APPI Energy Advisor

DATA-DRIVEN PROCURMENT & CONSULTING

WEEK ENDING 5.31.19

Vol 3, Issue 20

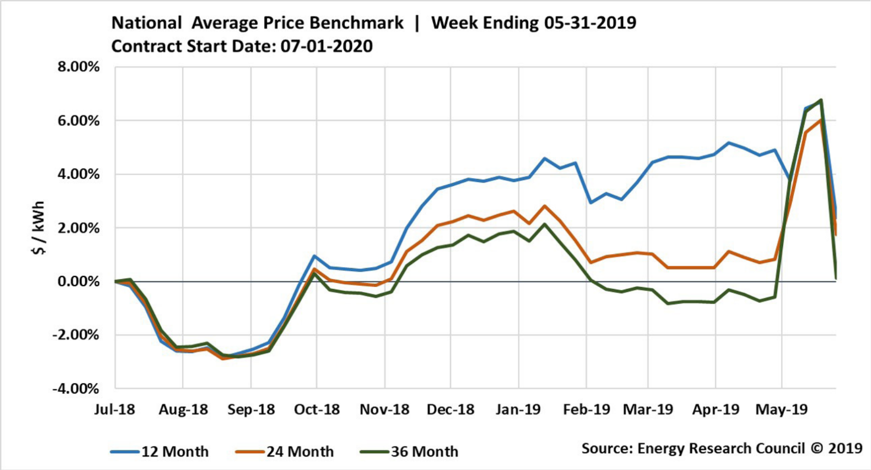
ELECTRICITY BENCHMARK PRICES & TRENDS

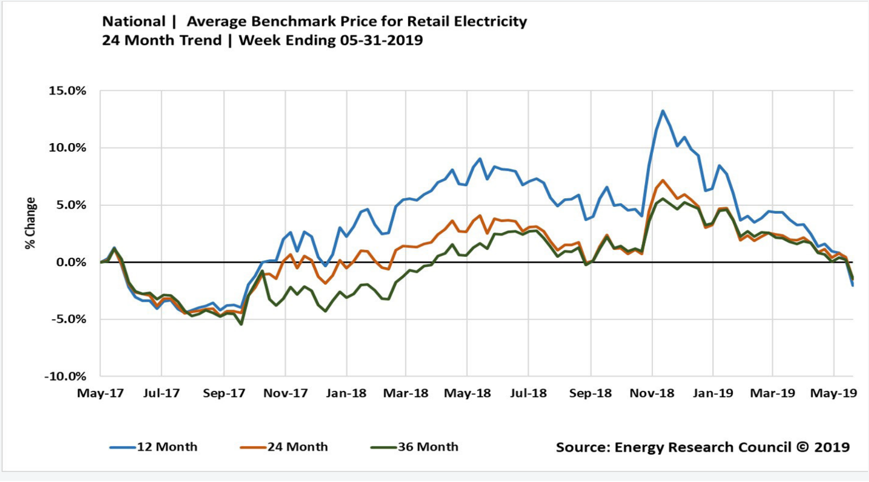
Energy Research Council's (ERC) national average benchmark price for electricity dropped a full percent last week, ending last Friday at $0.0741 per kilowatt hour. Prices fell the most in Texas (-2.6%), Ohio (-2.1%), New Jersey (-2.1%), and Maryland (-2.1%). Power prices are now 1.2% lower than they were this time a month ago.

The June '19 NYMEX futures contract closed last Friday at $2.54/MMBt. On Monday, the prompt month contract plunged to close at $2.405/MMBtu, breaking through the important $2.50 support level and hitting the lowest point since June 2016. From a historic perspective, natural gas reached an all-time high of $15.39 in December of 2005 and a record low of $1.02 in January of 1992. Now that the $2.50 level has been broken, we could see short-term prices dip further to the $2.25 support level or even lower.

A neutral weather forecast of mild temperatures for early June along with strong production are pressuring prompt month prices downward. The latest forecast anticipates only small pockets of above normal temperatures in parts of the western US. Barring a return to above normal temperatures over major portions of the US, and with natural gas production remaining robust, weekly inventory injections are likely to be at an above normal level over the short to medium term.

COMPETITIVE ELECTRICITY BENCHMARK TRENDS





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MARKET DRIVERS

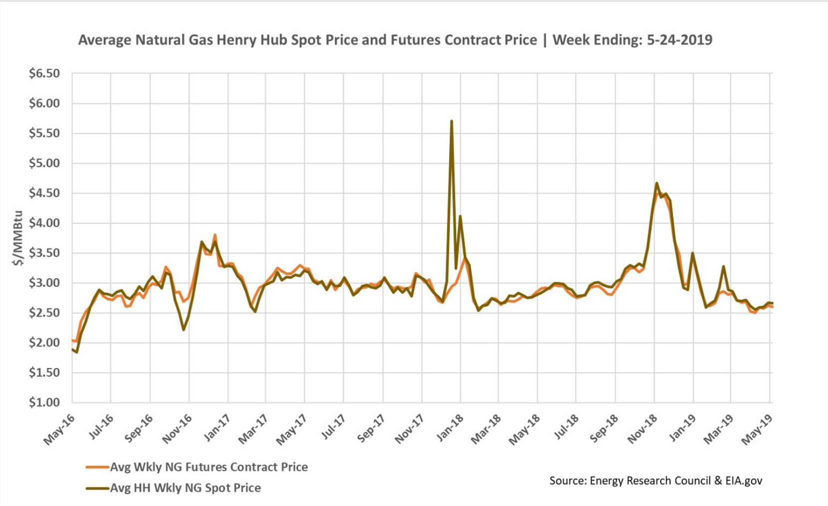
A stronger than expected injection last week continued to narrow the storage deficit. Working natural gas stocks are now 1,867 Bcf, which is 9% more than the year-ago level and 12% lower than the five-year (2014–18) average for this week.

In contrast to most of this year, May saw a slowdown in production. A big part of the deceleration in growth came from pipeline constraints in the west Texas Permian basin and Northeast production which is beginning to feel the effect of a depleted DUC inventory. Overall production may also lag in the future due to cutbacks in E&P expenditures and enforced capital discipline. The effect of this has already slashed new drilling permits in the Marcellus/Utica basin.

Looking forward, prices may continue to decline in the near-term. But summer temperatures and slowing production will likely pressure prices upward in the not-to-distant future.

HH SPOT PRICE & NG FUTURES CONTRACTS

Week Ending 5-31-19		HH Spot Price		NG Futures Contract	
		$/MMBUT	% Chg. WoW	$/MMBUT	%Chg. WoW
6 months	12/28/18	$ 3.26	-12.6%	$ 3.48	-5.9%
Last Quarter	3/1/19	$ 2.91	7.4%	$ 2.83	6.1%
Last Month	4/26/19	$ 2.56	-2.3%	$ 2.50	-1.2%
Prev. Week	5/24/19	$2.66	-0.4%	$ 2.60	-1.1%
Last Week	5/31/19	$2.59	-2.6%	$ 2.54	-2.3%



NATURAL GAS STORAGE LEVELS

Week Ending 5-31-19	Storage	
	Bcf	%Chg.
5-24-2019	1.867	12.9%
Last Week	1,753	19.9%
Last Year	1,711	12.3%
5 year average	2,124	24.1%

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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