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APPI ENERGY

The Advisor

DATA-DRIVEN, HOLISTIC ENERGY CONSULTING

In This Issue

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MARKET MOMENT

As we enter summer, the outlook for gas pricing shows a lot of strong upward (bullish) pressure, as Spring's favorable prices continue to abate. On the power side, pricing didn't drop as much in Spring, and so the outlook is a bit more neutral (factors pushing both up and down).

Gas Near-Term: Production is Dropping while Gas Demand is Flat
- Storage surplus to start eroding
- Likely see rising prices in coming months

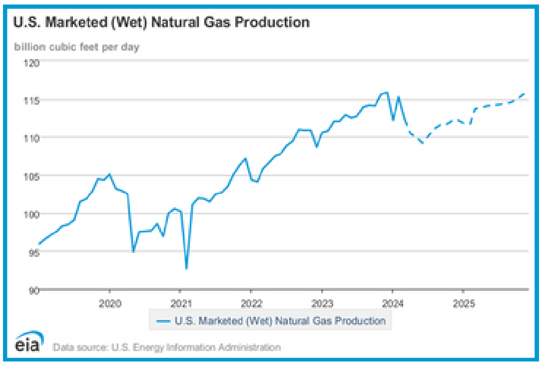
Gas Long-Term:
- Demand is likely to increase significantly (~10%) in H2-2024 – H1-2025 due to LNG
- Some production is ready to respond quickly (~2%), but projections expect production to take ~16 months to recover to Q1-2024 levels.

Electricity:
- Capacity changes create uncertainty for budgets & Demand Response
- Summer heat & data centers are likely to drive grid demand up. This increase will be met almost entirely by new Renewable generation.

DRIVING PRICES HIGHER

For Natural Gas, current forecasts indicate Demand > Production for the next 16 months. Some of that demand comes in the form of LNG export terminals – so there is potential for that demand to be pushed out if any delays occur. But if we stay in this Demand > Production state for a long time, we will burn through our storage surplus (*figure 1*). After that happens, pricing is likely to move up before producers are willing to invest in more production infrastructure. Thus, there is a lot of upside price risk from now through 2026 for gas.

figure 1



For Electricity, demand is expected to see slight growth (~3%) due to warm weather (and the need for air conditioning) and some initial data center build out. That additional demand is expected to be met almost entirely by new Renewables. The market sentiment seems to be that grid demand might be higher than forecasted. And the whole "sun doesn't always shine" idea makes some people skeptical of renewable production growth. Since those two sentiments pull in the same direction, this creates support for pricing. However, if we get through the summer without significant challenges, or summer proves to be mild, it's possible pricing relief could materialize.

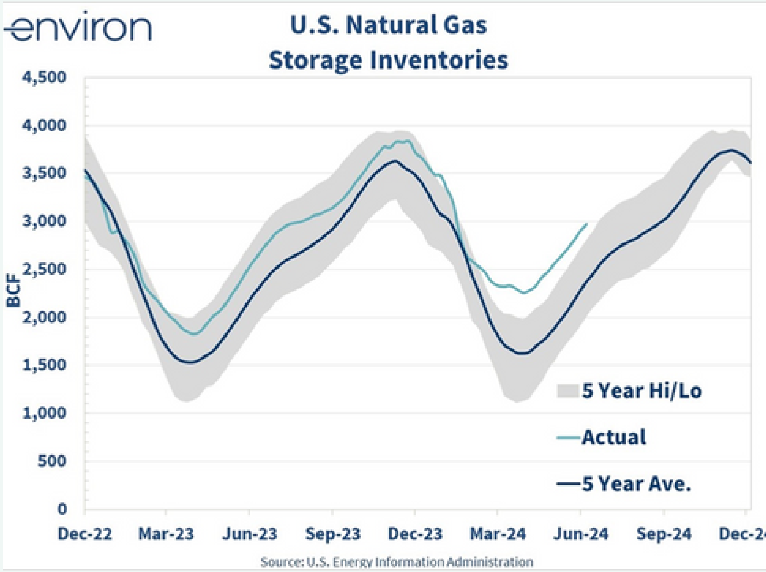
MARKET MOMENT

DRIVING PRICES LOWER

Natural Gas Storage levels remain well above the 5-year range (*figure 2*). Anytime storage is this plentiful, gas pricing has a difficult time rallying. Additionally, NOAA predicts an above-average hurricane season for June-November. In decades past, hurricanes hitting the Gulf of Mexico would bring price spikes as production would come offline. But as more gas production has moved out of the gulf and into shale formations in Texas and Pennsylvania, hurricanes hitting the gulf are likely to knock out more demand (via disruption to LNG exports and electric grid) than supply. Thus, an active hurricane season could be bearish for natural gas pricing.

For power, the increase in renewables promises to bring some price relief. Renewables have zero cost of fuel, so the vast majority of their expenses are tied up in construction. Once built, these generation facilities can survive in low-price environments better than traditional plants. Accordingly, a recent study showed that over 800 coal plants worldwide would actually save money by converting to solar. Those results may not be perfectly applicable in the U.S. but there is reason to believe that more "zero cost fuel" sources can help soften prices in domestic markets.

figure 2



DID YOU KNOW?

In most areas of the country, the electric grid reaches its peak energy demand in the summer. The peaks usually occur on weekdays, between 3pm and 7pm, during a particularly hot week. Clients who are participating in Demand Response or Peak Shaving should already have a plan in place, as peaks can happen anywhere from June to September.

In order to ensure the grid has enough capacity to keep the lights on during this peak day, many regions implement what are generally called "Capacity Markets." (The actual language and acronyms used are opaque and esoteric; the term "resource adequacy" often appears.) Four regions, ISO-NE, PJM, MISO, and NYISO are all considering changes to their Capacity Markets. This could impact electricity pricing, along with Demand Response and Peak Shaving programs. Contact us to learn more about the impacts to your specific location.

figure 3

ISO-NE Auction Timeline

FCA #	Cap Year*	Date Held	Projected
10	2019-20	Feb, 2016	
11	2020-21	Feb, 2017	
12	2021-22	Feb, 2018	
13	2022-23	Feb, 2019	
14	2023-24	Feb, 2020	
15	2024-25	Feb, 2021	
16	2025-26	Feb, 2022	
17	2026-27	Mar, 2023	
18	2027-28	Feb, 2024	
19	2028-29		Jan, 2028

ISO-NE recently announced a three-year hiatus in their Forward Capacity Auctions to study the potential for a seasonal capacity market in 2028 (*figure 3*). The market will be unchanged through May 2028, but the market could look very different after that. Time will tell.

PJM: For the last ~16 months, the courts, FERC, and PJM were discussing retroactive changes for buyers in Delaware and Maryland. There was tension between those customers paying high, unjust rates and maintaining the integrity of the capacity market. In the end, integrity won out and customers in Delmarva service territory will see very high rates from June 2024-May 2025. Changes will likely be implemented in June 2025 to bring prices back to reasonable levels.

MISO has used an "all-or-nothing" price structure for their capacity markets for years. For fall of 2024 and spring of 2025, electricity buyers in eastern Missouri drew the short straw and capacity charges will go up approximately 200% for those seasons. After years of having one zone or another pay obscene rates, MISO is finally looking to improve their market mechanics. That decision is pending with FERC.

NYISO: In May of 2024, NYISO reduced the amount of "needed capacity" for New York City. While this didn't dramatically reduce pricing for the region, it did prevent some price increases. The city has also given a two-year extension to allow natural gas "peaker" plants to continue operating through 2027, which will help alleviate some pricing squeeze.

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WHAT'S NEW?

NAVIGATING YOUR ENERGY PROCUREMENT OPTIONS

For organizations in deregulated energy states aiming to strike a balance between price and risk on the purchase of their electricity, there are a variety of considerations – and options – to weigh. Whether you're familiar with energy procurement and are looking for a new energy contract, or are new to the concept entirely, the bottom line is that the right energy purchasing or procurement strategy should align with your specific energy and budgetary goals.

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CLIENT CORNER

"After APPI Energy locked in a long-term electricity supply contract for our lumber company, they followed up with opportunities for Demand Response programs that can result in cash payments to us from our local utility. Each week, our consultant sends us energy market updates. APPI Energy represents us in the dynamic energy market so we can focus on our business."

Doug Wolinski
Edrich Lumber Company
Windsor Mill, MD
NAM Member

**All market data above is at the national level, but regional and local energy market conditions can vary widely. For an in-depth review of current energy market conditions impacting your organization, please contact our team of dedicated, expert Energy Consultants: 800-520-6685 or info@appienergy.com.*