

NEWSLETTER

OUR ENERGY

M A N A G E R

A Note from OEM:

There is so much uncertainty in the world, and it seems to have unfolded in a matter of weeks. First, we saw the energy markets turn bearish, then we witnessed the impact of the coronavirus, first on the markets, then on our personal and professional lives. With all these extraordinary actions, it is difficult to predict what may happen next.

While being hailed as “unprecedented”, we have had at least one “unprecedented” event each decade for the last century. We have experienced pandemics, financial losses, wars, energy crises and more. And each time, we have bounced back even stronger. And we’ve done it by working together.

When we started OEM, our goal was to be a different kind of energy manager. We are here to walk through these troubled times with you, whether you need help with your energy strategy, a trusted advisor or a friend. Together, we will get through this, and we will be even stronger.

Thank you for being a valued member of our community.

Summary

Economy

- Coronavirus Update
- OPEC+

Natural Gas

- Natural gas prices fluctuated, ended lower in February
- Gas at historic lows - for now
- Natural gas production decreases and impacts
- State news: Arizona, California, Massachusetts
- Storage Update

Weather

- Winter 2020 6th-warmest in history
- Spring forecasts

Power

- Power commodity prices fell in February
- Power demand up with increased remote work
- American Energy Innovation Act bill stalls
- State news: Texas
- Regional news: Northeast, Mid-Atlantic, Midwest

OUR ENERGY

M A N A G E R

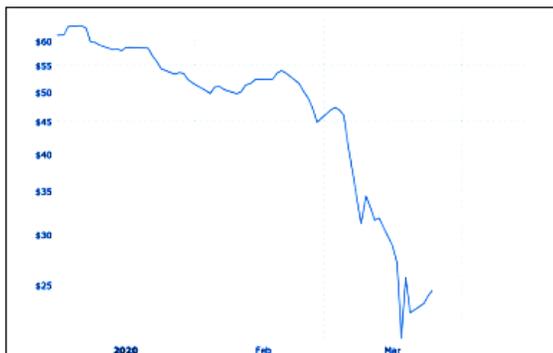
Economy

COVID-19, or coronavirus, was designated as a pandemic by the World Health Organization (WHO) earlier this month. Countries, companies and organizations are taking a wide range of precautions, including canceling large-scale events and public gatherings and encouraging social distancing. Uncertainty is taking its toll on the markets as commodities and other financial instruments are trading lower, largely driven by investors turning to cash in these uncertain times. While this is not economically driven and most analysts believe this to be short-term, nobody can predict when the turnaround will occur.

To compound the situation, OPEC+ failed to reach agreement on production cuts for crude oil. Russia rejected the cuts, citing that it would benefit US shale production at the expense of other countries. In retaliation, Saudi Arabia announced they would increase production as well. Reports show neither country has the resources to sustain this situation for long, and definitely not long enough (at least 1-2 years) to permanently damage the US shale industry. Regardless, these actions exacerbated the already struggling energy complex. As of this week, the U.S. and Saudi Arabia have been in talks about ending the increased production.

While some forecasts are still predicting a slowdown for the first half followed by some recovery in the second half of 2020, there is more support for a slowdown in the US economy, following what we have seen in China and the European Union. Long term, the markets are expected to recover, and many analysts predict a V-shaped recovery. The question is when will this occur and how low will the markets go before it happens.

WTI Futures Year to Date



Source: Macrotrends

Global Markets in Turmoil as Oil Plunges

Crude Oil vs. S&P 500 Year to Date



Source: Macrotrends

February started out mild which was reflected in trading for the first two weeks. This trend switched with colder than normal forecasts over President's Day weekend and natural gas moved higher, with the March contract trading at \$1.981 on February 18th. The forecasts then turned warmer, and the March 2020 contract settled at \$1.821. This is \$0.776 lower than the November 2019 contract settlement of \$2.597. This drop is primarily driven by the warmer than normal winter weather.

The April 2020 contract is currently trading at \$1.657, up \$0.05 from Friday March 20th. Future natural gas prices are trading at or near 2015-2016 lows. In the current century, gas has traded below \$2 for 101 of the 5100 estimated trading days. In addition, the only instrument that has not seen price declines is the 10-year natural gas strip.

This is a good time to look at your energy exposure and determine whether it makes sense for your company to take advantage of lower commodity prices to lock in long term contracts and hedges. Contact us for more information and assistance.

OUR ENERGY MANAGER

| NYMEX Futures Pricing (\$/MMBtu) | Week Ending 3/20/20 | Week Ending 3/13/20 | W-o-W |
|----------------------------------|---------------------|---------------------|----------|
| NYMEX Prompt | \$1.60 | \$1.82 | (\$0.22) |
| NYMEX 12-Month Strip | \$2.11 | \$2.11 | (\$0.00) |
| Balance 2021 | \$2.35 | \$2.06 | \$0.29 |
| Winter (Nov 20-Mar 21) | \$2.58 | \$2.48 | \$0.10 |
| Summer 2021 (Apr-Oct) | \$1.95 | \$2.25 | (\$0.30) |
| Calendar 2022 | \$2.29 | \$2.33 | (\$0.04) |
| Calendar 2023 | \$2.38 | \$2.37 | \$0.01 |

Declines in drilling continue. Baker Hughes reported the rig count fell by 1 to 109, down from 195 a year ago. Natural gas drilling has decreased by over 40% since January 2019. While down sharply, we are still above the century low of 81 active gas-directed rigs in 2016. We will also see production declines as oil drillers slash their budgets for 2020, which could lead to higher natural gas prices later this year and beyond.

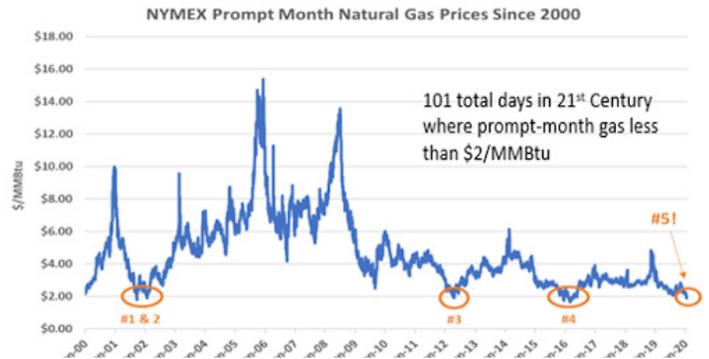
In **Arizona**, the governor signed into law a bill blocking local governments from using their authority to deny permits to new buildings that have natural gas hookups as part of their plans. This move is to prevent similar bans to those that have taken place in California, Seattle and Boston. **Tennessee** is expected to consider legislation similar to Arizona in the near future.

In **California**, the mild winter worked in favor of SoCal gas as the state was spared having to choose between withdrawing from Aliso Canyon storage (currently the supply of last resort and not operating at full capacity) or restricting gas to its non core customers. Heating degree days are projected to finish 10% below normal, so the utility was spared having to make that decision. While natural gas customers can breathe a sigh of relief over winter, supply concerns will likely resurface as we enter the summer season.

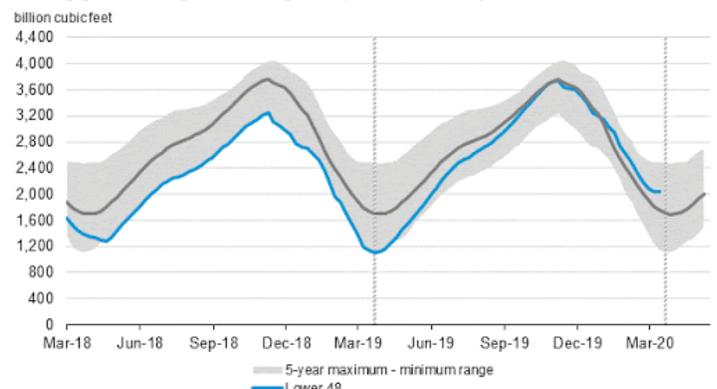
In **Massachusetts**, Eversource announced that it will purchase Columbia Gas of Massachusetts, adding 330,000 natural gas customers to Eversource's portfolio. The transaction will exclude any past liability, such as the \$143 million settlement that Columbia Gas reached with residents over the explosions in the fall of 2019. The sale and rate plans are pending approval by state regulators before becoming official.

Natural Gas Storage

The week of March 13th ended with 2,034 BCF of natural gas in storage, which is 878 BCF higher than last year, and 281 BCF higher than the five-year average. Inventories are still within the five-year range. March is expected to finish with 12% more natural gas in storage than the five-year average and inventories are expected to near 4 TCF by the start of the winter heating season.



Working gas in underground storage compared with the 5-year maximum and minimum



OUR ENERGY MANAGER

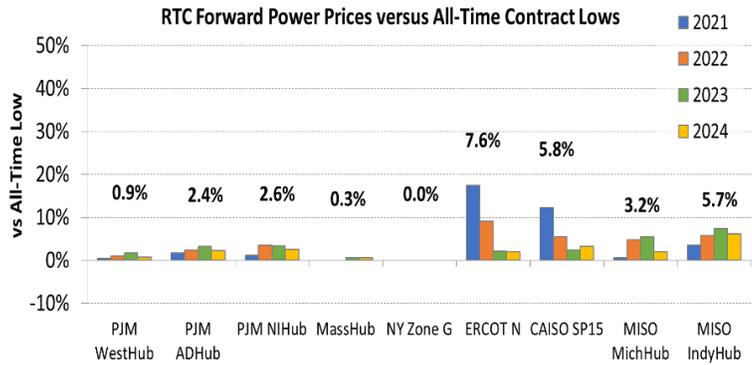
Power

The mild weather continued to put downward pressure on power prices in February. With some exceptions, 2022 - 2024 power prices are starting to flatten out relative to 2021. In Texas, the 2020 prices are falling to near 2021-2024 levels but 2021 prices were up 1.7% as of last Friday.

The passage of the American Energy Innovation Act (AEIA), a collection of 53 bills on energy innovation, hit a snag in the Senate as lawmakers failed to reach an agreement on an amendment addressing the phasing out of hydrofluorocarbons (HFCs) used in refrigeration and air conditioning. The AEIA focuses on modernizing domestic energy laws, strengthening national security, increasing international competitiveness and investing in clean energy technologies and was expected to pass last week. At this point, its future is uncertain.

In Texas, ERCOT has indicated they could experience price spikes this summer from insufficient generation to meet demand. As we have previously reported, the new renewable generation that has been added may not be enough to offset the demand in Texas, especially if there is insufficient wind to power this generation. ERCOT expects to have 82,417 megawatts of generation available to meet a peak electricity load forecast of 76,696 megawatts for the 2020 summer season.

In the Northeast/Mid-Atlantic/Midwest US, PJM reported a decline in greenhouse gas emissions over the last 15 years. A growth in cleaner generation from natural gas and renewables, combined with demand response and energy efficient projects, are credited for this reduction in emissions.

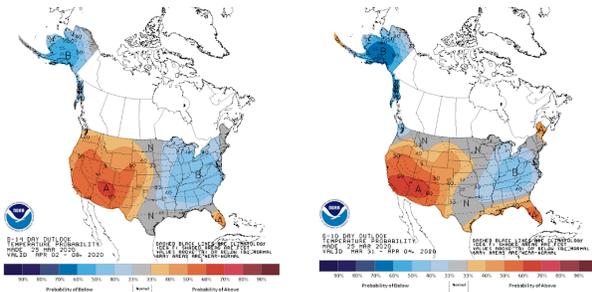
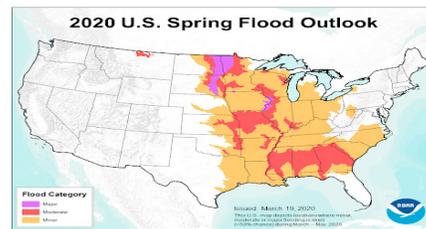


Note: 0% implies that forward prices are currently trading at all-time lows.

Weather

The 2019-2020 winter season is slated to be the 6th warmest on record. In March, most of the country experienced above-normal temperatures interspersed with a few very brief cold spells. Current forecasts predict quick moving cold weather patterns impacting the Midwest and East but these will be short-lived.

Spring forecasts expect above-normal temperatures, along with above-normal precipitation, and possible flooding in the Midwest, Plains and Southeast.



This is a good time to review your portfolio and take action if you have facilities in Texas.
Contact us for more information.