APPI Energy Advisor

DATA-DRIVEN PROCUREMENT & CONSULTING

WEEK ENDING 8.23.19

Vol 3, Issue 26

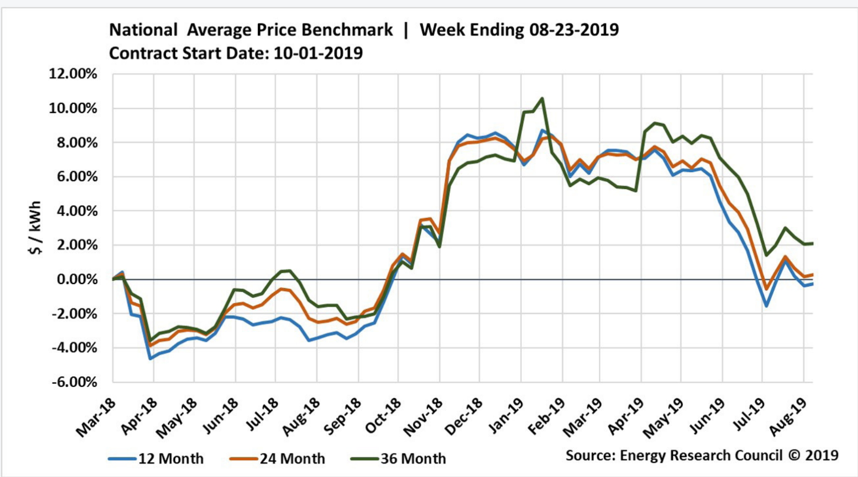
ELECTRICITY BENCHMARK PRICES & TRENDS

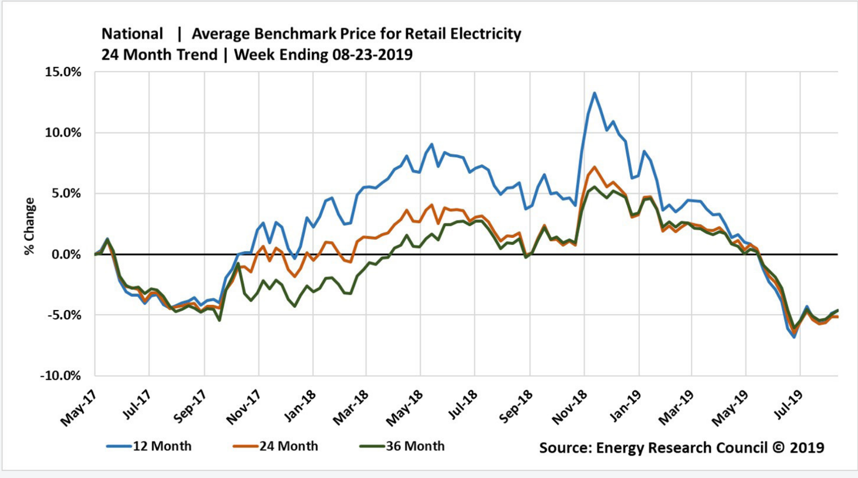
Energy Research Council's (ERC) national average benchmark price for electricity dropped a full percent (0.95%) again last week, ending Friday (August 23rd) at $0.0741 per kilowatt hour. Prices declined most in Ohio (-2.6%), New Jersey (-2.4%), and Maryland (-2.2%). The national average benchmark price is now 1.5% lower than this time last month. New Jersey (-4.94%), and Illinois (-4.16%) prices continue to show the most decline month-over-month.

On Friday, the September 2019 NYMEX natural gas futures closed at $2.15/ MMBtu. The 2021-2025 calendar strips also reached fresh all-time lows, while 2020 remains less than a penny above its record floor.

Cooler-than-normal to normal temperatures are now forecasted for a majority of the country with the exception of the West. We appear to be coming out of the summer season with only moderate cooling demand. In retrospect, however, this summer's cooling demand is expected to come in above the 10 year and 30 year normal at 980 PWCDD's, which would rank this summer as the 6th warmest overall since 1950.

COMPETITIVE ELECTRICITY BENCHMARK TRENDS





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MARKET DRIVERS

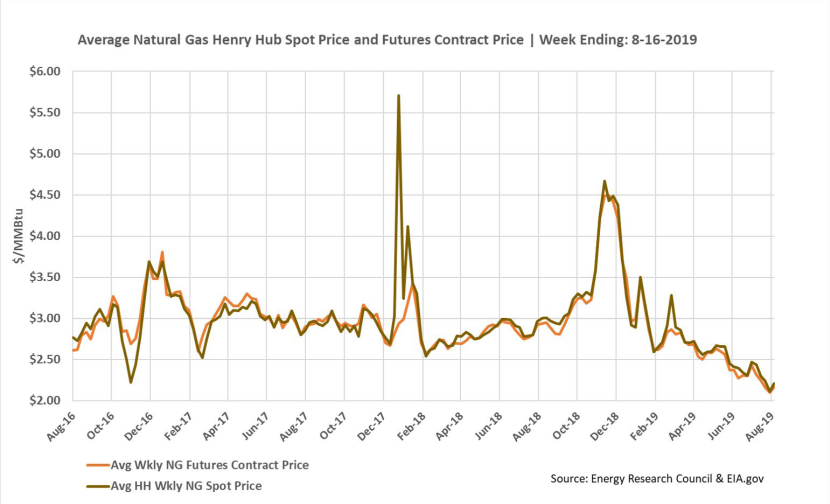
Economic concern is growing as the yield curve inverted a week ago for the first time since before the global crisis in 2007. While an inversion could just mean sentiment is building that short term rates are too high (reflecting current monetary policy), a 2/10-yr inversion has preceded the past seven recessions. Moreover, the yield curve inverted again just last Friday.

If a recession is on the horizon, the power and natural gas industries will be challenged to find sufficient capital to sustain production levels. The electric utility industry represents the second most capital-intensive sector in the US, surpassed only by the railroad industry. But S&P credit ratings for electric utilities are considerably lower than when they last entered a market downturn in the 1980s. In addition, investors have been restricting capital investment for natural gas producers, calling for cash return rather than industry grow. All this means an economic downturn would almost certainly spike both natural gas and power prices.

US dry production remains just over 90 Bcf/d, just below its recently set all-time high. Current end-of-season projections put inventories at 3,786 Bcf, which would be a 1.5% surplus to the five-year average going into next winter. Demand is also up, led by rising Mexican and LNG exports. The question going forward is whether strong production will continue or begin to falter under increasing economic pressures.

HH SPOT PRICE & NG FUTURES CONTRACTS

Week Ending 8-23-19		HH Spot Price		NG Futures Contract	
		$/MMBUT	% Chg. WoW	$/MMBUT	%Chg. WoW
6 months	2/22/19	$ 2.74	5.8%	$ 2.72	3.2%
Last Quarter	5/24/19	$ 2.60	-0.4%	$ 2.60	-1.3%
Last Month	7/26/19	$ 2.23	-3.0%	$ 2.17	-3.6%
Prev. Week	8/16/19	$2.20	5.3%	$ 2.20	3.8%
Last Week	8/23/19	$2.15	5.3%	$ 2.15	-2.3%



NATURAL GAS STORAGE LEVELS

Week Ending 8/23/19	Storage	
	Bcf	%Chg.
8/16/2019	2,797	2.2%
Last Week	2,738	1.8%
Last Year	2,428	1.8%
5 year average	2,900	-4.4%

BULLS & BEARS

BULLS: *Moving prices upward*

- Production flat for first half of year, averaging below 90 Bcf/d.
- Drilled-but-uncompleted (DUCs) well inventory declining quickly in NE basins.
- 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.
- Volatile economic conditions could yield to a lack of capital to sustain production levels.

BEARS: *Moving prices downward*

- High oil prices generates more drilling and natural gas as a byproduct.
- Continued strong NG production in Permian basin.
- Normal temperatures lower power burn demand and increase injections into storage for winter.

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