

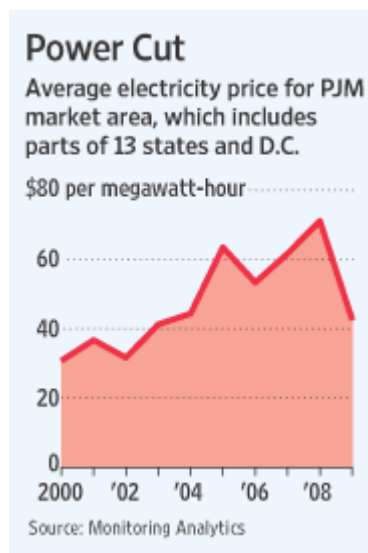
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## Electricity Prices Plummet

By REBECCA SMITH

Slack demand for electricity across the U.S. is leading to some of the sharpest reductions in power prices in recent years, offering a break for consumers and businesses who just a year ago were getting crunched by massive electricity bills.

On Friday, the nation's largest wholesale power market serving parts of 13 states east of the Rockies is expected to report that electricity demand fell 4.4% in the first half of the year. That helped to push down spot market prices by 40% during the first half of this year.



Wholesale electricity -- power furnished to utilities and other big energy users -- cost an average of \$40 a megawatt hour in the region, down from \$66.40 a year earlier. The price declines in this market, which extends from Delaware to Michigan, come on top of a 2.7% drop in energy use in 2008 over 2007.

The falloff in demand represents a reversal of what has been one of the steadiest trends in business. For decades, the utility sector could rely on a gradual increase in electricity demand. In 45 of the past 58 years, year-over-year growth exceeded 2%. In fact, there only have been five years since 1950 in which electricity demand has dropped in absolute terms.

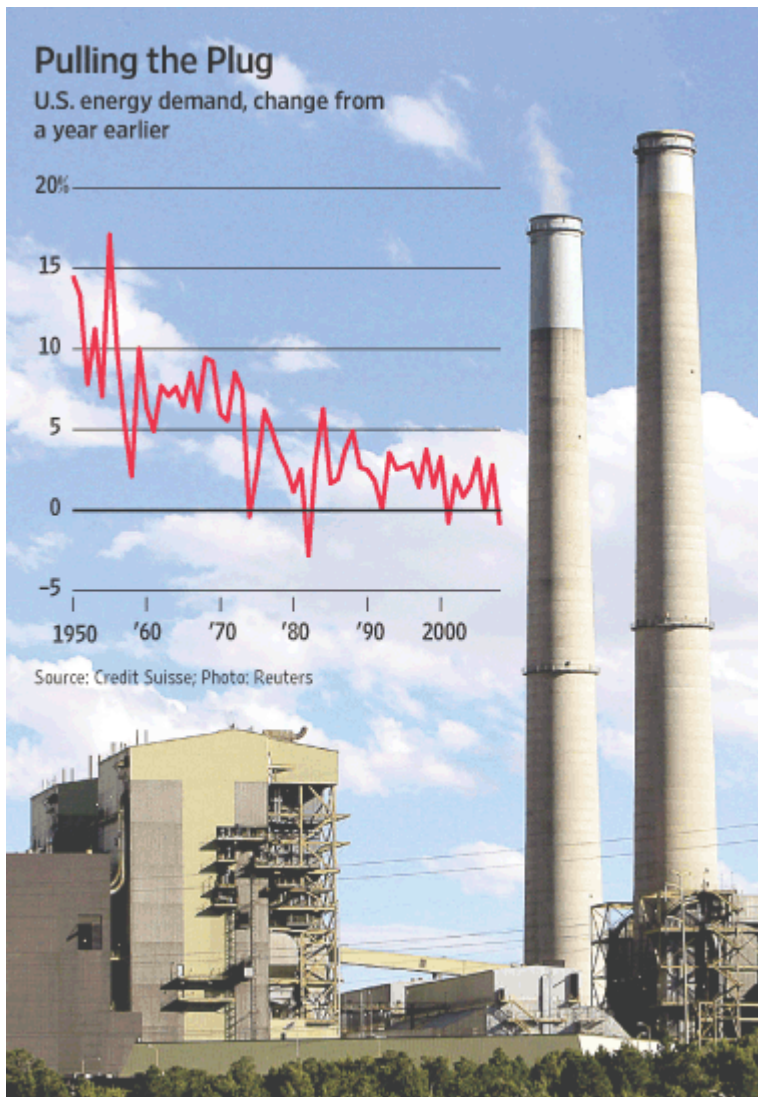
But this year is shaping up to have the sharpest falloff in more than half a century, and coming on top of declines in 2008, could be the first period of consecutive annual declines since at least 1950.

Dramatic price reductions don't immediately mean lower power bills for all consumers. That's because many customers pay prices based on long-term contracts. But lower prices will have a softening effect over time.

In California and Texas, a combination of cheap natural gas and lower industrial demand is putting pressure on prices.

In the Houston pricing zone, which has many power-gobbling refineries and chemical plants, the spot market price was \$61.82 in June, versus \$129.48 a megawatt hour a year earlier. Power demand in Texas is down 3.2% so far this year due to business contraction and reductions in employment which are causing many households to economize.

Just a year ago, many businesses and residential customers were reeling from electricity prices on the spot market that had spiked to historic highs, driven by high fuel prices and hot summer weather. Some businesses curtailed their operations because electricity and natural gas were too pricey.



But the flagging economy has resulted in a slump in demand that has jolted some energy markets. [American Electric Power Co.](#) and [Southern Co.](#), for example, both reported double-digit drops in industrial electricity use for the past quarter.

Meanwhile, natural gas, which strongly influences electricity prices, has fallen below \$4 per million BTUs, or British thermal units. That's down from \$12 at last year's peak.

For many businesses, the cost of electricity represents one of the few bright spots in a dismal economy. Andy Morgan, president of Pickard China Inc. in Antioch, Ill., which makes fine china, figures his electricity cost is down 30% to 40%.

Last year, when everything was spiking, he looked at different options -- including negotiating a fixed-price contract for energy with a supplier. He says he held off and now he's happy he did.

"We've definitely reaped savings," says Mr. Morgan, adding that "especially in a down economy, you'll take whatever you can get. That's one of the few blessings during this storm."

Slowdowns at major industrial companies such as Alcoa Inc. help account for the decline in electricity usage this year. The recession and drop in consumer demand for products that contain aluminum has caused the company to idle 20% of its smelting capacity world-wide this year.

In the U.S. the company has cut production at smelters, which are traditionally big energy users, in New York, Tennessee and Texas. Kevin Lowery, a company spokesman, said he did not believe that Alcoa has saved much money thus far because the company primarily purchases electricity through 25- to 35-year contracts.

Steel Dynamics Inc. is benefiting from lower pricing. The company operates five steel mills, with four purchasing electricity at spot market prices in Indiana, Virginia and West Virginia. The benefit, though, is smaller than it might be because the steelmaker is producing less steel this year.

"We're producing fewer tons, but every ton we produce we seek to minimize the costs and electricity is one of those," said Fred Warner, a company spokesman. Its mills are running at 50% capacity this year, down from 85% capacity last year.

Some wonder whether the deregulated markets of the Eastern U.S., Midwest, Texas and California will be especially hard hit if demand comes roaring back. That's because utilities in these markets no longer are required to build new resources. It's left up to the power generators to determine when the market conditions are ripe.

"There's more supply than demand and prices are really low so it doesn't make sense to build anything," says John Shelk, president of the Electric Power Supply Association in Washington, D.C., a group that represents power generators.

Many electricity markets throughout the country have implemented demand reduction programs that give consumers a further incentive to reduce power use. The 13-state PJM Interconnection market has been one of the most aggressive -- and has seen one of the steepest price drops.

A new report from the region's official market monitor found a strong correlation between falling prices and an increase in demand-reduction programs. In the PJM market, energy users can collect money through an auction process for pledging to cut energy use in future periods.

In May, PJM conducted an auction to ensure it will have the resources it believes it will need in 2012-13. About 6% of the winning bids came from those who pledged to cut energy use by a total of 8,000 megawatts in that future period.

—Timothy Aeppel, Sharon Terlep and Kris Maher contributed to this article.

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