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October 1, 2008

MEMORANDUM

TO: Council Members

FROM: Terry Morlan

SUBJECT: Preliminary Draft Fuel Price Forecasts

Staff is seeking agreement from the Council to circulate a preliminary draft fuel price forecast for public comment.

Forecasts of prices for natural gas, oil, and coal are important assumptions for the draft Sixth Power Plan. They help determine the demand for electricity as well as the cost of electricity generation, and, therefore, the wholesale and retail prices of electricity. In developing a power plan we look at alternative long-term price trends, as shown in this forecast. In addition, we use the Portfolio Model to add cyclical behavior and short-term volatility to reflect more fully the risks associated with uncertainty about fuel prices.

The natural gas and oil price forecast ranges in this paper are substantially higher than those used in the Fifth Power Plan. This change reflects actual prices since the Fifth Plan was developed, forecasts by other organizations that specialize in such analysis, and current recommendations from the Natural Gas Advisory Committee.

I will provide a brief summary of the forecasts for the full Council. A detailed paper describing the forecasts is included in the Power Committee packet. A PowerPoint presentation summarizing the forecasts is attached.

Attachment

Preliminary Draft Fuel Price Forecasts for the Sixth Power Plan

Council Meeting
October 16, 2008
Missoula, MT



Purpose

- Examine competition between fuels and electricity in consumption
- Estimate the cost of generation from fuel-fired power plants
- Understand the risks to the power system associated with uncertain and volatile fuel prices

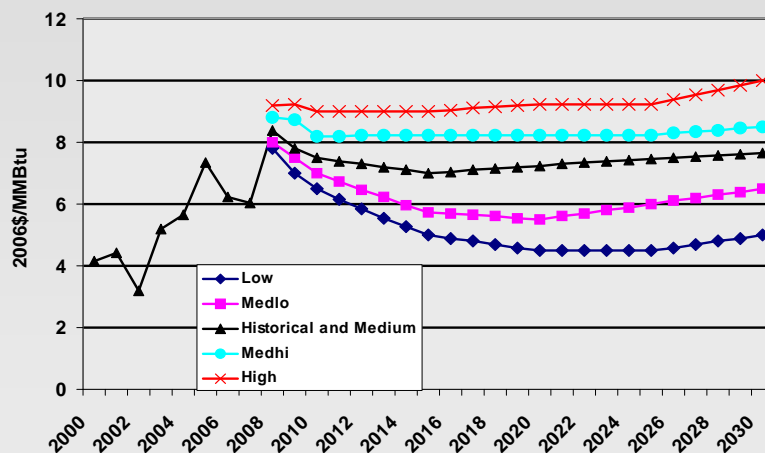


Energy Market Changes Since 5th Power Plan

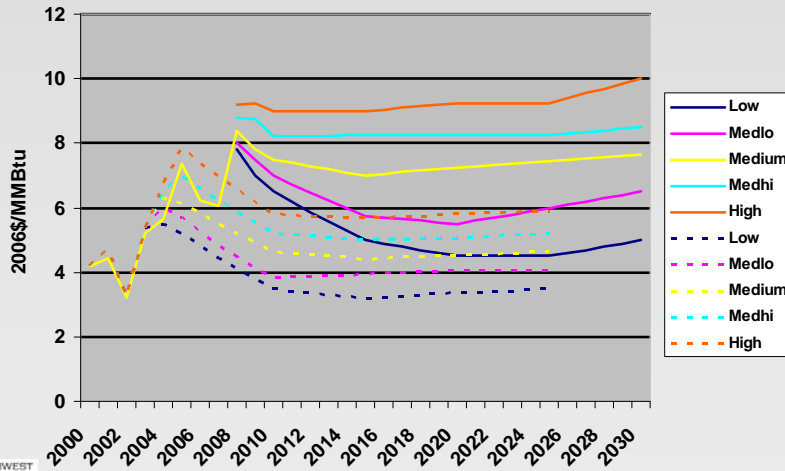
- World economic growth
- Decline in the value of the dollar
- Weak energy supply response
- 2005 hurricane damage
- Middle East conflict
- Climate change issues



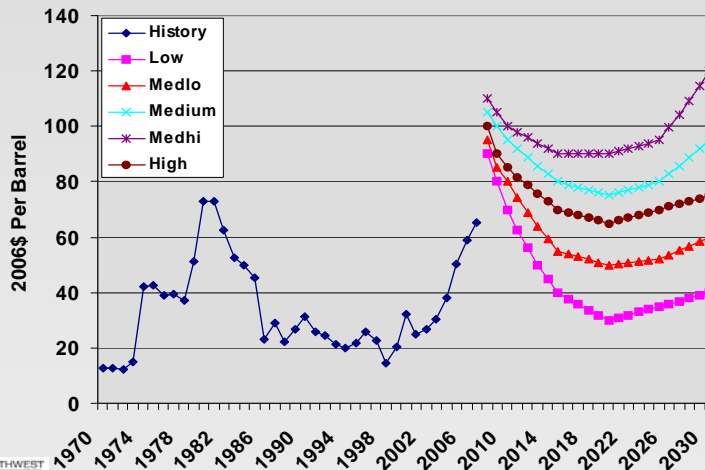
Wellhead Natural Gas Price Forecast Range



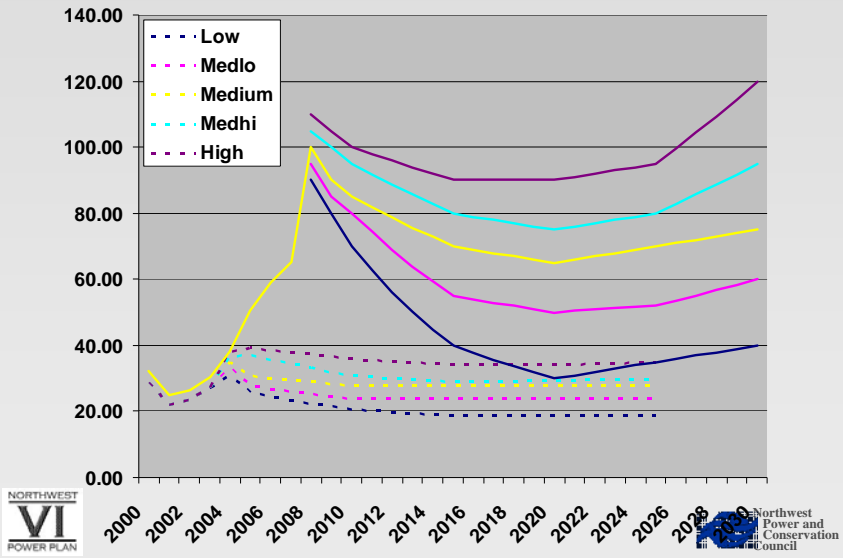
Draft Natural Gas Price Vs. Fifth Plan



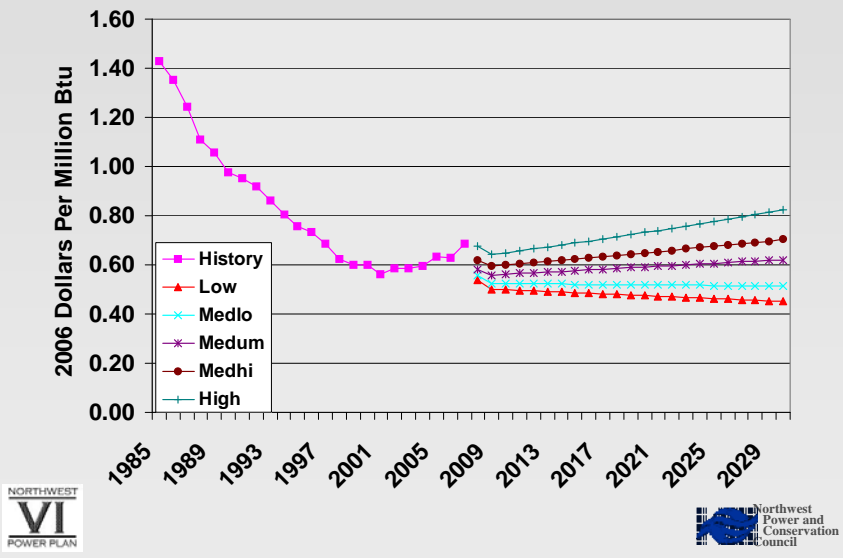
World Oil Price Forecast Range



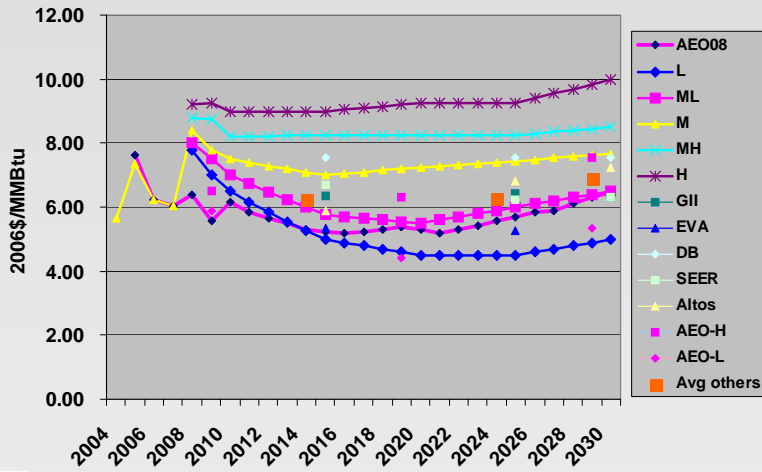
Draft Oil Price Forecast Vs. Fifth Plan



Powder River Basin Coal Price Forecast



Comparison to Other Natural Gas Price Forecasts



Comparison to Other Oil Price Forecasts

