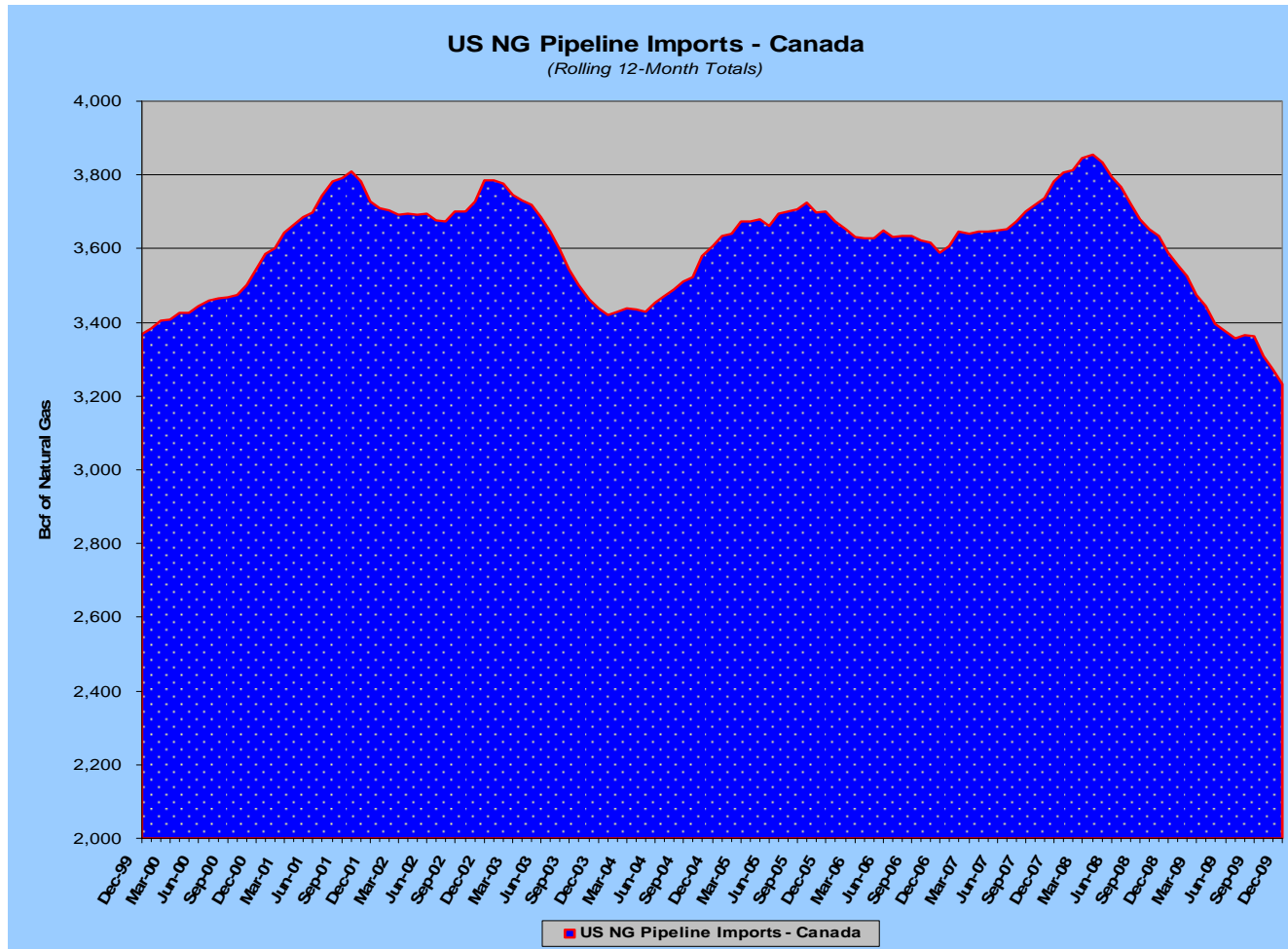
(EIA Actuals through July 2009; Linear Trend Lines through March 2010)



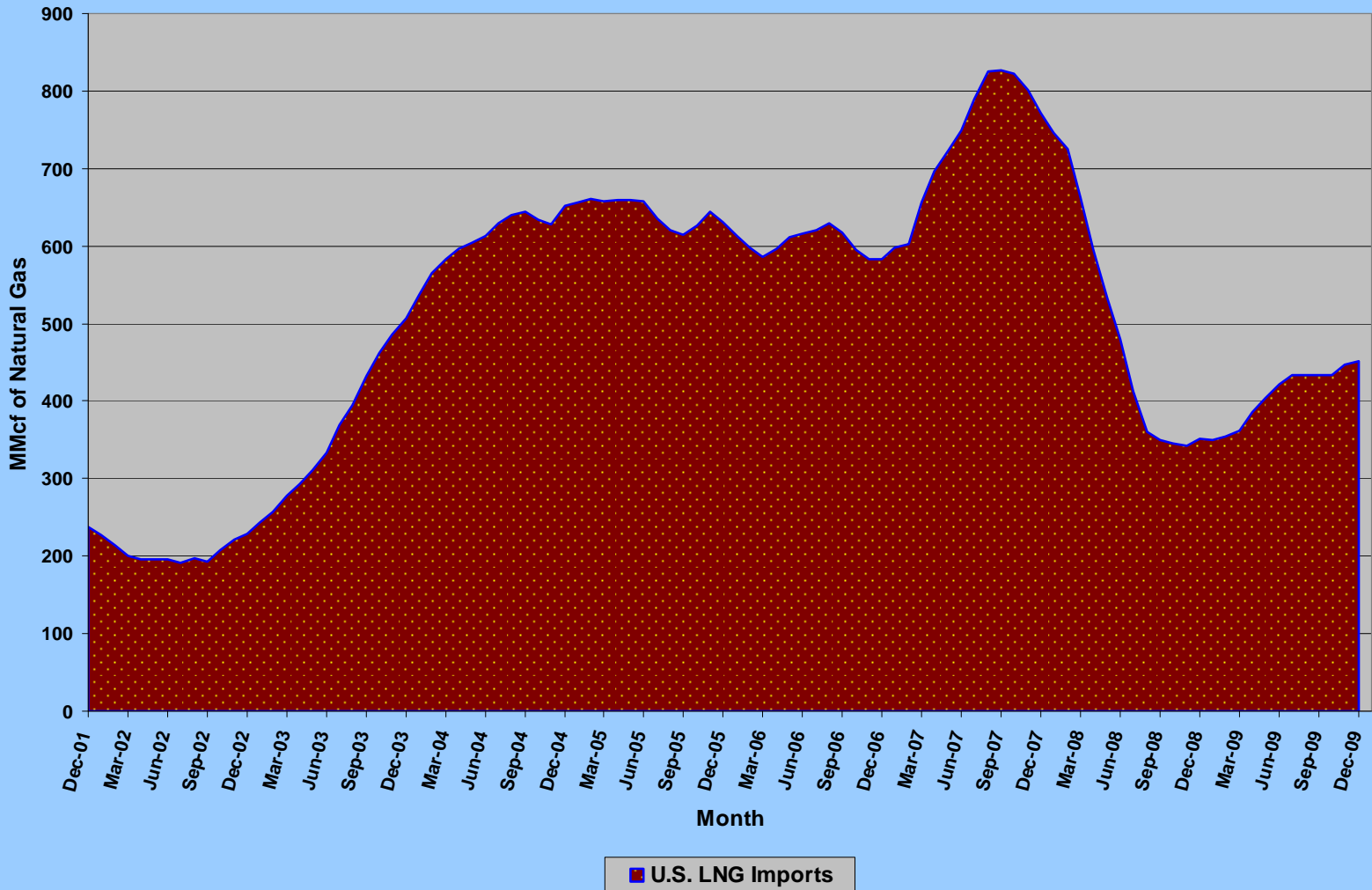
Key Observations:

- * The decline in **Industrial** gas use shows signs of ending.
- * **Electric Generation** demand for natural gas has resumed its upward trend.
- * **Residential** & **Commercial** gas use are essentially flat.

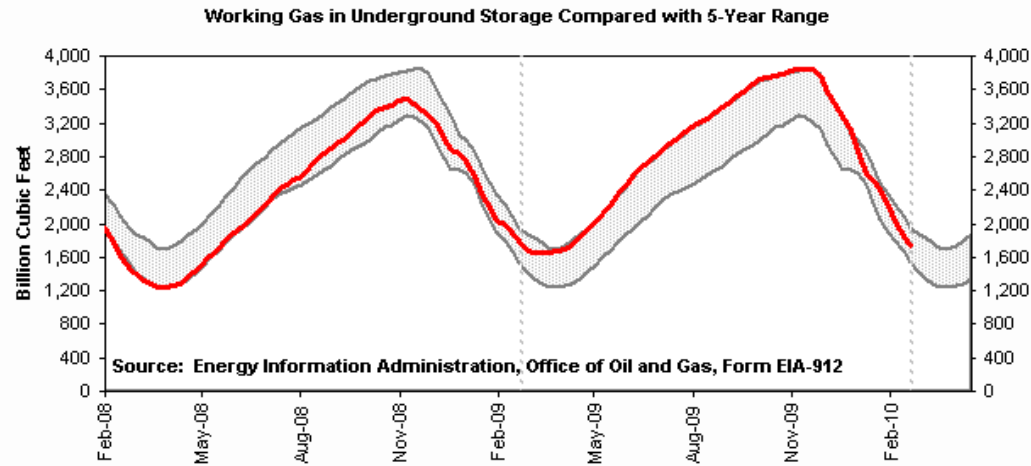
Canadian Imports of Natural Gas to the US Are at Their Lowest Level in More Than a Decade



U.S. LNG Imports December 2001 Through December 2009 (Rolling 12-Month Totals)



Natural Gas Storage Inventories Are Now Within 5 Year Average Range



EIA: Working Gas in Underground Storage, Lower 48 States

Region	Stocks in billion cubic feet (Bcf)			Historical Comparisons			
	03/05/10	02/26/10	Change	Year Ago (03/05/09)		5-Year (2005-2009) Average	
				Stocks (Bcf)	% Change	Stocks (Bcf)	% Change
East	789	861	-72	716	10.2	786	0.4
West	289	296	-7	289	0.0	234	23.5
Producing	548	580	-32	693	-20.9	587	-6.6
Total	1,626	1,737	-111	1,697	-4.2	1,607	1.2

Why Are Natural Gas Storage Inventory Levels Relevant

- Storage Inventory Levels influence:
 - The availability of natural gas during winter months, and
 - Requirements for refill of storage during non-winter months
- When Storage levels are low relative to normal seasonal expectations, prices for natural gas tend to firm up.
 - Low end-of-winter inventories add to refill requirements and effectively increase summer gas demand
 - Low inventories during winter periods limit the availability of gas to meet weather-related demand fluctuations and place a premium on spot gas supplies which, in turn, serves to increase near-term natural gas prices.
- High natural gas storage inventories tend to have the opposite effect, mitigating upward price pressures and softening the impacts of short-term demand and/or supply fluctuations.

Historical Storage Inventory Builds

US Underground Storage Inventory Levels

(Bcf of Natural Gas in Working Inventory)

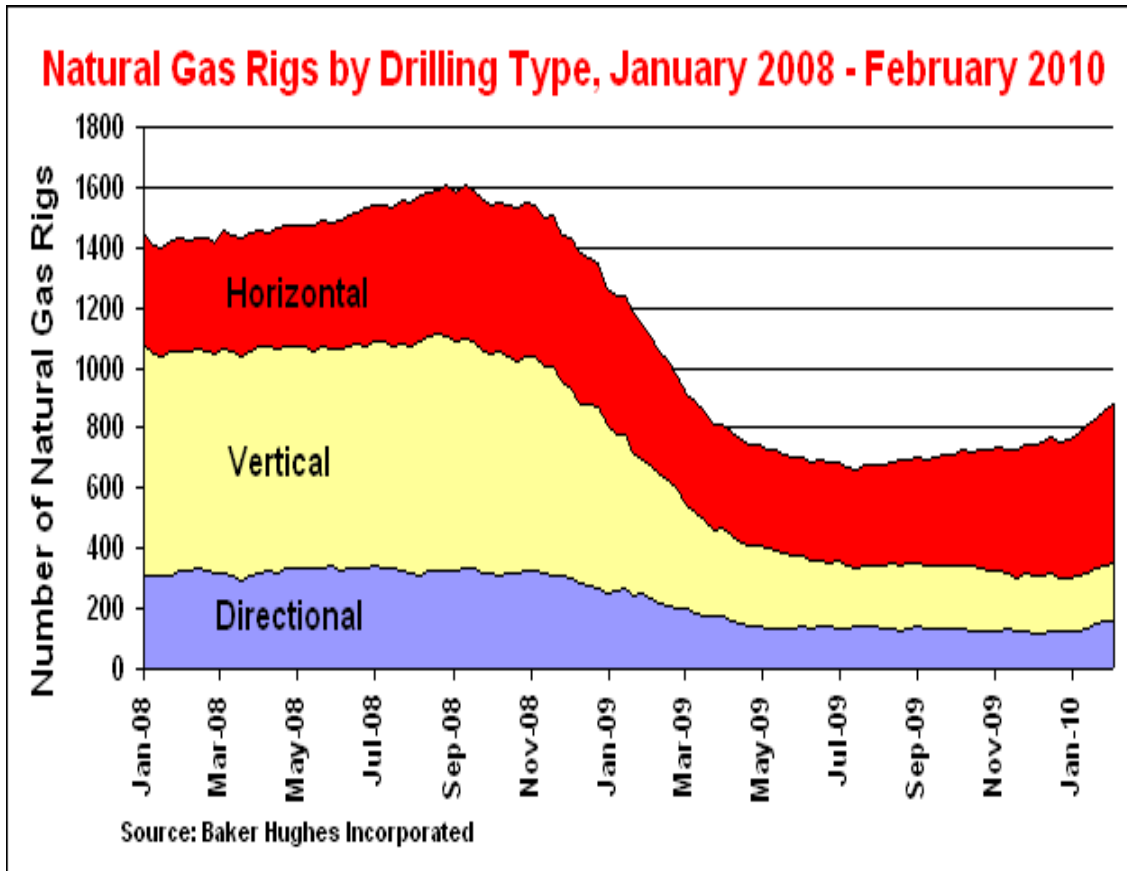
	<u>End of Winter</u>	<u>Start of Next Winter</u>	<u>Inventory Build</u>	
			<u>Total</u>	<u>Bcf/Week</u>
2003	642	3,187	2,545	79.5
2004	1,014	3,327	2,313	72.3
2005	1,239	3,282	2,043	63.8
2006	1,695	3,461	1,766	55.2
2007	1,511	3,545	2,034	63.6
2008	1,234	3,488	2,254	70.4
2009	1,651	3,837	2,186	68.3
2010*	1,500	3,850	2,350	73.4

* Estimated

Intermediate Term Market Drivers

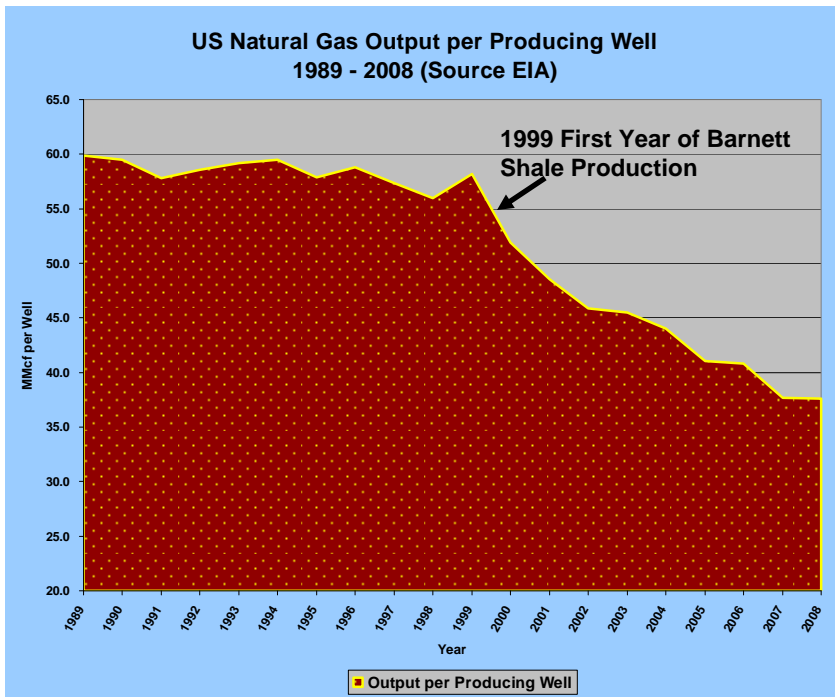
*Factors Affecting Energy Markets and
Pricing for the Next **One to Three** Years*

Natural Gas Drilling Activity Is Increasing, But Remains **Below** Pre-Recession Levels

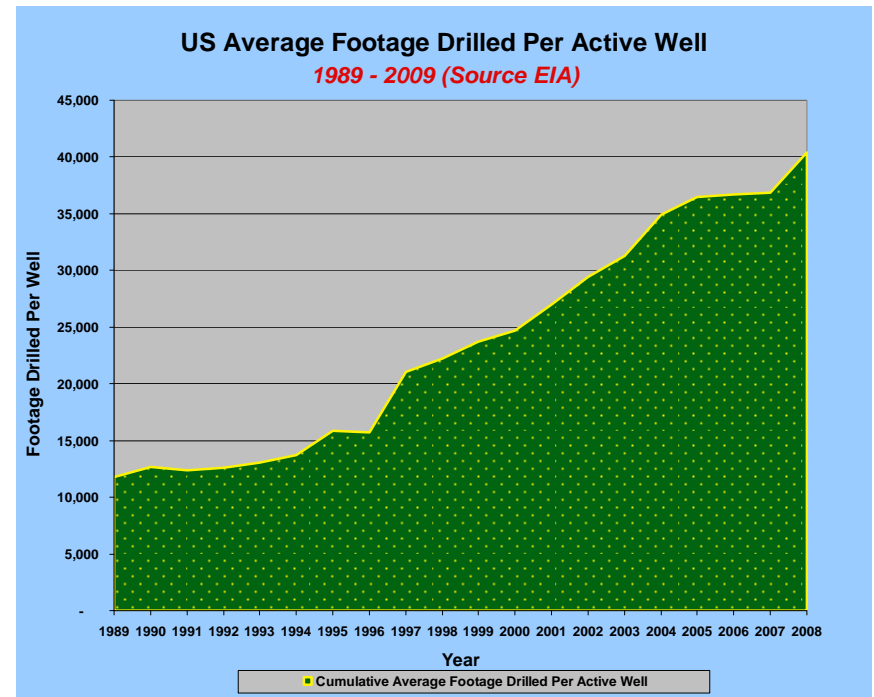


- * The increase in **Horizontal** drilling is indicative of greater activity in shale deposits
- * **Horizontal** drilling tends to be more expensive per unit of gas produced than traditional **Vertical** drilling
- * Improvements in drilling technology and increased recovery of Natural Gas Liquids (NGL's) from shale deposits has helped to improve the economics of Shale gas production.
- * It should be expected that **reduced** levels of **drilling** over the last 12-15 months will ultimately **slow or reverse** the upward trend in US natural gas production

Important Cost Drivers for Natural Gas Drilling in the US



Natural Gas Production per Well
Has Fallen Nearly **37%** Since 1998



Cumulative Footage Drilled Per
Active Natural Gas Well Has
Increased > **250%**

Other Intermediate-Term Market Considerations

- An up turn in the overall US economy could lead to significant increases in both industrial and electric generation demands for natural gas.
- New gas and electric transmission facilities may improve the availability of gas and electric supply to the Washington area markets.

Long-Term Market Drivers

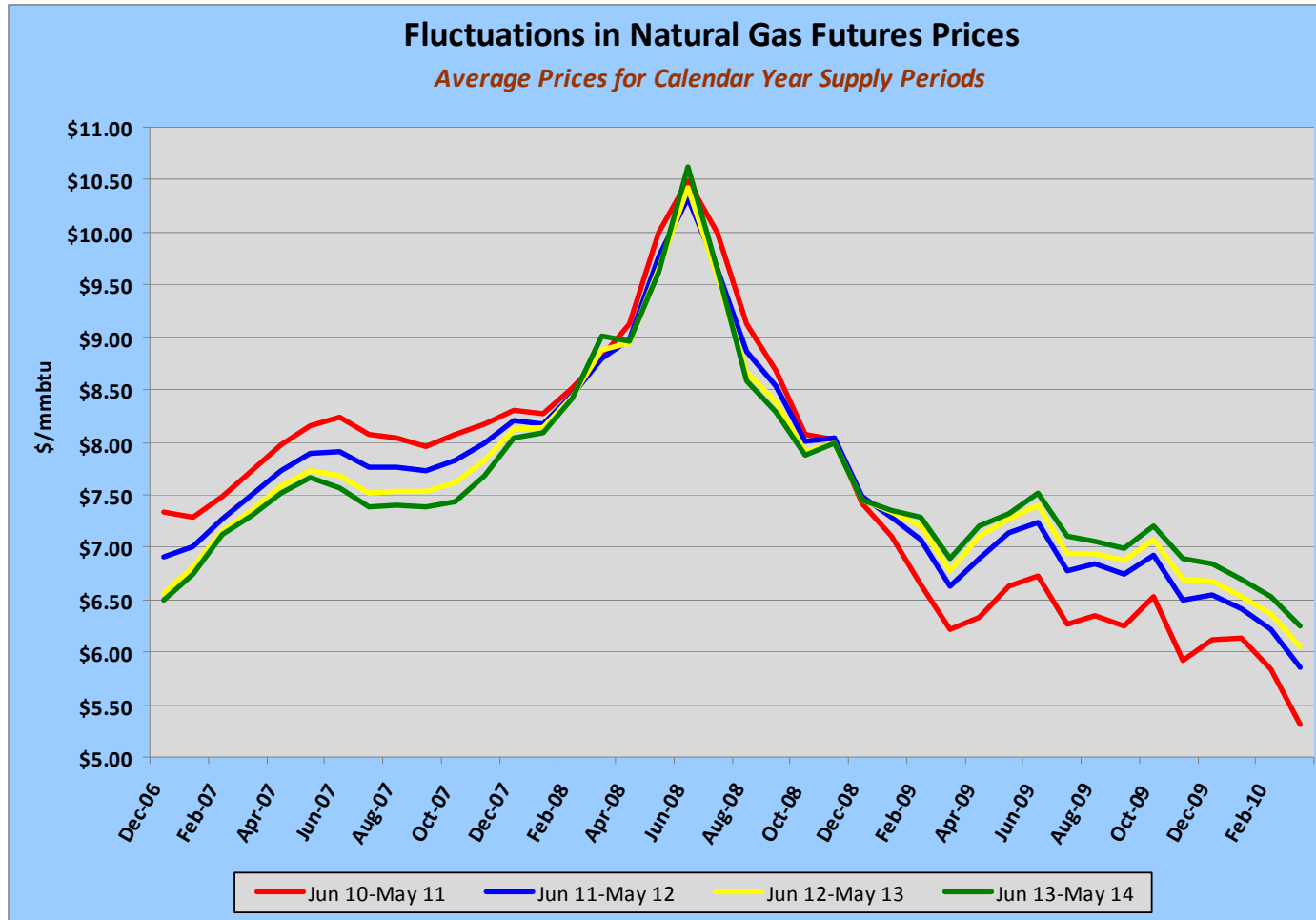
*Factors Affecting Energy Markets
and Pricing Three Years and
Further Into the Future*

Changes In U.S. Electric Generation Portfolio

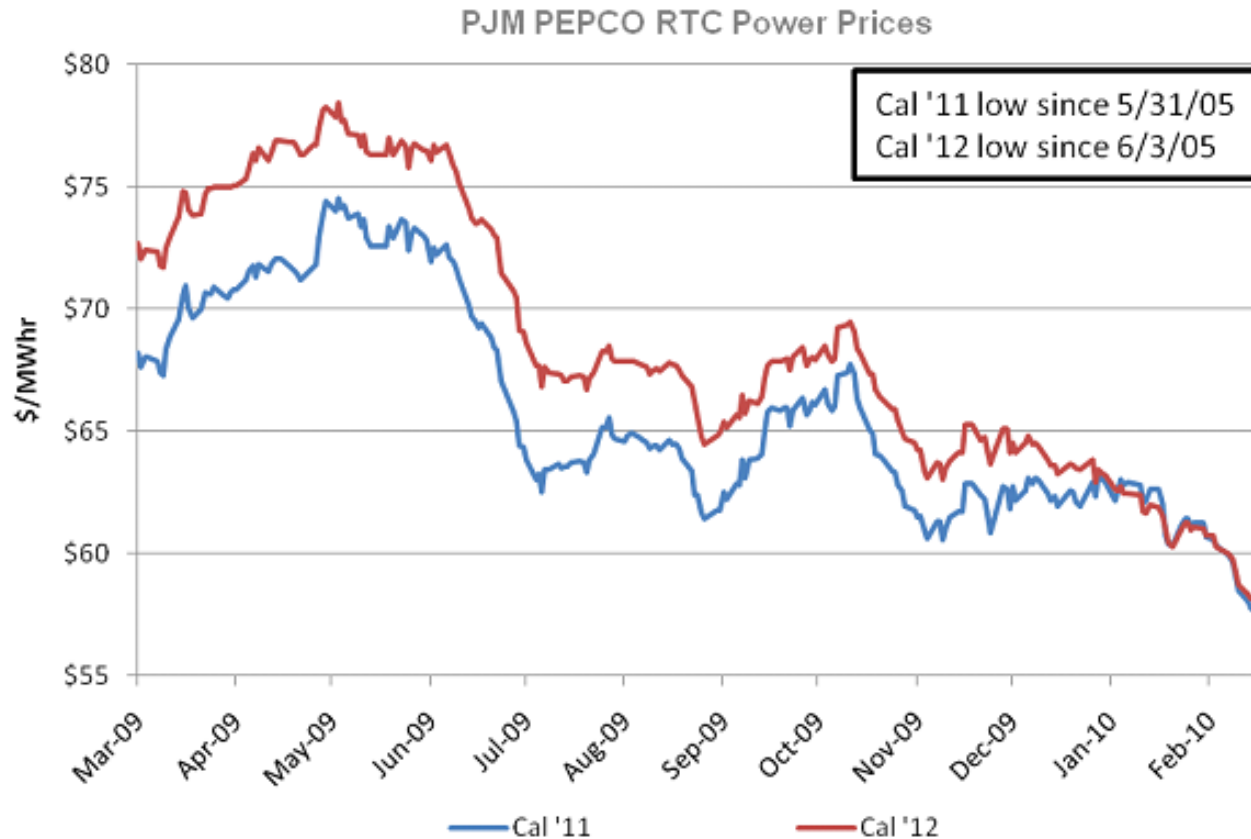
- Construction of Wind, Solar and other Renewable Generation could displace some natural gas requirements.
- Carbon Limits and Other Environmental Concerns can be expected to limit new construction of coal-fired generating units and force closure or more limited use of existing coal-fired generators.
- Planned Nuclear Generating unit addition could impact growth in electric generation demand for natural gas.

Forward Looking Market Prices

Natural Gas Commodity Prices Reflect Continued Weakness Into 2010



Forward Electric Commodity Prices Have Fallen To Their Lowest Levels Since Mid-2005



Reliability Pricing Model (RPM)

Locational Generation Capacity Costs

For Pepco & BGE Service Territories

2007-08 2008-09 2009-10 2010-11 2011-12 2012-13
 (Dollars per Megawatt Day)

Clearing Price	\$188.54	\$210.11	\$237.33	\$174.29	\$110.00	\$133.46
Capacity Transfer Credit	\$ 48.38	\$ 29.53	\$ 19.21	\$ 0.00*	\$ 0.00*	\$ 3.83
Net Load Price	\$140.16	\$180.58	\$218.12	\$174.29	\$110.00	\$129.63

(Cents per Kilowatt-Hour)

Clearing Price	1.571	1.751	1.978	1.453	0.917	1.113
Capacity Transfer Credit	0.403	0.246	0.160	0.000*	0.000*	0.032
Net Load Price	1.168	1.505	1.818	1.453	0.917	1.081

Note: Each annual pricing period runs from June 1 through the following May 31.

* Indicates capacity transfer credit is not known at this time.

Summary

- The AOBA Alliance has generally advocated long-term purchases when current long-term energy prices are low compared to long-term market price expectations.
- That appears to be the situation at this time.
- A number of market uncertainties may impact pricing either upward or downward.
- However, the likelihood of sustained lower prices in forward markets appears much less than the potential for market price increases over the next three to four years.