APPI Energy Advisor

DATA-DRIVEN PROCUREMENT & CONSULTING

WEEK ENDING 3.13.20

Vol 4, Issue 6

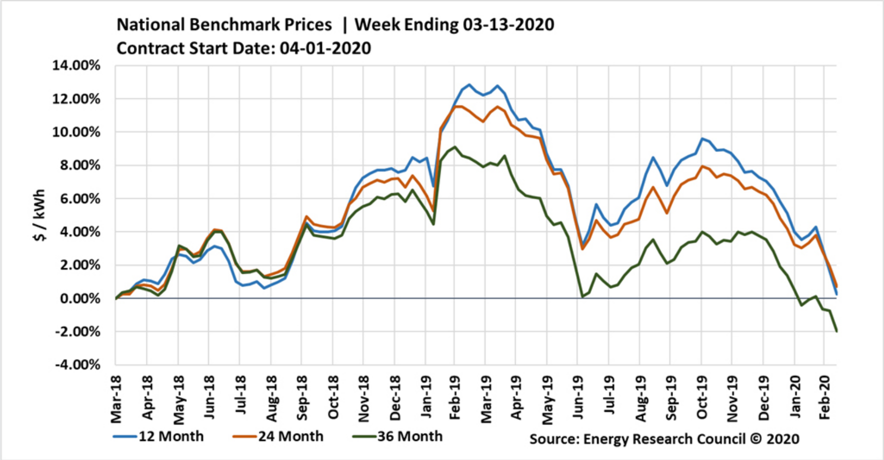
ELECTRICITY BENCHMARK PRICES & TRENDS

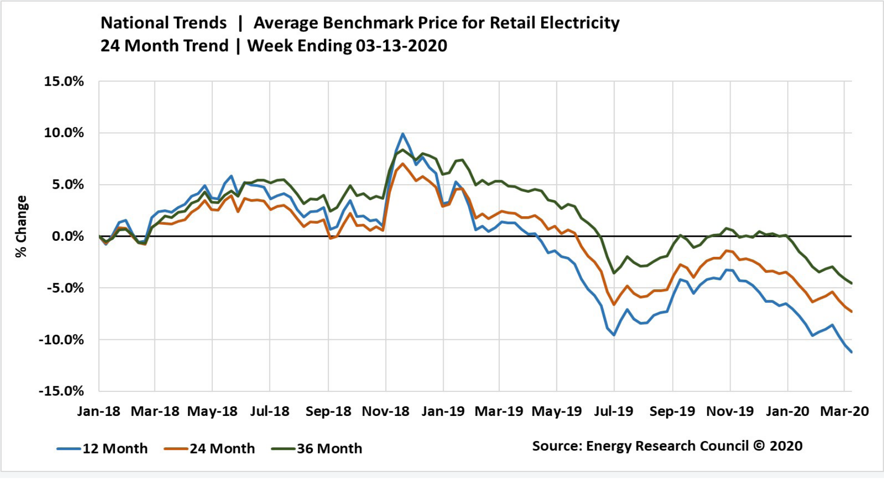
Energy Research Council's (ERC) national average benchmark price for electricity trended sideways last week, edging down by only 0.23%, ending Friday (March 13th) at $0.0679 per kilowatt hour. Power prices are now 1.5% lower than this time last month. Week-over-week, power prices for commercial customers slipped slightly lower in half the deregulated states while rising slightly in the other half. States with the greatest decline were New York (-2.14%), and Texas (-2.12%). In contrast, power prices rose 1% in Connecticut.

Month-over-month power prices declined the most in Texas (-4.13%) and New York (-3.9%). Last week, the prompt-month (April) natural gas contract closed Friday at $1.87/MMBtu. Pressuring prices downward, natural gas demand is likely to decline on a combination of spring like weather engulfing most of the country coupled with a likely reduction in demand from COVID-19. Total U.S. consumption of natural gas fell by 10% compared with the previous week. Natural gas storage levels are currently 12.5% higher than the five-year average at 2.043 trillion cubic feet (Tcf).

There are several factors, however, that may spike prices upward. The Saudi Arabia/Russian oil war has driven prices from $41 to $30 per barrel, roughly a 25%, drop. Lower oil prices create more pressure on US oil & gas companies already operating below break-even costs ($45/barrel) and struggling with high debt. Well over 30% of the country's natural gas production comes as a by-product of drilling for crude oil.

COMPETITIVE ELECTRICITY BENCHMARK TRENDS





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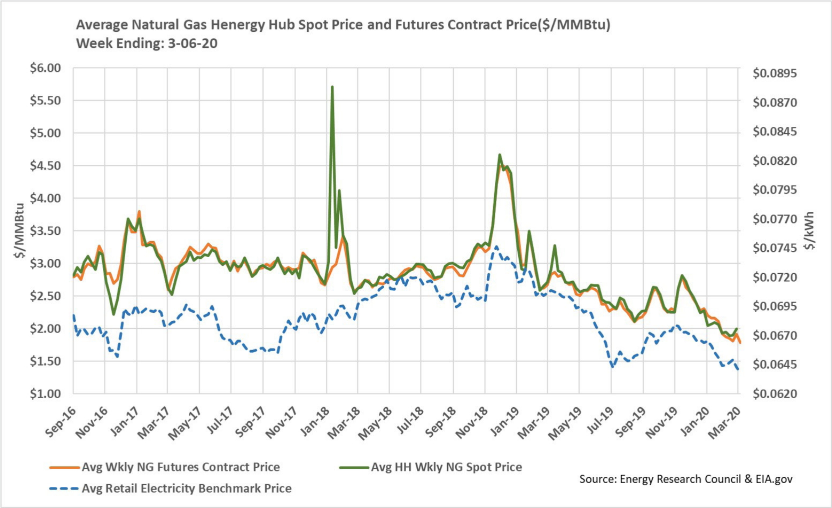
MARKET DRIVERS

As we previously observed, the drilled-but-uncompleted (DUC) well inventory in the Marcellus/Utica basins are almost depleted and new drilling permits have evaporated due to the prolonged low-price environment. Capital investment for new well and pipeline development has vanished from the market and is unlikely to reappear until prices rise substantially and for a sustained period of time.

Bottom line, two opposing forces are pressuring prices. Lessening demand due to milder spring weather and the economic impact of COVID-19 are pressuring prices down. On the other hand, low prices are squeezing both oil and gas producers to limit new well development which will likely result in a substantial production shortfall later this year. The question is when will production tumble and drive price upward.

HH SPOT PRICE & NG FUTURES CONTRACTS

Week Ending 3-13-20		HH Spot Price		NG Futures Contract	
		$/MMBUT	% Chg. WoW	$/MMBUT	%Chg. WoW
6 months	10/11/19	$ 2.13	-5.3%	$ 2.21	-6.0%
Last Quarter	12/20/19	$ 2.27	-7.7%	$ 2.33	2.1%
Last Month	1/31/20	$ 1.91	0.0%	$ 1.84	-2.6%
Prev. Week	2/28/20	$ 1.79	-7.3%	$ 1.68	-8.2%
Last Week	3/620	$ 1.76	-10.2%	$ 1.70	-10.5%



NATURAL GAS STORAGE LEVELS

Week Ending 3/13/20	Storage	
	Bcf	%Chg.
3/13/2020	2,043	-2.3%
Last Week	2,091	-5.0%
Last Year	1,247	-11.6%
5 year average	1,816	-5.2%

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*

- Production is still exceeding demand.
- Continued strong NG production in Permian basin due to oil prices.
- Storage should be adequate to cover winter heating demand.
- Shoulder month temperatures moving forward.

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