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Boom-Bust and Financial Pressures in the Energy Industries

One of the most significant changes in the U.S. energy infrastructure is the ongoing boom in merchant gas-fired power generation capacity. Some 290,000 MW will be added in the ten years beginning in 1998, with about 40-60,000 MW per year in 2000-03. Boosted by technological breakthroughs and waning "gas bubble" low prices, the phenomenon derailed with the high gas prices of 2000-01, the California crisis, the collapse of Enron, saturation of capacity (e.g., in Texas and New England) and the withdrawal of credit. In a nutshell, in spite of modern communications and public disclosure, the power industry (like oil, refining, etc.) has proven vulnerable to boom-bust. This paper will review the build up of capacity, the outlook for reserve margins, and implications for natural gas demand, market behavior and reliability of supply. These implications include the loss of a ceiling on natural gas prices and imposition of a higher-priced floor. In addition, the paper will review the recent boom in coal markets. Unlike the other energy industries, most coal companies have only recently begun to be publicly traded, adding a new motivation for discipline to a growing awareness that mining conditions in the East have been deteriorating.