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2016 Energy Market Outlook
Natural Gas

November, 2016.

Brian Habacivch
Commodities Management Group
### Supply
- U.S. gas production averaged (72.5 Bcf/d)
- Northeast NG production exceeded TX production for first time ever
- Marcellus/Utica gas production record (20.5 Bcf/d)
- Gas Storage hit a record high (4,009 Bcf)
- Largest weekly storage injection on record (136 Bcf)
- Oil & gas drilling rig counts declined by -60% y-o-y

### Demand
- Gas-fired power burns reached all-time record (38.4 Bcf/d)
- 2015 was largest year for coal unit retirements (~20 GW)
- Electricity from NG exceeded coal-fired generation for first time on record (in both Apr15 and Jul15)
- Record gas exports to Mexico (3.5 Bcf/d)
- Sabine Pass on pace for first U.S. LNG exports (late Feb16/early Mar16)

### Prices
- NYMEX gas Cal’16-Cal’19 calendar strips trading at life-of-contract lows
- Oil prices decline from >$100/bbl to below $27/bbl

*Source: Constellation, Baker Hughes, EIA, Platts*
Supply & Demand Fundamentals
Unspectacular Output Continues

Data Source: Spring Rock Baker Hughes
Demand -- First U.S. LNG Export Cargos Leave Sabine Pass

- The first cargo left Sabine Pass on February 24th bound for Brazil.
- Sabine Pass has its first 2 of 6 LNG trains operational at 0.55 Bcf/d.
- The collapse in LNG prices along with oil since Nov ‘14 has likely halted any final decisions on additional projects until prices recover. LNG was trading for $18/MMBtu in Asia in late 2014.

U.S. Lower 48 liquefied natural gas export facilities

Marcellus/Utica gas flowing south to meet new LNG demand

LNG prices in Asia decline by -50% y-o-y

World LNG Estimated January 2016 Landed Prices

Source: Constellation, FERC, Bentek, EIA
Demand -- Industrial Gas Demand on the Rise

- Industrial gas demand grew 0.65 Bcf/d in 2015 on a weather-normalized basis due to low gas prices.

- By 2016, the EIA expects industrial demand to increase by 33% or 5.5 Bcf over 2009 levels.

- The EIA expects industrial gas demand to average 21.8 Bcf/d in 2015 and 22.4 Bcf/d in 2016 (vs. 21.0 Bcf/d in 2014).

- Methanol and ammonia-based fertilizer plants are the most gas-intensive industrial end users.

- Just one of 45 projects underway in the US. CF Industries Port Neal Nitrogen Complex just south of Sioux City, IA will add 30bcf/yr of gas demand alone, when it is completed in 2016.

- Most proposed methanol plants will be located on the Gulf Coast while fertilizer plants are largely located in the Plains and Midwest.

- Two methanol plants are being built in the Pac NW with the intention of exporting to China.
Demand – Natural Gas Generation Set to Surpass Coal in 2016

- The EIA projects that 2016 will be the first year on record that natural gas-fired generation will exceed coal-fired generation on an annual basis. NG has exceeded coal for power generation on a monthly basis since April 2015.
- Low natural gas prices, increases in NG-fired capacity, and growth in renewables has eroded coal’s market share over the past few decades. In 2016, the EIA predicts a 33% market share for NG versus 32% for coal.
- Price-induced coal-to-gas switching this summer is expected to boost gas burns by +10% y-o-y in 2016.

Data Source: EIA

Weekly Average Winter NG Burn, 2010-16 (Bcf/d)

*Source: U.S. Energy Information Administration, based on Bentek*
Figure 6.1D. Utility Scale Generating Units Planned to Retire from August 2015 to July 2016

More U.S. Gas Headed to Mexico

- Exports to Mexico hit a record high (8/24/2016) of 4.28 bcf
- Month to date exports to Mexico averaged 3.87 bcf/d, .91 bcf/day higher than same period one year ago, a 31% increase.
- In 2017 several major pipeline expansions boost U.S. export capacity more than 3.8 bcf/d.
- Expected utilization rate at 40-60% to increase over time.

Data Source: EIA
Demand – Up to 20 Bcf/d of Incremental Demand Growth by 2020

- New medium to long-term gas demand sources include coal retirements, exports to Mexico, industrial use, and LNG exports.

- Incremental gas demand due to coal retirements expected to peak in 2016, but additional upside possible due to the Clean Power Plan.

- Exports to Mexico grew to a new record last year, averaging ~3 Bcf/d – expected to reach over 5 Bcf/d by 2018.

- Per the EIA, approx 45 new methanol and ammonia-based fertilizer plants are slated for commercial operation over the next two years, consuming ~4 Bcf/d.

- By 2020, LNG exports may total around 9.5 Bcf/d, or approximately 13% of the gas currently produced in the U.S.

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<td>New Demand Bcf/d</td>
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Source: Antero Resources, EIA
Gas Market Supply & Demand Balance Tightens

[1] Production growth has seen 3 consecutive months of m-o-m and y-o-y decreases as deterioration in well efficiencies and depleted capital spending finally start to take their toll on supply.

[2] Power burn expected to remain above 30 Bcf/day into summer as gas switching and additional gas generation in the stack should push to record highs; rising gas prices could cut back on coal-to-gas switching.

[3] Stagnant economic growth has kept industrial demand flat. Anticipated increase in petro-chem demand has not yet materialized.

[4] Completion of TX to Mexico pipeline expansion has increased exports.

[5] Sabine Pass train completion and cargo activity will continue to extract up to 0.8 Bcf/day in 2016.
Customer Takeaway: Since hitting a low of $2.92/MMBtu on 8/19/16, the 12-month forward gas strip has surged appx. 37 cents and is heading toward levels not seen since the beginning of 2015 when gas production was near an all-time high.

Source: NYMEX Prices as of COB 10/10/2016
NYMEX Prompt Month Since June


![Graph showing Henry Hub price forecast from 2016 to 2023 for various third parties and the EIA, with prices ranging from $2.00 to $5.50 per mmbtu nominal.](image)

- **Third Party 1 (Spring '16)**
- **Third Party 2 (Aug '16)**
- **Third Party 3 (March '16)**
- **EIA (May '16)**
- **NYMEX (Jul '16)**

Data Source: Constellation

Prices as of COB 8/9/2016
Thank you.

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