



Pearl Street Liquidity Advisors

We generate growth.™

US Electricity Industry Impact Report

9.5%

Unemployment rate

↓ 3.9%

Consumer Confidence Index®

July 2010 Forecast

> Pearl Street's analysis shows that, over the next several years, the U.S. will be moving towards an integrated national industrial and energy policy, regardless of who gets elected. Individual states will then implement this policy. This policy will be based on invigorating manufacturing employment and boosting exports, with generous, direct government involvement.

> When the forward pricing curves for natural gas began to look favorable well into the future, new regulations or restrictions may either prevent this new source of gas from getting to market or make it significantly more expensive to do so.

> Pearl Street continues to believe that all the political and electricity industry forces converge on a massive build-out of wind facilities.

Electricity

> A looming challenge for utilities involves the ever-present tension between federal authority and state government. For example, the billions of dollars handed out to utilities for Smart Grid projects are imperiled because state PUCs and government must approve the cost-share portion of the projects.

> San Diego Gas & Electric Co is including an energy storage component in its next rate case before the Public Utility Commission.

Economy

> Deflation has occurred for 3 straight months, making economists nervous about a long period of low growth or the onset of another recession. Deflation numbers show that consumers may be starting to hold cash back in anticipation of even lower prices.

> Unemployment has stabilized but appears to have leveled off at 9.5%. As long as employment remains stagnant, strong economic growth won't materialize.

> Consumer confidence decreased to 50.4 in July; it takes a reading of 90 to indicate that consumers believe the economy to be healthy.

> The U.S. saw the second weakest rate of new homes sold in June. Weakness in housing leads to weakness in retail sales (e.g., furniture, appliances, etc.), building and construction materials, and all goods and services required for a new home.

Politics

> Carbon cap and trade (and anything else related to carbon emissions, such as a tax) and a federal renewable portfolio standard (RPS) have been removed from recent Senate energy legislation (but could possibly be re-inserted).

> The energy storage investment tax credit (ITC) is still included in both the Senate and House versions of the bill, although the benefits to the storage community have been greatly reduced.

> BP's catastrophic oil spill in the Gulf of Mexico has escalated the impact of environmental regulatory risk on all energy industries in the U.S.

> The Midwest Independent System Operator (MISO) has proposed to FERC a new category of transmission project that is helpful in integrating wind facilities.

> The latest Clean Air Interstate Rules require additional reductions of sulfur dioxide and nitrogen oxides from 900 fossil-fuel boilers in the eastern part of the country. These rules will make coal-fired electricity more expensive.