

NEWSLETTER

OUR ENERGY

M A N A G E R

Summary:

Economy

The May unemployment rate fell to 13.3% as more businesses open after the COVID-19 shutdown. Some analysts think that the true unemployment was about 3% higher at 16%.

There are other indications of economic recovery. Apple mobility data shows that drivers are requesting more routes and traveling. Gasoline demand has rebounded to 8 million BPD, moving toward pre-COVID levels of 10 million BPD. While still well below pre-shutdown levels, airline passengers have increased from COVID lows of 80,000/day to 350,000/day. The general consensus is still that the economy will recover. Whether it will be a V-shaped or U-shaped recovery is where the analysts differ.

In response to historically low oil prices, Texas regulators held a hearing to explore implementing regulations to ration the production of Permian crude. While the proposal did not pass, the low prices prompted producers to curtail production. Prices rebounded quickly, prompting some producers to announce they will end curtailments this month. Still others remain cautious and the increase in June production is estimated to be 150 million BPD. The rig count is currently at 279, which is a decrease of 5 from last week and 690 from a year ago. WTI is currently trading in the \$37 range.

As producers have slashed production budgets and lowered the value of their assets, creditors have responded by lowering credit lines on existing loans. This development, when combined with a current lack of access to capital, will likely result in an increase in bankruptcy filings.

Economy

- Coronavirus update
- Crude oil

Natural Gas

- Natural gas prices
- Production update
- Storage

Natural Gas Liquids

- 400% price increase

Power

- Power commodity prices
- Regional news: PJM
- State news: Virginia, Texas, California

Weather

- Current outlooks
- Hurricane Season Outlook

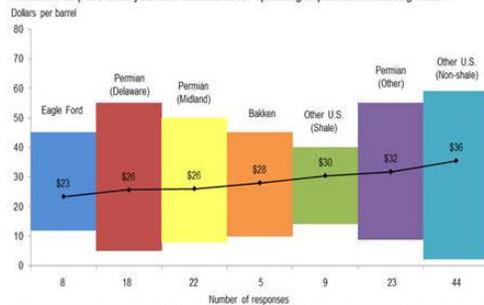
Civilian unemployment rate, seasonally adjusted

Click and drag within the chart to zoom in on time periods



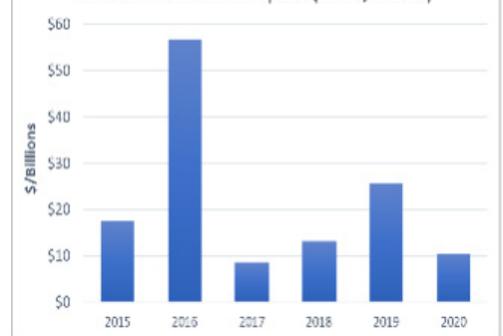
Hover over chart to view data. Note: Shaded area represents recession, as determined by the National Bureau of Economic Research. Persons whose ethnicity is identified as Hispanic or Latino may be of any race.

In the top two areas in which your firm is active: What WTI oil price does your firm need to cover operating expenses for existing wells?



NOTES: Lines show the mean, and bars show the range of responses. Executives from 95 exploration and production firms answered this question during the survey collection period, March 11-19, 2020. SOURCE: Federal Reserve Bank of Dallas.

Oil & Gas Producer Bankruptcies (Thru 5/31 2020)



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Natural Gas

After the June contract settled at \$1.722, the prompt-month natural gas has traded within a 20-cent range, first flat to June, then up on reports of as much as 20% of production being shut in in the Gulf of Mexico in anticipation of Cristobal, and back down again on bearish storage numbers and decreases in LNG exports. The July contract is currently trading at \$1.709.

Natural gas production has stabilized in the 86-87 BCF/d range. Gas directed rig counts were at 78 last week, which is up 2 from the previous week and down 690 from a year ago.

Gas demand is up from last year's levels despite the 3rd warmest winter on record and COVID-19 shut-down. The low prices have resulted in switching from coal to gas for power generation and provide further support for prices.

The decline in natural gas production and increase in demand is offset by the decrease in LNG exports. In June, an estimated 40 cargoes were cancelled. Five cargoes shipped last week, which is the lowest number since 2017. All of these factors, along with high storage inventories, have kept prices in check, albeit higher than

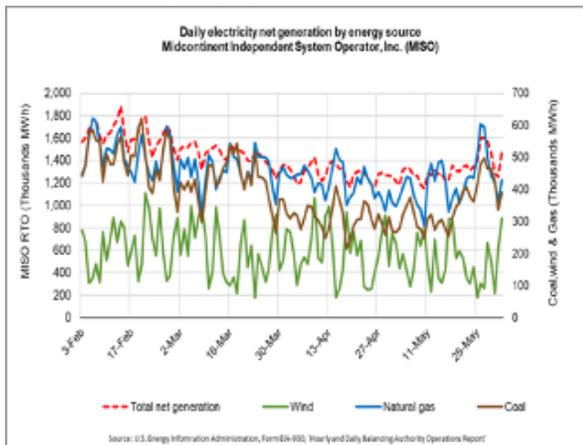
they were a few months ago

Natural gas rate cases are pending before regulators

Is this the time to lock in prices or hedges for your company? We can assist you with that decision. Contact us for more information.

in **Michigan, Vermont and Virginia**. Once approved, changes will take effect as early as June 1st in some cases.

In **California**, SoCal Gas will be making repairs on its system, which will reduce capacity by 800 MMCF from June 29 to July 17, and 170 MMCF through December 2020. Once completed, the repairs, along with the added flexibility from the Aliso Canyon storage facility, will bring much-needed gas capacity into SoCal in time for the winter heating season.

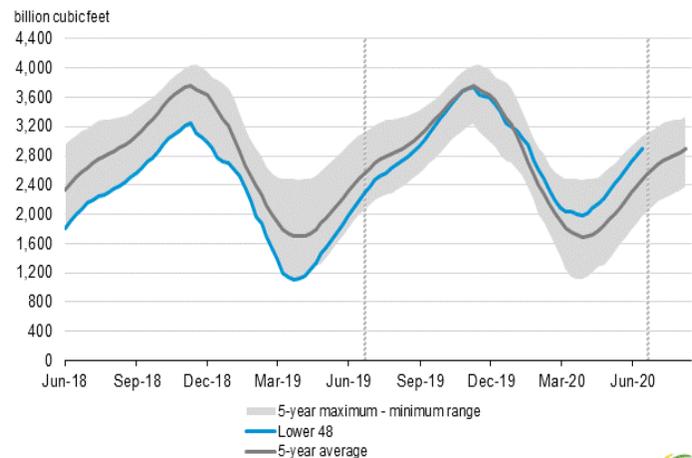


NYMEX Futures Pricing (\$/MMBtu)	Week Ending 6/19/20	Week Ending 6/12/20	W-o-W
NYMEX Prompt	\$1.67	\$1.73	(\$0.06)
NYMEX 12-Month Strip	\$2.37	\$2.40	(\$0.03)
Balance 2021	\$2.44	\$2.47	(\$0.03)
Winter (Nov 20-Mar 21)	\$2.89	\$2.91	(\$0.02)
Summer 2021 (Apr-Oct)	\$2.04	\$2.09	(\$0.05)
Calendar 2022	\$2.55	\$2.55	\$0.00
Calendar 2023	\$2.65	\$2.65	\$0.00

Natural Gas Storage

The week of June 12th ended with 2,892 BCF of natural gas in storage, which is 722 BCF higher than last year, and 419 BCF higher than the five-year average. Inventories are still within the five-year range but are now 17% higher than the five-year average. The EIA is projecting an estimated 4.114 TCF in storage at the start of the 2020-2021 winter heating season.

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



Source: U.S. Energy Information Administration



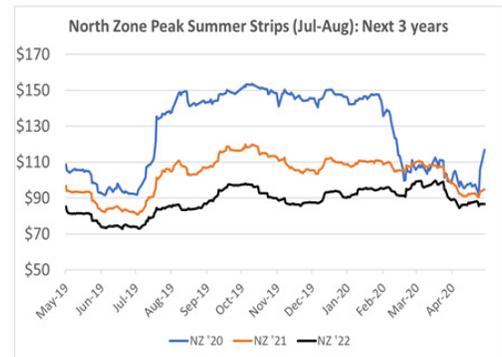
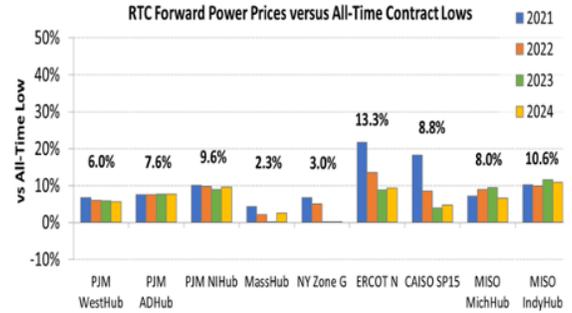
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Power

Power prices have followed gas prices higher since the decline in demand began. While relatively flat in June, Texas and California have seen some of the highest increases. The Northeast, which had seen decreases in power prices for 2021 and beyond, is now seeing an increase in 2021 prices. Despite recent activity, there are still good opportunities to lock in pricing for 2021 and beyond.

In **New York**, the system operator is seeking state approval for its carbon pricing plan, which was developed as a way to meet the state's clean energy goals. Under the plan, power prices in NY are estimated to increase as much as \$15/MWh. Currently, 2022-2023 prices are showing increases attributed to the proposed plan ranging from \$0.50 to \$3.00/MWh. If the plan is approved, the impact of the carbon pricing plan will likely be closer to \$10-\$15/MWh, making this a good time to look at locking in prices for 2022 and 2023, which are the likely implementation dates.

In **Massachusetts**, the Department of Energy Resources filed a revised final order on its Clean Peak Standards. Under the order, a percentage of supply must come from certified clean peak resources that supply clean energy or reduce demand during peak periods. The cost impact to customers could be as high as \$0.005/kWh beginning in 2021 and the order could go into effect as early as July 23, 2020.



We can help you determine the best course of action to take in light of the changing regulations. Contact us for more information and assistance.

Weather

The current forecasts show a divided pattern of above-normal temperatures for the forecast for the Northeast, Midwest and South and below-normal temperatures for the West. Temperatures for the summer cooling season (July-September) are expected to be above normal. If this holds, we will see an increase in power demand for this timeframe.

The National Hurricane Center predicts an active hurricane season, and 2020 has set a record for the earliest formation of the first three named storms. While el Niño conditions in the Pacific will hinder development, la Niña conditions, combined with warm Atlantic temperatures, have increased the probability of an active season, both in number and intensity of storms.

