

NEWSLETTER

OUR ENERGY

M A N A G E R

Summary:

Economy

- US Debt Downgraded
- Crude - rig counts and outlook

Natural Gas

- Natural gas prices
- LNG
- State News: California
- Storage

Power

- Power prices
- Regional news: PJM
- State news: Texas

Weather Outlook

- What records were broken

Clean Energy & Climate Change

The Biden campaign has unveiled its \$2 trillion climate plan. Highlights of the massive proposal include a pledge to eliminate carbon emissions from power generation by 2035 and net-zero emissions by 2050 through large investments in wind, solar, battery storage and electric vehicle infrastructure. While it certainly faces environmental and regulatory challenges, if implemented in any form, consumers and businesses (which means ultimately consumers) will end up paying for it in the form of increased electricity prices.

We've also seen aggressive Renewable Portfolio Standards (RPS) targets at the state/district level ranging from 10-100%. If these targets hold - and we believe some of them will - consumers and businesses should prepare to pay more for energy in future years.

State RPS Targets

- ☼ NJ: 50% by 2030
- ☼ MD: **50% by 2030**
- ☼ DE: 25% by 2026
- ☼ DC: **100% by 2032**
- ☼ PA: 18%** by 2021
- ☼ IL: 25% by 2026
- ☼ OH: 12.5% by 2026
- ☼ NC: 12.5% by 2021 (IOUs)
- MI: 15% by 2021
- VA: 15% by 2025
- IN: 10%** by 2025

☼ Minimum solar requirement

** Includes non-renewable "alternative" energy resources

Service Spotlight: Utility Bill Pay

Paying utility bills on time can be challenging, especially for companies with many locations. To resolve this issue, OEM has partnered with one of the top 5 banks in the U.S. to offer it's newest service, Utility Bill Pay (UBP). OEM retrieves the invoices and once approved by the customer, submits payment, avoiding late fees and penalties. Contact us to learn more about how UBP can save you time and money.

Does your company have a plan to address rising energy costs and sustainability? We can work with you to develop a customized program, budget and more. Contact us for more information.

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Economy

Fitch Ratings has downgraded the USA's AAA outlook from stable to negative, citing the rising fiscal deficits and debt that was increasing before the pandemic with no plan to address it. Before the pandemic, the USA held the highest government debt of the AAA-rated nations. Fitch expects this number to exceed 130% of GDP by 2021. This is the first time a rating agency has downgraded the USA's outlook or credit rating since S&P's downgrade to AA-plus in 2011.

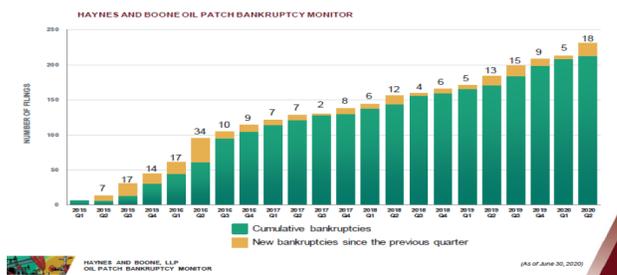
Despite the increase in WTI prices to the \$42/bbl range, the increase in bankruptcy filings among the oil patch, combined with the coronavirus-induced economic shutdown, has the U.S. rig count falling for a 14th

straight week. Total rig count for the week ending August 7 is 247, which is down 74%, or 687 rigs from a year ago. Oil rigs declined by 4 to 176, which is the lowest level since 2005.

The rig count is just one indication of the negative activity in the industry. Suhlmerger has announced 21,000 job cuts, Chevron has indicated layoffs as a result of the Noble Energy merger and Marathon is idling its Martinez refinery indefinitely. Barring any significant increases in demand, the E&P sector has a way to go before we see signs of recovery.

Producer Headwind: Bankruptcies and Substantial Debt Levels

2015-2020 CUMULATIVE NORTH AMERICAN E&P BANKRUPTCY FILINGS



Natural Gas

After the August contract settled at \$1.854, prices rebounded sharply for the first week of August, with the September contract trading as high as \$2.334. The winter strip traded higher as well, topping \$3.00 for the first time in months. While institutional investors have poured more money into the market, rising LNG exports and increased gas-fired power generation are also contributing to the current rally. LNG nominations hit a post-pandemic high of 4.7 BCF/day on August 10th, and gas-fired power generation reached a record 46.7 BCF on July 27th. The storage number, while in line with expectations, has also helped strengthen prices.

Natural gas production increased slightly, averaging over 88 BCF/day last week. Rig counts remain at 69, unchanged from last week. OXY has announced they are increasing capital expenditures and other producers are indicating additional activity in 2021. Because there is typically an 18-24 month time frame to getting

production to market, and gas demand is more weather-dependent, we don't see a dramatic drop in prices on the horizon.

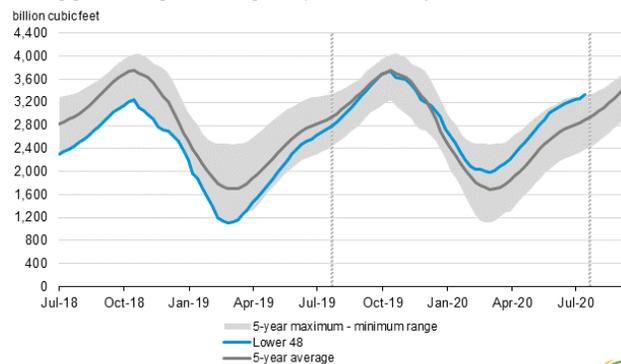
In California, SoCal Gas is suing the California Energy Commission, claiming that the agency violated its mandate by failing to promote the benefits of natural gas and is instead pursuing an anti-gas policy. While California may have been the first state to look at banning natural gas as a fuel source, we have seen similar steps in Washington, New York and Massachusetts. If the state does adopt a renewable-only fuel policy, there will be no backup source of fuel if there are dips in solar and wind output and we will see a dramatic increase in power outages.

NYMEX Futures Pricing (\$/MMBtu)	Week Ending 7/10/20	Week Ending 7/3/20	W-o-W
NYMEX Prompt	\$2.24	\$1.80	\$0.44
NYMEX 12-Month Strip	\$2.75	\$2.47	\$0.28
Balance 2020	\$2.60	\$2.16	\$0.44
Winter (Nov 20-Mar 21)	\$3.10	\$2.86	\$0.24
Summer 2021 (Apr-Oct)	\$2.70	\$2.61	\$0.09
Calendar 2021	\$2.81	\$2.69	\$0.12
Calendar 2022	\$2.55	\$2.53	\$0.02

Natural Gas Storage

Natural gas storage ended at 3,332 BCF for the week ending August 7th, which is 608 BCF higher than last year, and 443 BCF higher than the five-year average. Inventories are now above the 5-year range. If the injection rate stays consistent with the five year average, the EIA projects a storage balance of 4.166 TCF 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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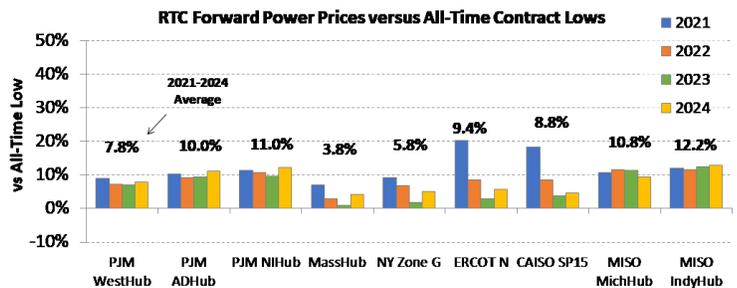
Power

The heat across much of the country caused power prices to follow gas prices upward. 2021 power prices rose about 1.5% across all regions last week with the exception of California, where prices rose over 4%. California remains 3-4% higher for 2022 and beyond as well, while the rest of the country has seen more moderate (less than 1% increases).

In New York, the Public Service Commission authorized utilities to collect over \$700 million to fund greenhouse gas reductions, including the installation of 50,000+ electric vehicle charging stations. Of this amount, \$200 million will be marked for infrastructure investment in underserved communities. This is another step in New York's goal of having 850,000 electric vehicles on the road by 2025 and a reduction of greenhouse gas emissions to 15% of 1990 levels by 2050.

In Massachusetts, an amendment to the Renewable Portfolio Standards (RPS) has been proposed

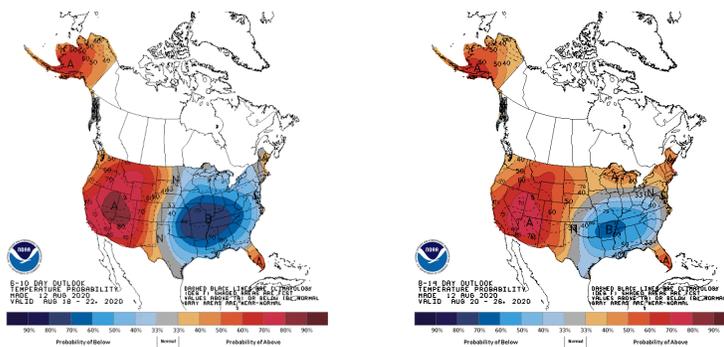
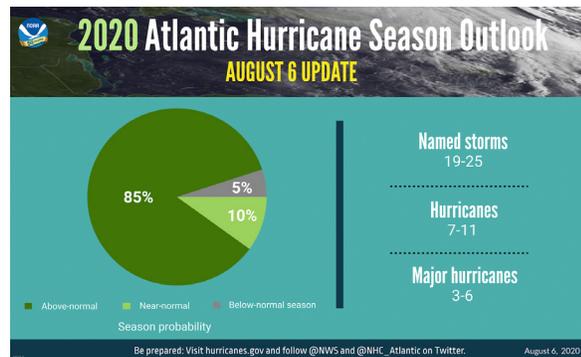
that would increase the RPS by 3% each year from 2025-2029, which is 1% greater than current levels. If implemented as is (it still needs to get through the legislature), customers will see a slight increase in costs in 2029 at the current credit price levels. While small at the moment, it emphasizes the amount of non-energy costs that customers will pay as part of their all-in cost of energy.



Weather

July 2020 ended up as the 11th-warmest on record in the US, with seven states tying or setting new records. It was also the 3rd wettest July on record. As we get into August, forecasts are calling for above-normal in the West and below-normal in the East.

Last week, the National Hurricane Center released its August update, forecasting one of the most active seasons on record. The update calls for an increase in named storms, with a slight decrease in hurricanes and no change to major hurricanes. To put this in perspective, we have had 9 named storms to date this season, which is 7 more than the average of 2 in a "normal" hurricane season.



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.