NEWSLETTER

OUR ENERGY MANAGER

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- Power prices
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- Natural gas prices
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- Storage

Weather Outlook

- July shaping up to be warm across the country

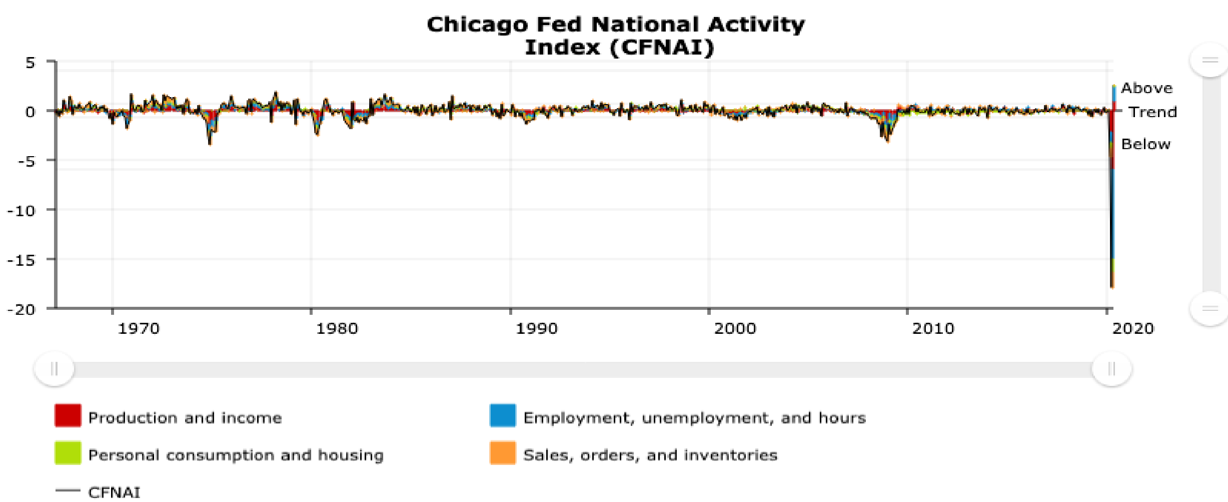
Economy

The key economic indicator Chicago Fed National Index surged in May after dropping significantly in April, with gains in production and employment leading the way. While the move is positive, the economy is still struggling. Several indices have reported the U.S. entered a recession in March, and the first quarter GDP came in at (5.0%). Estimates for 2020 now range from (5.6%) to (11.0%).

Similarly, unemployment fell by 2.2 points to 11.1% in June. While this marks the second consecutive monthly drop in unemployment, the jobless rate is still 7.6% higher than reported in February 2020.

Crude oil strengthened slightly in June, with the July contract closing at $40.35/bbl. While production remained flat from the previous week, demand was down almost 391 bpd (exports were down by 705 bpd while refinery demand increased by 314 bpd) and crude inventories increased to near-record high levels. Production continues to decline, with the U.S. oil rig count at 185 for the week ending June 26th, a decline of 603 from last year.

Several energy producers filed for Chapter 11 bankruptcy protection the week ending July 3rd including Chesapeake Energy, Wildhorse Resource Management (owned by Chesapeake), Lilis Energy and Sable Permian Resources. So far in 2020, 23 energy companies with $30.6 Billion in debt have filed for bankruptcy protection.



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Natural Gas

After the June contract settled at $1.709, the July contract initially traded within the same range before falling dramatically on weak LNG exports. On June 16th, the July contract traded at a 21-year low of $1.38 before rebounding slightly to settle at $1.495. Since the close, prices have risen off these low levels, primarily driven by above-normal temperature forecasts and the August contract is currently trading at $1.777.

Natural gas production continues to hover in around 86-87BCF/day. Gas directed rig counts were at 76 last week, which is up 1 from the previous week and down 98 from a year ago.

While it seems like a lifetime ago, U. S. natural gas production and consumption hit records in 2019, with production at 34 TCF and demand at 31 TCF.

LNG exports have fallen dramatically from previous record highs in the first quarter of 2020. The EIA reported an average of 6.7 BCF/day for May 1-27, which was the lowest number since October 2019. LNG exports are currently averaging 3.2 BCF/day, which is 2.8 BCF/day lower than last month. The EIA does not anticipate exports to rebound until Spring 2021.

The Atlantic Coast Pipeline project, a 600-mile pipeline slated to deliver needed natural gas supplies to **West Virginia**, **Virginia** and **North Carolina** has been canceled. Dominion Energy and Duke Energy cited ongoing regulatory concerns and legal challenges, which increased the estimated costs from $5 Billion to $8 Billion and delayed the projected in-service date. This, along with more aggressive state-level renewable energy targets, may result in higher future natural gas and power prices in the region.

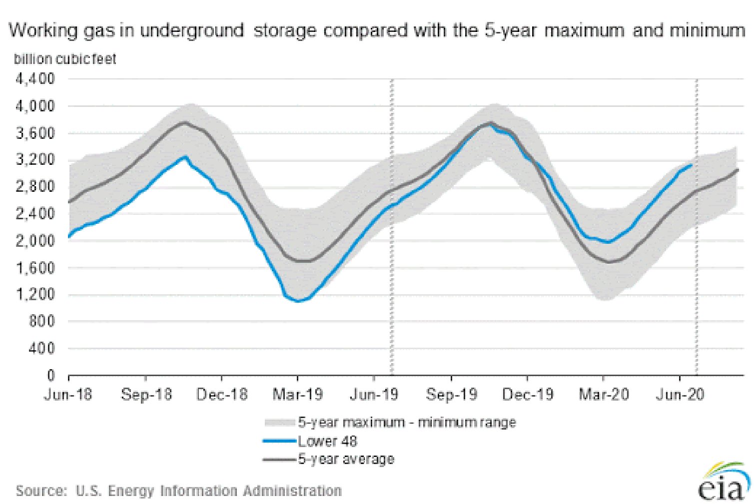
In **California**, SoCal Gas and PG&E announced they are very close to filling their available storage capacity following a mild winter and lower demand brought about by COVID-related stay-at-home orders. While some of this storage gas may be used to meet power demand, we will likely see increased balancing measures taken by the utilities, which can result in higher costs to consumers who buy gas from third-party suppliers.

NYMEX Futures Pricing ($/MMBtu)	Week Ending 7/10/20	Week Ending 7/3/20	W-o-W
NYMEX Prompt	$1.78	$1.67	$0.11
NYMEX 12-Month Strip	$2.41	$2.37	$0.04
Balance 2021	$2.45	$2.44	$0.01
Winter (Nov 20-Mar 21)	$2.81	$2.89	($0.07)
Summer 2021 (Apr-Oct)	$2.12	$2.04	$0.08
Calendar 2022	$2.52	$2.55	($0.03)
Calendar 2023	$2.61	$2.65	($0.04)

We can assist you with finding the best solution for your facilities in California and throughout North America. Contact us for more information and assistance.

Natural Gas Storage

Natural gas storage was at 3,133 BCF for the week ending July 3rd, which is 685 BCF higher than last year, and 454 BCF higher than the five-year average. Inventories are still within the five-year range but are now 14.5% higher than the five-year average. This is the second time that storage has topped 3 BCF before the end of June, with the first occurring in 2016. The EIA is projecting over 4 TCF in storage at the start of the 2020-2021 winter heating season.



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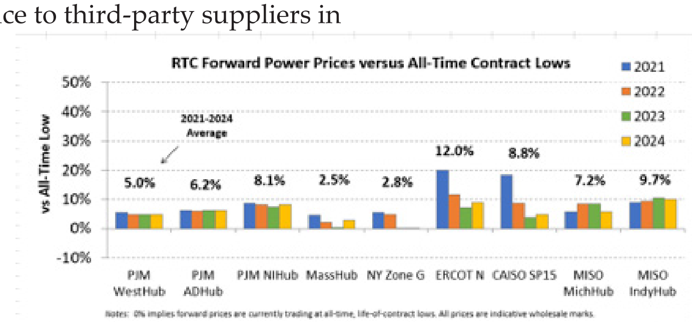
Power

Power prices for 2021 are 1.3% higher than last week while spot prices traded flat to slightly lower over the same time period. This week, we have seen utilities across the country issue peak-day alerts calling for voluntary usage reductions. While the calls to reduce consumption were voluntary, we may see a mandatory consumption reduction if the weather continues at these levels.

Twenty three utilities in the PJM power region, which includes Pennsylvania, New Jersey, Maryland, Virginia, West Virginia, Washington D.C. and parts of North Carolina, Ohio, Illinois, Michigan and Indiana, saw power sales to their customers drop by 16% in Q1 2020 from the previous year. The reasons for the drop include a mild winter, COVID-19 and an increase in customers switching from utility service to third-party suppliers in deregulated areas.

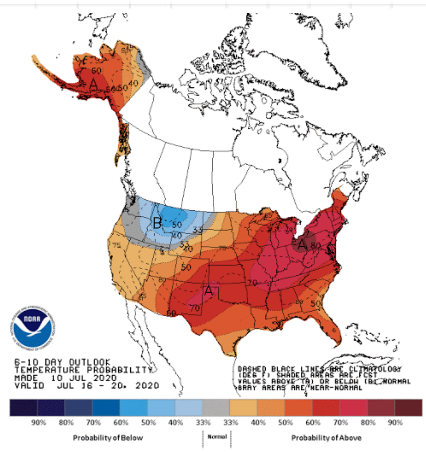
We can help you determine whether switching to a third-party electricity provider is right for your business. Contact us for more information.

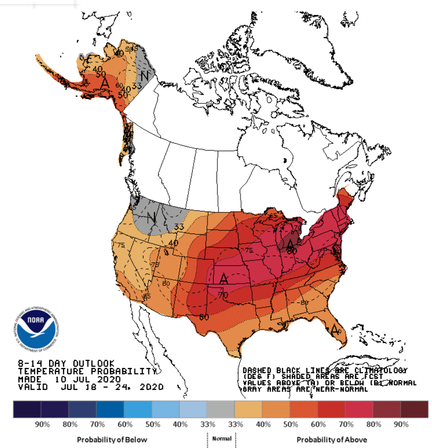
In Texas, ERCOT released a COVID load impact analysis. For the week ending June 14th, usage declined 1%, with almost no change in the early morning peak hours. Since the report, Texas has re-implemented restrictions on businesses, which may have a negative impact on demand going forward, depending on how long the restrictions remain in effect. While it looks like Texas may avoid constraints and shortages in April, the mid-long range forecasts are still concerning, as very little gas-fired generation is being added in Texas.



Weather

July is shaping up to be very warm across much of the US. Currently, at least 70 million people are under an excessive heat advisory and this number is expected to increase over the next week. Forecasts for the next 90 days show above-normal temperatures for much of the country.





About OEM

OEM focuses on helping our customers manage their energy and make informed decisions. We partner with our clients to become an extension of their organizations, providing our customers with the benefits of an in-house energy department at a fraction of the cost. We make the same recommendations and decisions we would make if we were part of your staff. That way, the only interests under consideration are those of your business. Our staff has over 100 years of collective experience in the energy industry and is well-versed in identifying and solving most energy opportunities and problems.