ENERGY MARKET

Monthly Update

February 2018

Market Commentary

Powered by Transparent Energy and Gary Graham, Director of Energy Management

The final week of January was one marked by relentless cold and corresponding upward market movement. This arrived on the heels of the second largest recorded inventory withdrawal (-288 Bcf) since the mark set during the Jan. 10th report week of the 2014 Polar Vortex. The largest ever recorded withdrawal occurred a mere two weeks prior when the EIA reported a whopping -359 Bcf withdrawal for the week ending January 5th. Not surprisingly then, the total stocks (2,139 Bcf) are significantly decreased when compared both to last year at this time (-19.3%) and to the five-year average (-16.2%). As a result, the prompt trading month swelled to $3.63, the highest prompt-month settle since May of 2017, for the final five consecutive sessions of January, giving the bull camp plenty of confidence heading into February.

Fast forward to present day; the prompt natural gas contract (Mar18) is down to $2.74, sliding from $3.20 over five consecutive days. So, what has changed in such a short period of time? From where does this newfound front-end volatility stem? The answer is threefold: 1) U.S. natural gas production continues to clip along at record-setting levels. That is not going to change any time soon, as our natural gas reserves boast quadrillions of cubic feet of energy, especially within the Marcellus and Utica shale region, 2) The rest of the world (China, Mexico etc.) is following suit as we continue to prioritize natural gas as a generation fuel for power, and 3) we continue to expand our LNG exporting capability which will position us as the world's leading exporter of natural gas, increasing the overall demand side of the equation. Relatively flat futures curve indicates the market is presently confident in our ability to meet the long-term heating and cooling demand (via generation). It is with this context that we can explain the last two weeks and the $0.90 movement in the commodity's prompt month trading levels. Projections of the cold snap that many expected to sweep across the country in the coming week have largely subsided, and so too has the price of natural gas. As we move forward, expect the short-term focus to remain on deviations from expected weather; as traders will begin to look beyond winter, expect volatility of the summer strips to pick up increasingly. A prudent buyer would begin to look at any expiring contracts well ahead of this year's shoulder season, as it is expected that the coming weeks will offer some advantageous, yet momentary, buying conditions.

Last month, we highlighted the DOE's NOPR filing that would have provided cost recovery remedies for inflexible generation assets such as coal and nuclear plants. Largely viewed as a poorly veiled political attempt to prop up supportive interests, the proposal was rejected by FERC and was in turn handed off to individual ISO's to determine how they would define and effect the grid resiliency that was purported by the DOE to be the reasoning behind issuing the NOPR. This matter will continue to be passed along, picked apart, and eventually either adopted in part or wholly rejected.

Quick Hits

- The early estimate for Thursday's inventory report is a 100 Bcf decline compared to the five-year average of 151 Bcf.
- Merrill Lynch recently cut their 2018 natural gas price estimate to $3.10, down 20 cents from its earlier estimate, citing record output in the shale basins as the reason for the reduction
- LNG exports from Sabine Pass have returned to full capacity of 3.2 Bcf/d following a water supply issue that temporarily curtailed liquefaction activity at the facility during late January.
- The 600-MW Oyster Creek nuclear power plant in New Jersey will be retired in October 2018, one year ahead of the previously announced schedule due to high O&M costs and low wholesale power prices in PJM.

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Bullish Factors

- Another cold front similar to the late December/early January period that encompassed much of the country occurs again and spikes delivered gas prices and index power prices.
- 2019 Forward power prices increased for several markets, most notably ISONE (4%), NYISO (1%), PJM (1%) and ERCOT (3%).
- 2018 got off to a strong start, with national demand reaching 150.7 Bcf/d on New Year's Day, surpassing the previous record of 143.3 Bcf on Jan 7th 2014.

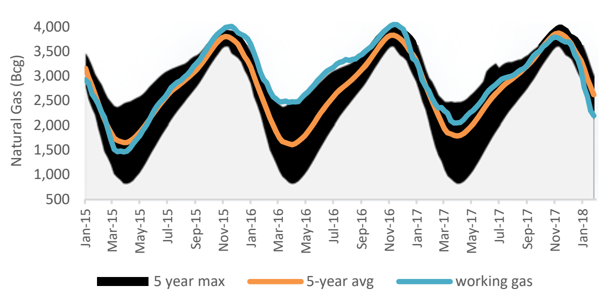
Bearish Factors

- The extreme cold that hit much of the country in early January has eased and a continuation of average to above-average temps into February will temper heating demand and delivered gas prices.
- Smaller-than-average withdrawals diminish the current storage deficit compared to last year and the five-year average to under 10%. End-of-winter stocks are signaling a neutral to bearish market.

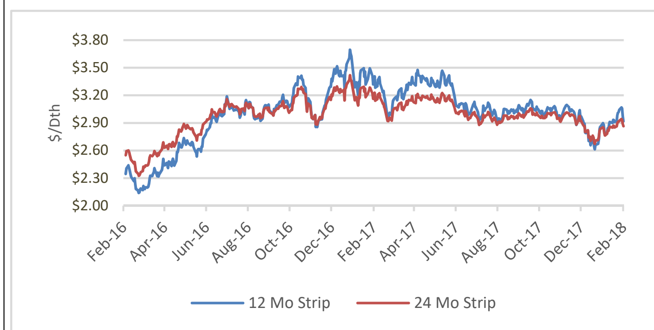
Natural Gas

CURRENT/HISTORICAL STORAGE (Bcf)						HENRY HUB PROMPT MONTH NAT GAS SETTLEMENTS							
Region	This Week	Last Week	% Chg.	Year Ago	5-Yr Avg.	Trade Date	Open	High	Low	Settle		% Chg.	Est. Vol
East	525	555	-5.41% ▼	609	593	2/1/2018	2.956	2.978	2.837	2.856	▼	-3.38%	371,642
West	953	1012	-5.83% ▼	1100	1088	1/31/2018	3.165	3.183	2.949	2.995	▼	-5.37%	353,309
Producing	719	729	-1.37% ▼	944	941	1/30/2018	3.187	3.259	3.161	3.195	▲	0.25%	264,484
TOTAL	2197	2296	-4.31% ▼	2653	2622	1/29/2018	3.39	3.661	3.294	3.631	▲	7.11%	20,414

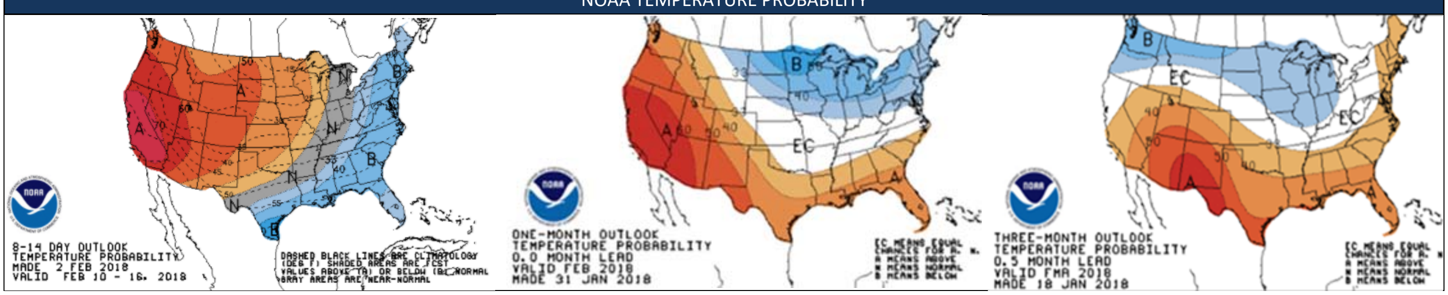
WORKING GAS IN UNDERGROUND STORAGE



ROLLING 12/24 MOS. NYMEX FORWARD STRIPS ($/DTH)



NOAA TEMPERATURE PROBABILITY



Average Retail Electricity Price Trends (March Start)

Week Ending	New Jersey	New York	Massachusetts	Ohio	Illinois	Texas	DC	Pennsylvania	Connecticut
12/29/2017	$0.0990	$0.0623	$0.1173	$0.0607	$0.0580	$0.0458	$0.0751	$0.0708	$0.0965
1/19/2018	$0.1010	$0.0632	$0.1179	$0.0613	$0.0578	$0.0469	$0.0766	$0.0692	$0.0961
1/26/2018	$0.1010	$0.0638	$0.1195	$0.0615	$0.0579	$0.0478	$0.0773	$0.0699	$0.0980

*actual rates may vary by usage. Rates are aggregated from sources reflecting the general service (GS) rate class

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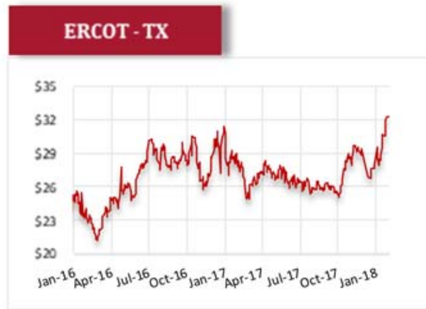

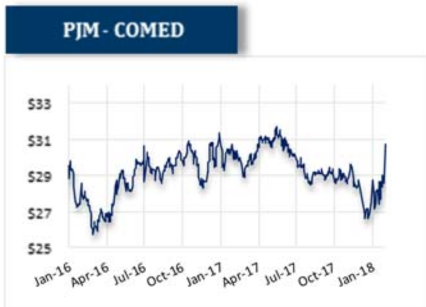

Energy Market News

Despite concerns over pending nuclear & coal shutdowns, Grid performs well during extreme conditions in January
http://bit.ly/2BrrKUV

Baker Hughes North American rig count
http://bit.ly/1elov2d

NOAA – US Seasonal Drought Outlook
http://bit.ly/1fx4jgF

EIA Short Term Energy Outlook
http://www.eia.gov/forecasts/steo/

Data Highlights

WTI crude oil futures price
02/01/2018: **$65.80/bbl**
↑ $0.29 from week earlier
↑ $11.92 from year earlier

Natural Gas Inventories
01/26/2018: **2,197 Bcf**
↓ 99 Bcf from week earlier
↓ 526 Bcf from year earlier

Natural gas futures price
02/01/2018: **$2.856/MMBtu**
↓ $0.591 from week earlier
↓ $0.312 from year earlier

Weekly coal production
01/27/2018: **15.333 million tons**
↑ 0.686 million tons week earlier
↓ 0.506 million tons year earlier

For more Information:

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