APPI Energy Advisor

DATA-DRIVEN PROCURMENT & CONSULTING

WEEK ENDING 5.3.19

Vol 3, Issue 18

ELECTRICITY BENCHMARK PRICES & TRENDS

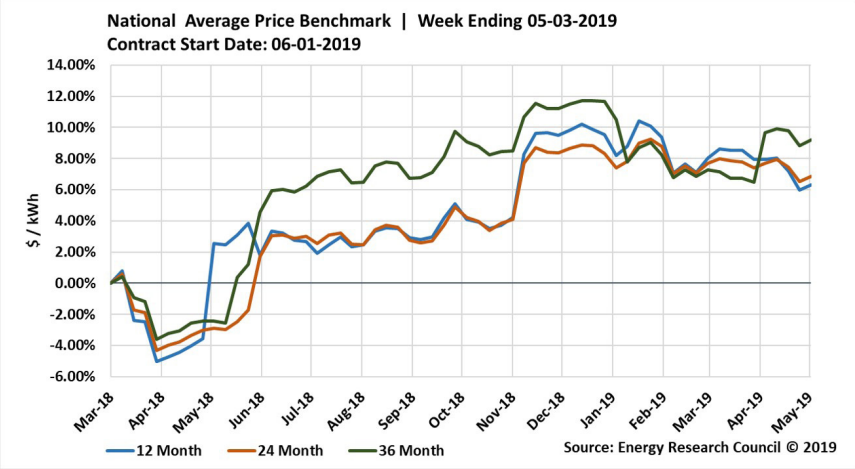
Energy Research Council's (ERC) national average benchmark price for electricity edged up just 0.2% last week, ending last Friday at $0.0753 per kilowatt hour. Prices rose the most in Texas (+1.3%) while they declined slightly in New Jersey (-0.3%). The national average benchmark price is now about half a percent (-0.5%) lower than this time last month. Texas (-2.5%) and Illinois (-2.5%) prices continue to show the most decline month-over-month.

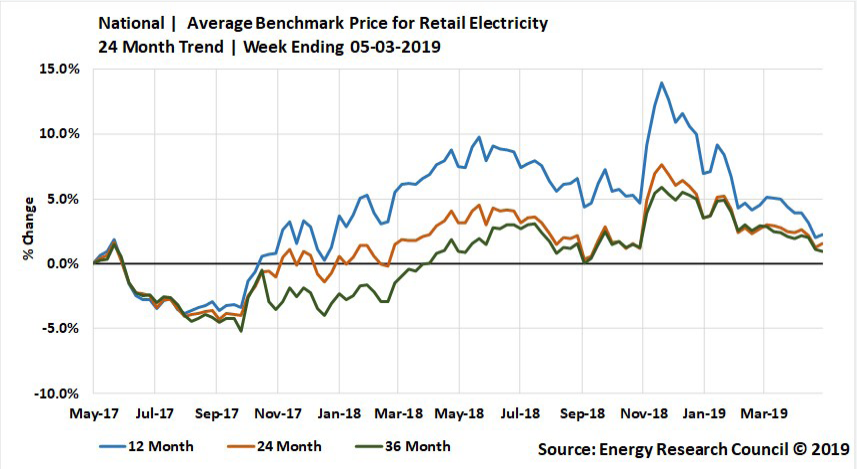
The June '19 NYMEX futures contract closed last Friday at $2.567/MMBtu, almost exactly where it ended the previous week. On average, the balance of 2019 monthly gas contracts are now just six cents away from their February 2016 lows.

Lower demand is creating downward pressure to near-term pricing, mainly due to the power burn sector. As nuclear units return from their routine maintenance, demand for natural gas-fired generation takes a hit. The two-week weather outlook generally calls for cooler temperatures that will continue to limit power burn and likely generate above average injections into storage.

Working natural gas stocks are currently 1,462 Bcf, which is 10% more than the year-ago level but 18% lower than the five-year (2014–18) average for this week. Strong production continues to overpower market concern with the storage deficit. There are signs, however, that production may begin to slow.

COMPETITIVE ELECTRICITY BENCHMARK TRENDS





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MARKET DRIVERS

Most of the recent surge in production has been fueled by uncapping drilled-but-uncompleted wells (DUCs). A majority of new DUCs have been in regions dominated by oil production, especially the Permian region that spans western Texas and eastern New Mexico. As of March 2019, nearly half of the total DUCs were in the Permian region.

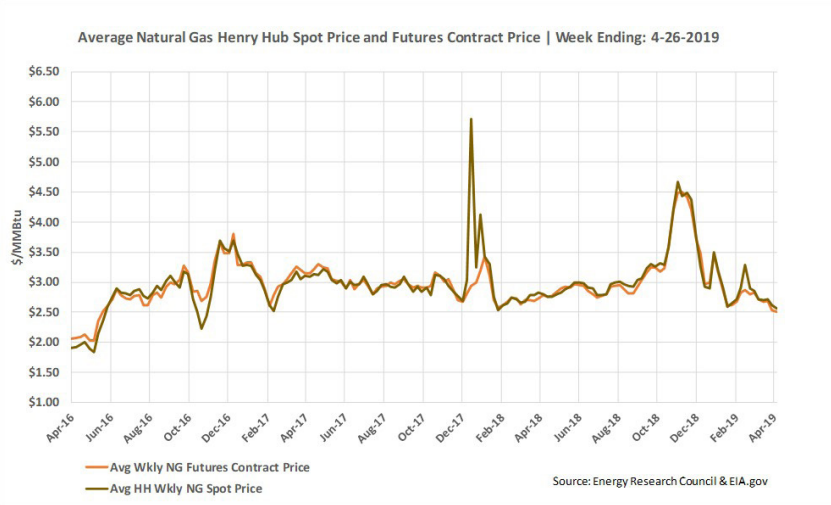
In contrast to oil-directed regions, the number of DUCs in natural gas-dominated regions such as the Appalachian and Haynesville regions have decreased by nearly half over the past three years. The remaining DUC inventory is insufficient to maintain the rate at which they have been brought online. This, along with a significant decrease in new well permits suggest that production in the northeast basins may start to slow as we near the end of 2019. This will likely cause upward pressure on prices.

HH SPOT PRICE & NG FUTURES CONTRACTS

Week Ending 5-3-19		HH Spot Price		NG Futures Contract	
		$/MMBUT	% Chg. WoW	$/MMBUT	%Chg. WoW
6 months	11/2/18	$ 3.26	-1.8%	$ 3.28	3.2%
Last Quarter	2/1/19	$ 2.70	-15.4%	$ 2.73	-13.5%
Last Month	3/29/19	$ 2.73	-4.5%	$ 2.66	-30.3%
Prev. Week	4/26/19	$ 2.58	-1.5%	$ 2.57	1.3%
Last Week	5/3/19	$ 2.57	-1.5%	$ 2.59	3.4%

NATURAL GAS STORAGE LEVELS

Week Ending 5-3-19	Storage	
	Bcf	%Chg.
4-26-19	1,462	9.2%
Last Week	1,339	7.4%
Last Year	1,334	3.9%
5 year average	1,778	4.1%



BULLS & BEARS

BULLS: *Moving prices upward*

- Drilled-but-uncompleted (DUCs) well inventory declining quickly
- New well permits in the northeast basins down 50% from this time last year
- LNG and Mexican exports continue to increase and will become a significant demand factor toward the end of the year

BEARS: *Moving prices downward*

- High oil prices generates more drilling and natural gas as a byproduct
- Normal temperatures lower power burn demand and increase injections into storage
- EIA predicts that strong production will erase the NG storage deficit by the fall

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