



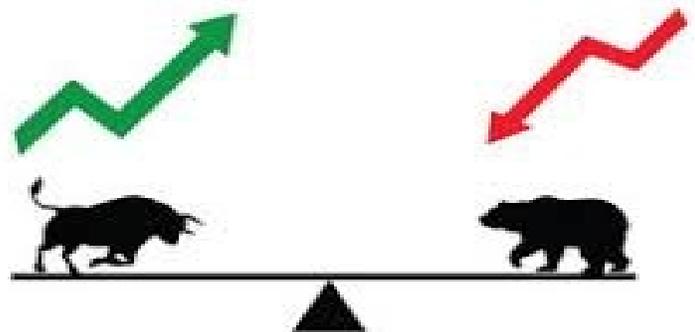
NEWSLETTER

Issue 01.2019

Happy New Year! - 2019 Energy Markets

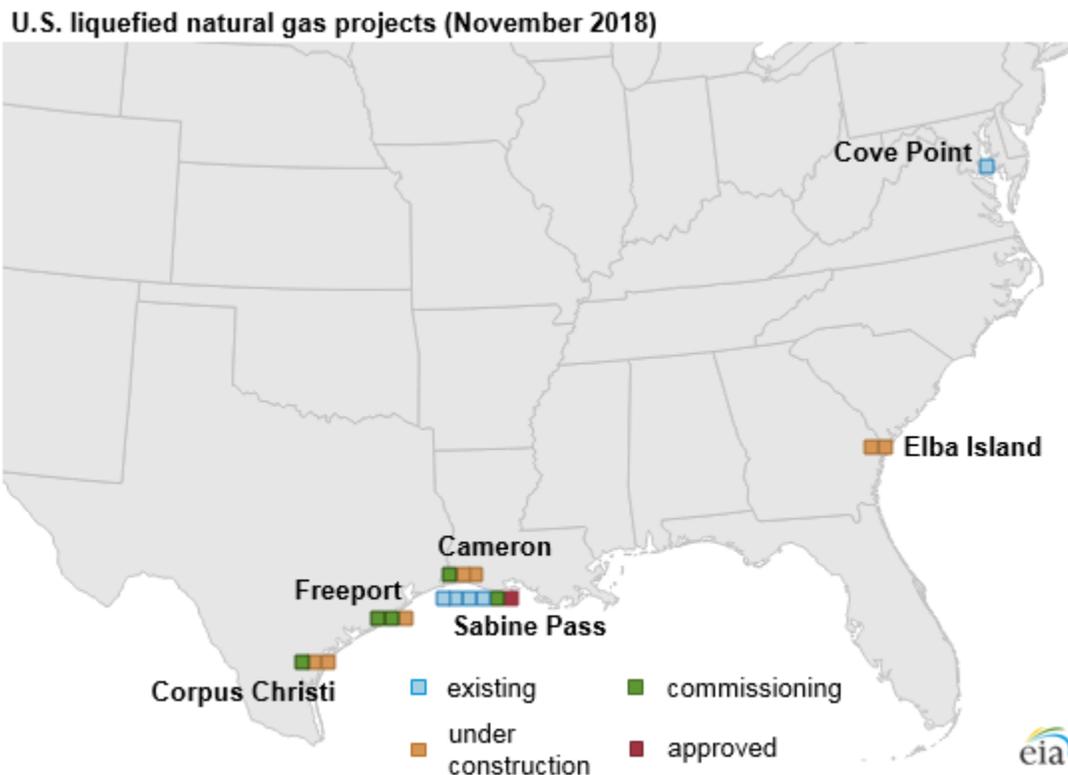
What do we anticipate in 2019?

We continue to see some weakening in NYMEX futures, although decline in production growth and a rise of LNG exports are narrowing the price downside for end-users. Weakness in natural gas may still pull electricity futures in many regions lower later this year, but the downside potential in prices is starting to narrow. We see 2020 and 2021 as more bullish relative to price due to the impact of larger draws coming from LNG facilities. **End user: Natural Gas is still inexpensive which in turn keeps electricity prices down, but LNG demand will be a new factor in the market.**



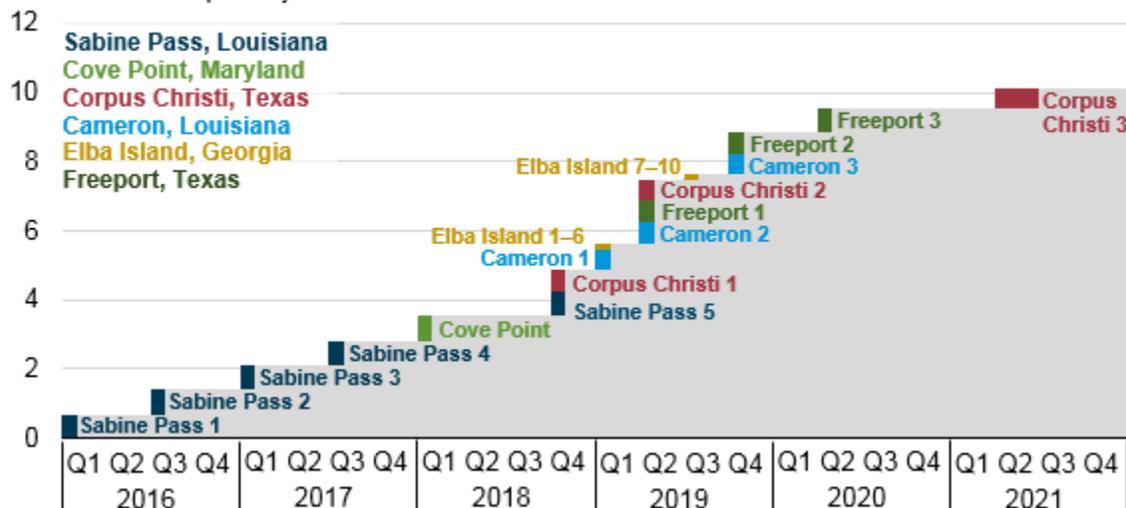
LNG and how it impacts the end-user

Liquefaction (LNG) capacity additions will add about 5 Bcf/d of natural gas demand in 2019, with almost all of that happening along the Texas and Louisiana Gulf Coast. With many of the LNG projects still in construction phase, when they are all finished, we will see LNG export demand double to nearly 9 Bcf/d by the end of the year. 2019 will be the biggest year for U.S. LNG exports since they emerged as an energy source for the domestic gas market. With this increased demand there will be a new evolution of market dynamics to hit the US. Keep in mind that Erath, Louisiana is the benchmark location for the NYMEX and with Louisiana being one of the major states that will see significant draw from LNG it will tie domestic natural gas to a global market. We may see more extreme volatility in the natural Gas markets based on demand overseas for our LNG. **End User: You need to be thinking about how this new volatility will play into your future budgets. Re-evaluate your hedging strategy**



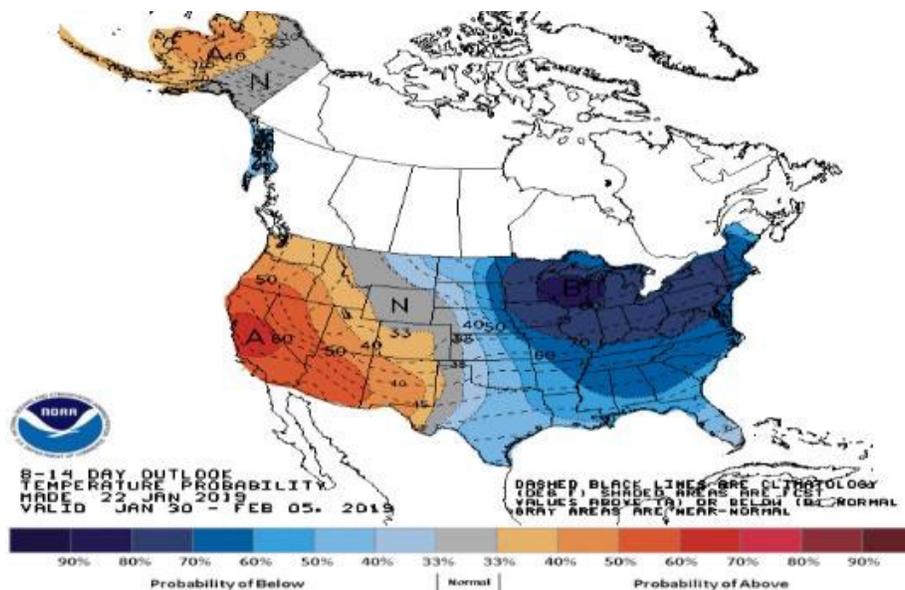
U.S. liquefied natural gas export capacity, 2016–2021

billion cubic feet per day



Weather

Weather models are suggesting periods of extreme cold are possible the last week of January and first half of February- potentially breaking the record of the Polar Vortex of 2014. Some models are forecasting as low as 30 degrees below zero in parts of the Midwest. If these weather models are accurate it could mean that risk premiums for unhedged energy could skyrocket during these extreme cold events. If there is one thing we can't predict precisely, it's weather. So keep that in mind when you read weather forecasts.



Texas

Texas saw some historically tight electricity reserve margins during 2018 as the state saw some classic summer heat waves. Reserve margins are set by the ISO (Independent System Operators, in this case that's ERCOT) and they are a measure of available capacity over and above the capacity needed to meet normal peak demand levels. We saw day-ahead energy prices clearing over \$1,500 on many hours, despite the dispatchers not having to dip to deep into the reserves to trigger the widely-feared \$9,000 Operating Reserve Demand Curve (ORDC) price. Texas was able to escape the summer with no real threat to their reliability, the system appeared well-equipped to handle its growing peak demand, until an even lower projected reserve margin of 8.1% was announced for summer 2019.

With oil/gas drilling operations in west Texas growing strong it's drawing more demand from the states grid. The reserve stack is tight during periods of high demand. We project that growing demand will increase between 1,600 MW and 2,000 MW annually for at least the next six years. For 2019-2020 those demand gains are balanced by an anticipated boom in renewable generation in the size of 2,000 MW's for solar and 1,700 MW's for wind. The following year growth in renewables is slated to slow down every year after. It's predicted that the reserve margins will grow as high as 12.2% in 2021. **End User: Look at your hedge positions and mitigate short term risks and put together a plan of action for longer term risk exposure.**

Texas Market Trend

Wholesale Round-the-Clock-Pricing for Future Years



If you have any questions on your energy risk profile please reach out to us at info@OurEnergyManager.com or 816-287-1360