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APPI ENERGY

The Advisor

DATA-DRIVEN, HOLISTIC ENERGY CONSULTING

In This Issue

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MARKET MOMENT

Natural gas pricing has dipped recently across the forward strips. However, this may be short lived as the threat of new LNG export facilities looms in the not-so-distant future. Power prices have risen due to increased demand driven by warm weather.

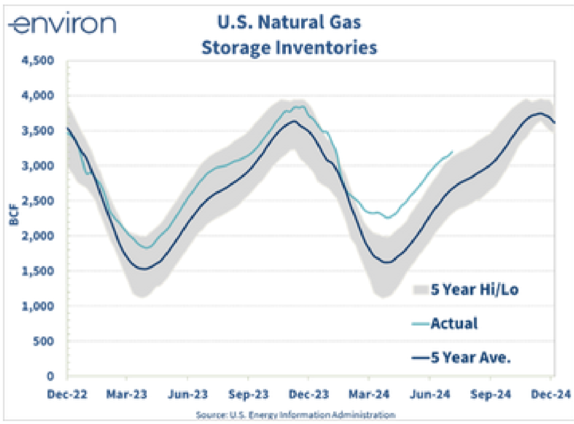
Gas Outlook:
- Storage is holding steady above the 5-year high
- Significant additions to LNG exports expected to come online by the end of 2026
- Recommending hedging through at least 2026

Power Outlook:
- Demand expected to grow by about 3.5% in 2024 over 2023
- A weak polar vortex could lead to severe winter storms in the US this winter
- Forward curves across many regions elevated, leading us to recommend waiting for some price relief (expected this fall)

DRIVING PRICES LOWER

Natural Gas Storage has remained above the 5-year high but is inching closer to it *(figure 1).* This is the main driver keeping natural gas prices low. Production has remained relatively flat despite the production cuts earlier this year. With a demand increase though, we would need to also see a production increase in order for demand to not outpace supply. There is also the threat that a severe winter could deplete the storage we have built up.

figure 1



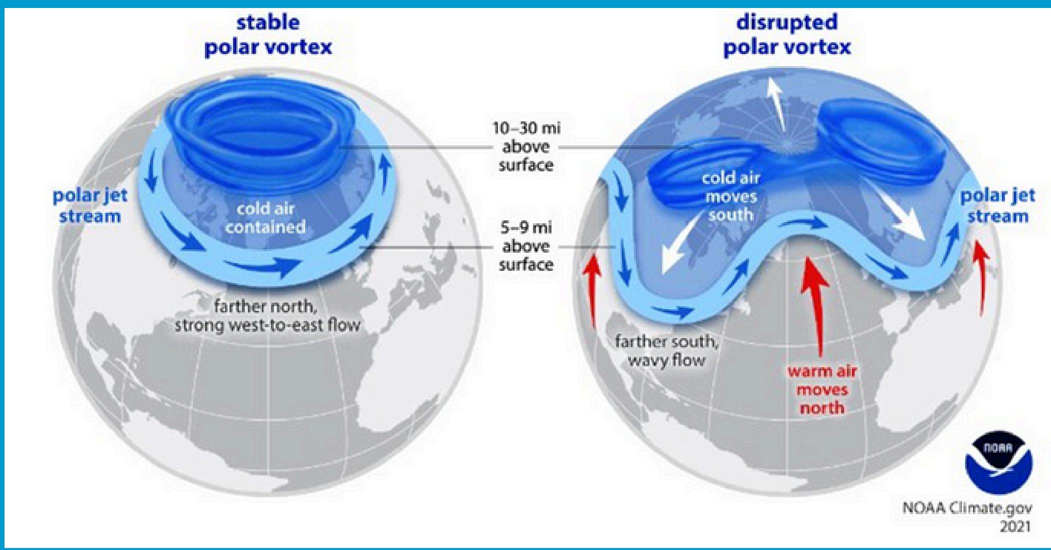
The storage levels also help power prices since a large amount of electricity is generated by natural gas (different regions use different levels of natural gas for power generation). Forward power prices are currently elevated above the LMP settles in various regions (PJM, NYISO, ISONE). Historically, we have seen price relief at the onset of fall after the hot summer months are over. We expect this trend to continue this year, however, this price relief is typically short lived as there tends to be a run-up in anticipation of winter.

DRIVING PRICES HIGHER

For Natural Gas, LNG is expected to nearly double over the next 2 years. Currently, about 12 BCF/d is produced in North America. That number is expected to jump to 20 BCF/d by the end of 2026, with the largest additions coming from the US. These additions will significantly increase demand over the next couple of years. With prices where they currently are, there is little incentive for producers to drill more, so the supply and demand balance is likely to tighten over this time span. Therefore, gas prices through 2026 face a lot of upside risks and will likely rise as these LNG terminals come online.

For Electricity, demand was up 5% in the first half of the year over 2023 levels (which set many demand records). The second half of this year is projected to be 2% higher than 2023 levels. Therefore, on average, demand this year is expected to be 3.5% higher than it was last year. Additionally, there have been some natural changes in the atmosphere. These changes are likely to lead to a weak polar vortex. When the polar vortex is weak, it allows warmer air to travel further north and cooler, arctic air to travel further south *(figure 2).* These events have happened in the past, most famously with Winter Storm Uri which hit Texas in 2020 and the PJM polar vortex of 2014. These events can cause huge price spikes, therefore a weak polar vortex poses a lot of upside risks.

figure 2

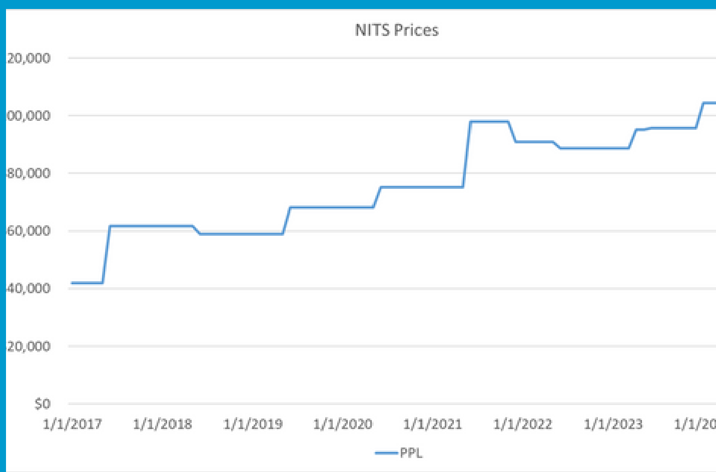


DID YOU KNOW?

PJM transmission owners use a mechanism called Network Integration Transmission Service, or NITS, to recoup their annual costs. Unlike the capacity market, where prices are set for an annual basis, NITS prices can change at any point during the year. They are most commonly updated in January or June of a given year, but some utilities update their prices more frequently *(figure 3).*

Each users NITS tag is set during the one peak transmission hour of the prior year and is set for the next year. Each utility/region within PJM has their own peak transmission hour. These peaks usually coincide with peak capacity days. Transmission costs for nearly every utility within PJM have been steadily increasing while capacity costs have been decreasing. This presents a savings opportunity if users can shave their load to decrease both their transmission and capacity tags, with the main savings driver coming from the transmission side.

figure 3



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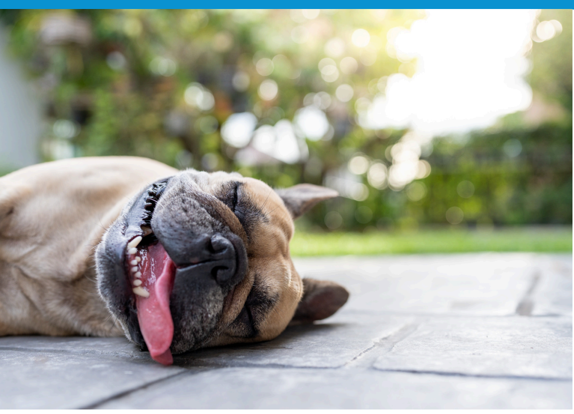
ESG Foundations Solution

ENVIRON ENERGY LAUNCHES THE ESG FOUNDATIONS SOLUTION FOR ORGANIZATIONS BEGINNING THEIR SUSTAINABILITY JOURNEYS

Environ Energy, a leader in energy management and sustainability solutions, announced its newest offering from its ISOS Group Division: the ESG Foundations Solution. The ESG Foundations Solution is a complete package of services designed to help companies early in their sustainability transformation prioritize environmental, social, and governance (ESG) goals and reach important milestones

Read the Press Release>>

WHAT'S NEW?



SUMMER IS HERE: BEAT THE HEAT AND MANAGE YOUR ENERGY COSTS WITH ENVIRON ENERGY

As temperatures rise during the summer, energy demand increases as well. Warmer weather is expected across the US, leading to higher electricity usage for cooling homes and businesses, particularly during peak periods. In our latest article, we explore how managing peak days can help you save money during these heat waves.

Read More>>

**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.*