

Oil, Gas and Power Prices Have Fallen and Can't Get Up...Implications for the Power Industry

Municipal Power & Utilities Assembly

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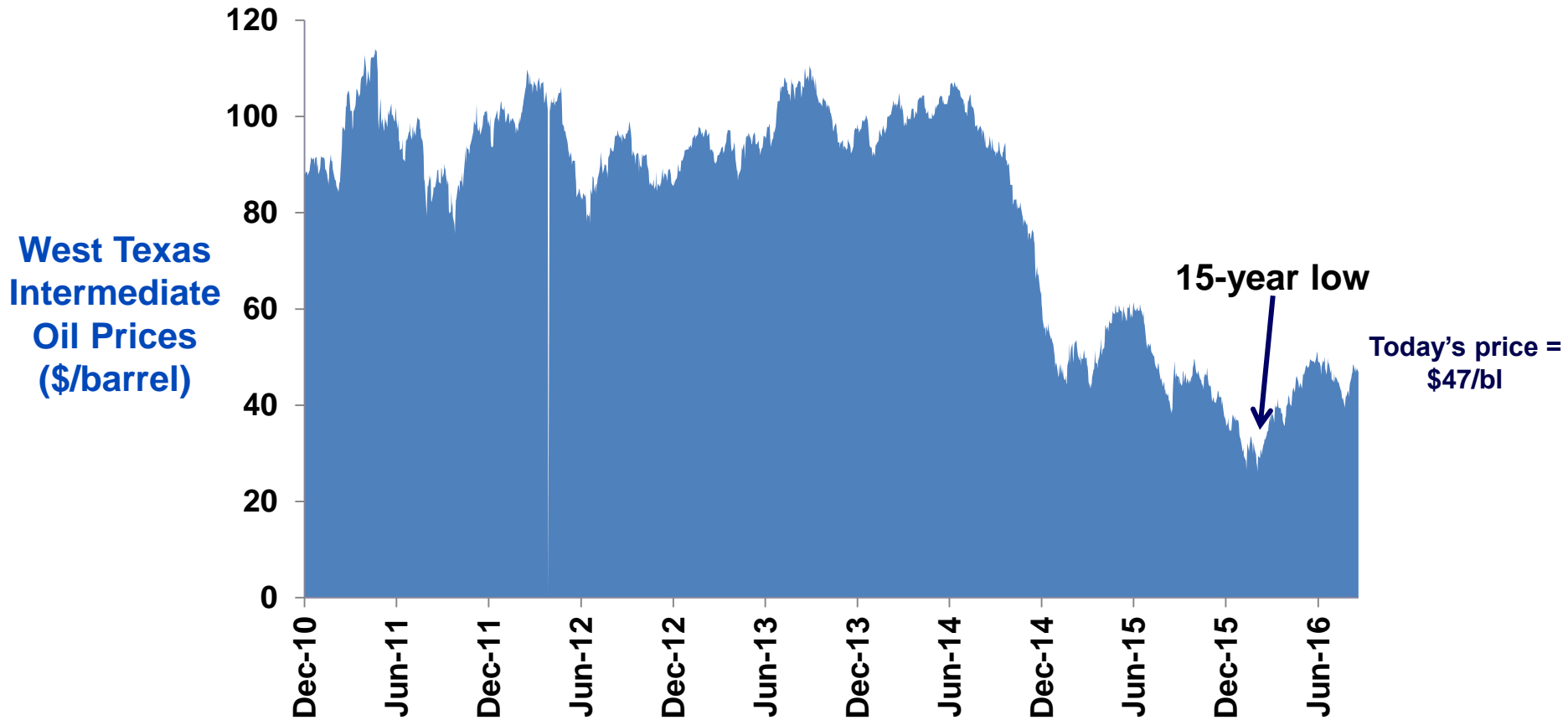
NextEra Energy Resources

September 15, 2016

In inflation-adjusted dollars, what year did the world experience peak oil prices?

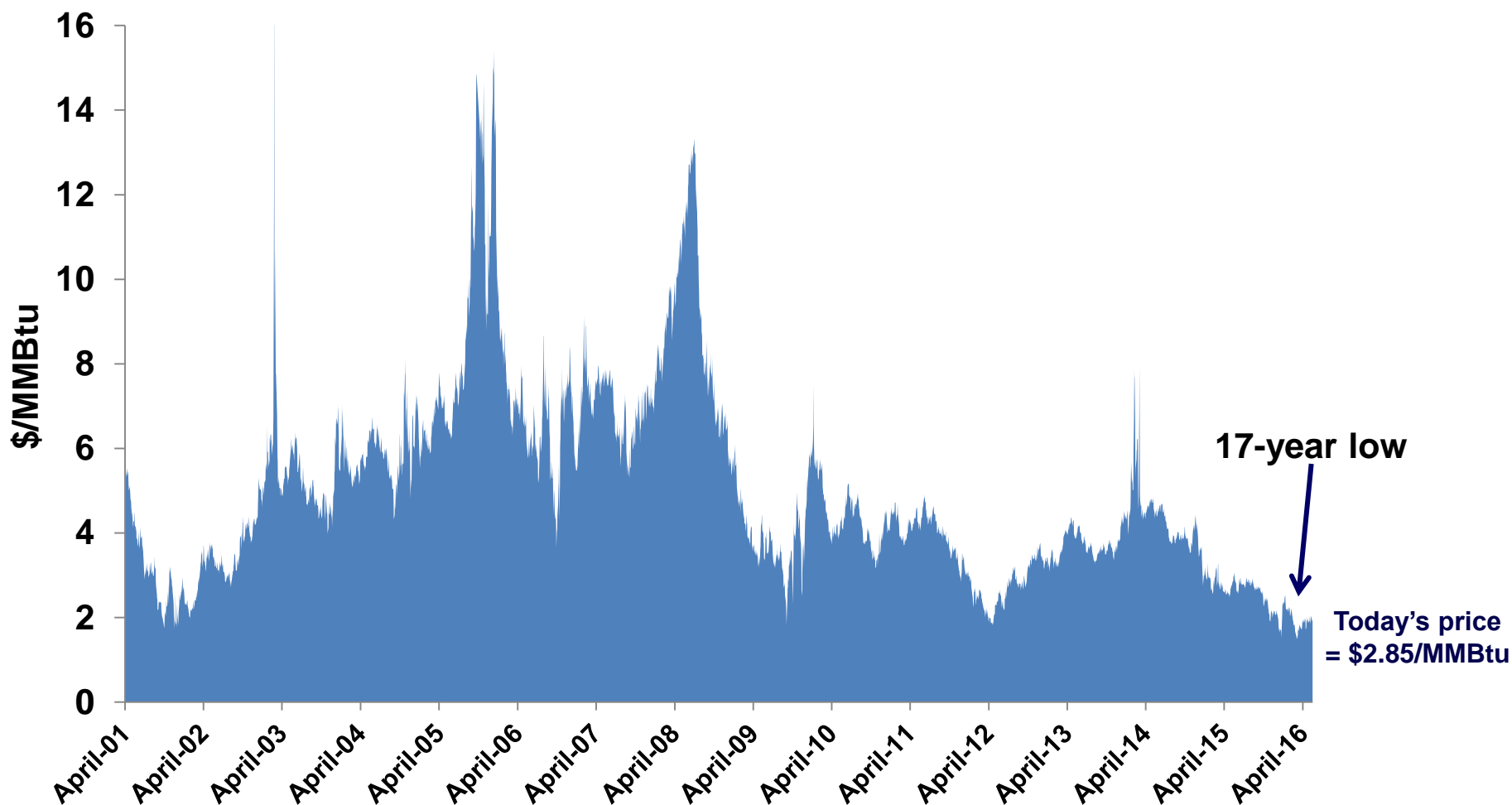
- 1) 2014
- 2) 2007
- 3) 1973
- 4) 1864

U.S. Crude Oil Prices



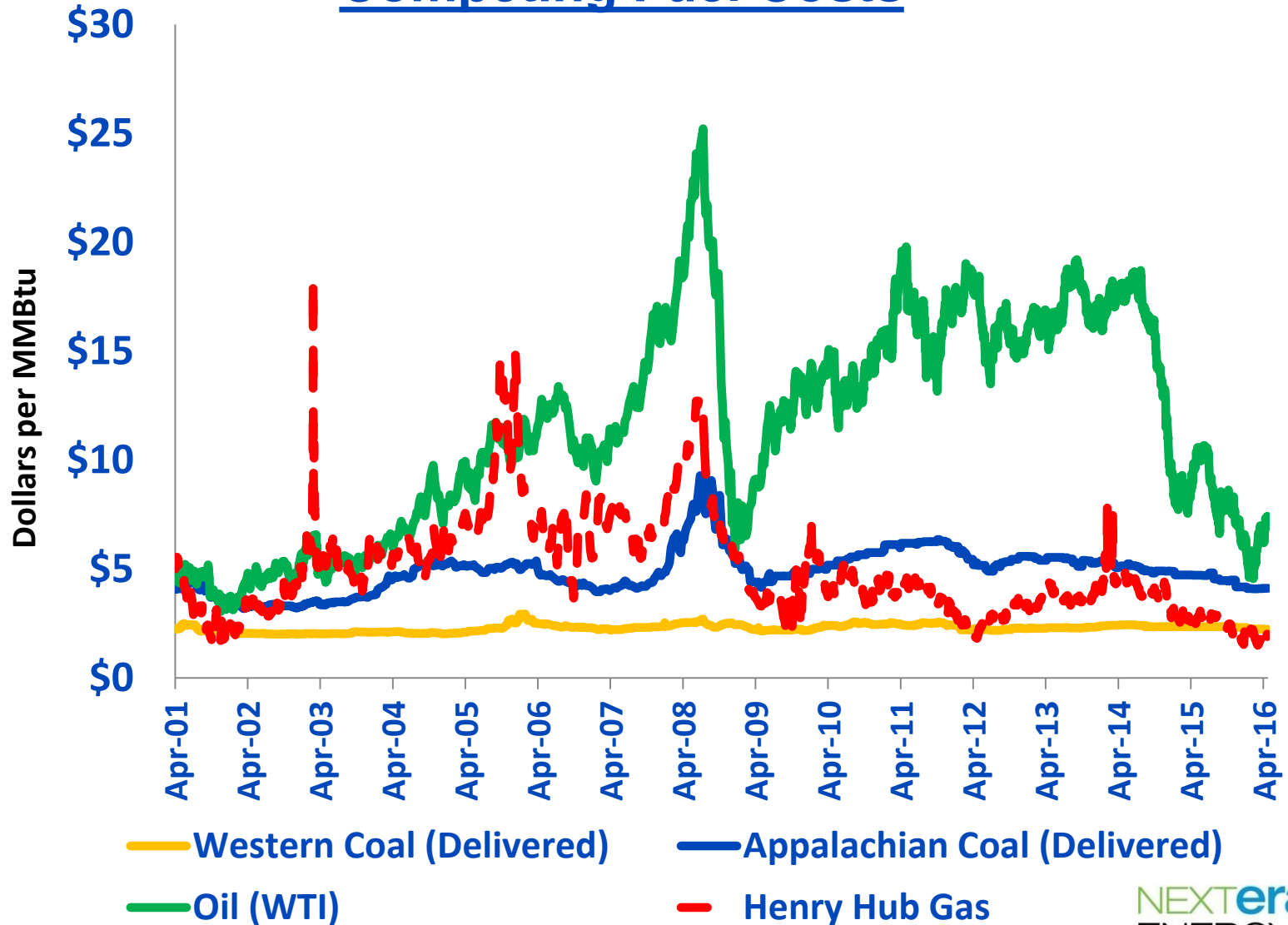
On the 10th year anniversary of the shale gas revolution, spot gas prices have hit 17-year lows earlier this year

Natural Gas Prices – Henry Hub



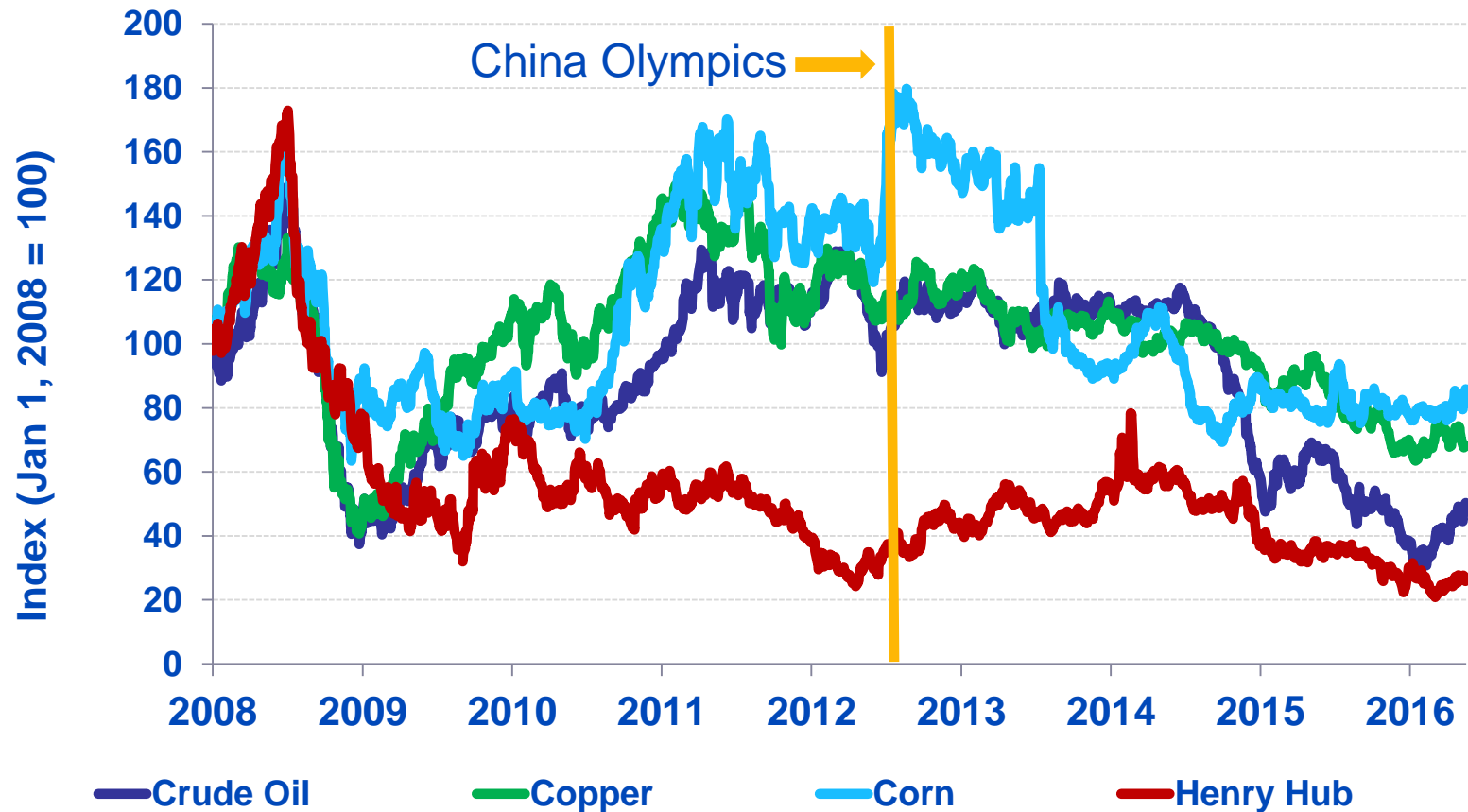
All fuel prices have been in decline...forcing them to compete aggressively with each other in the power sector

Competing Fuel Costs

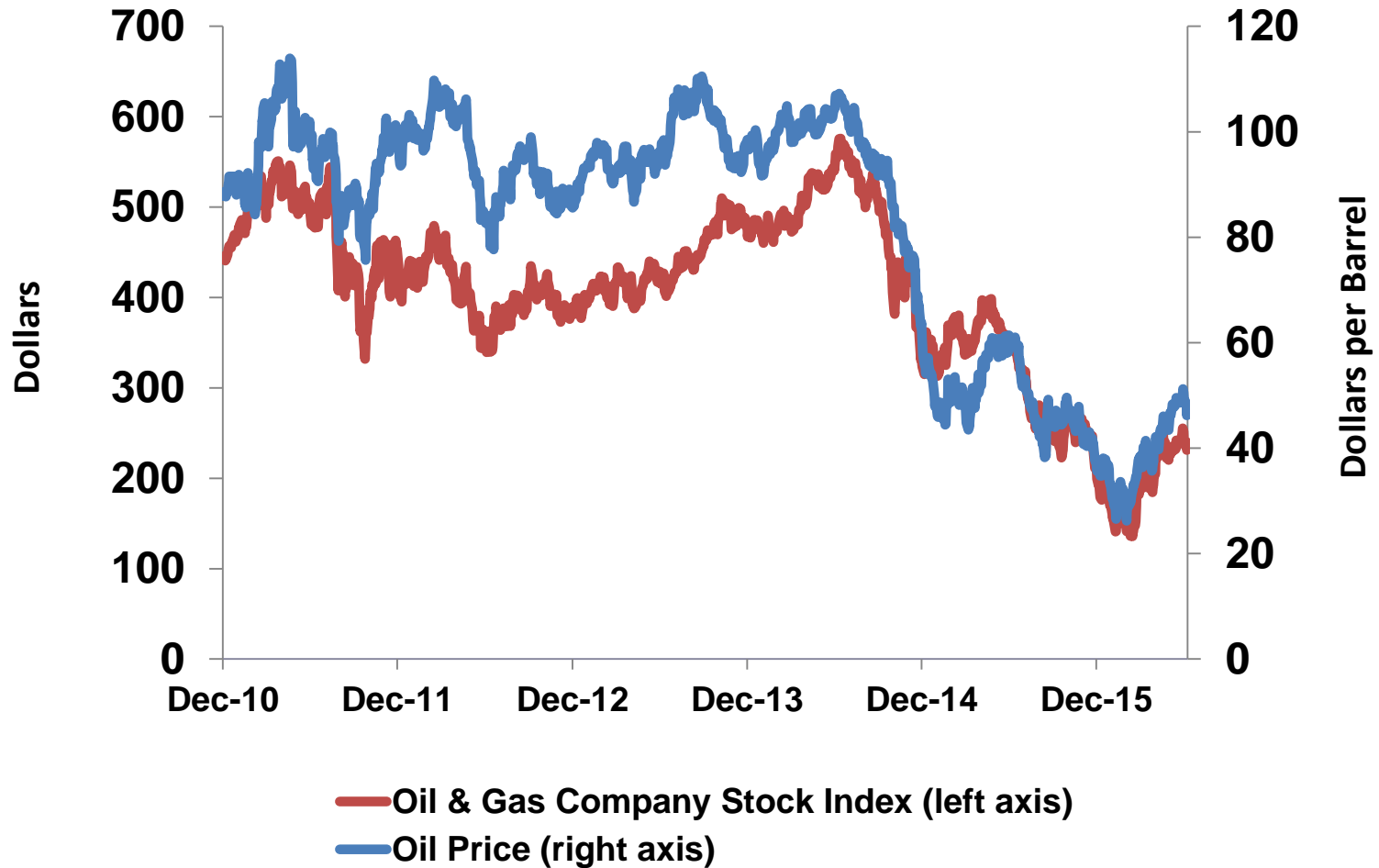


Not just energy: commodity prices worldwide have pulled back, partly owing to reduced demand growth from China

Global Commodity Prices

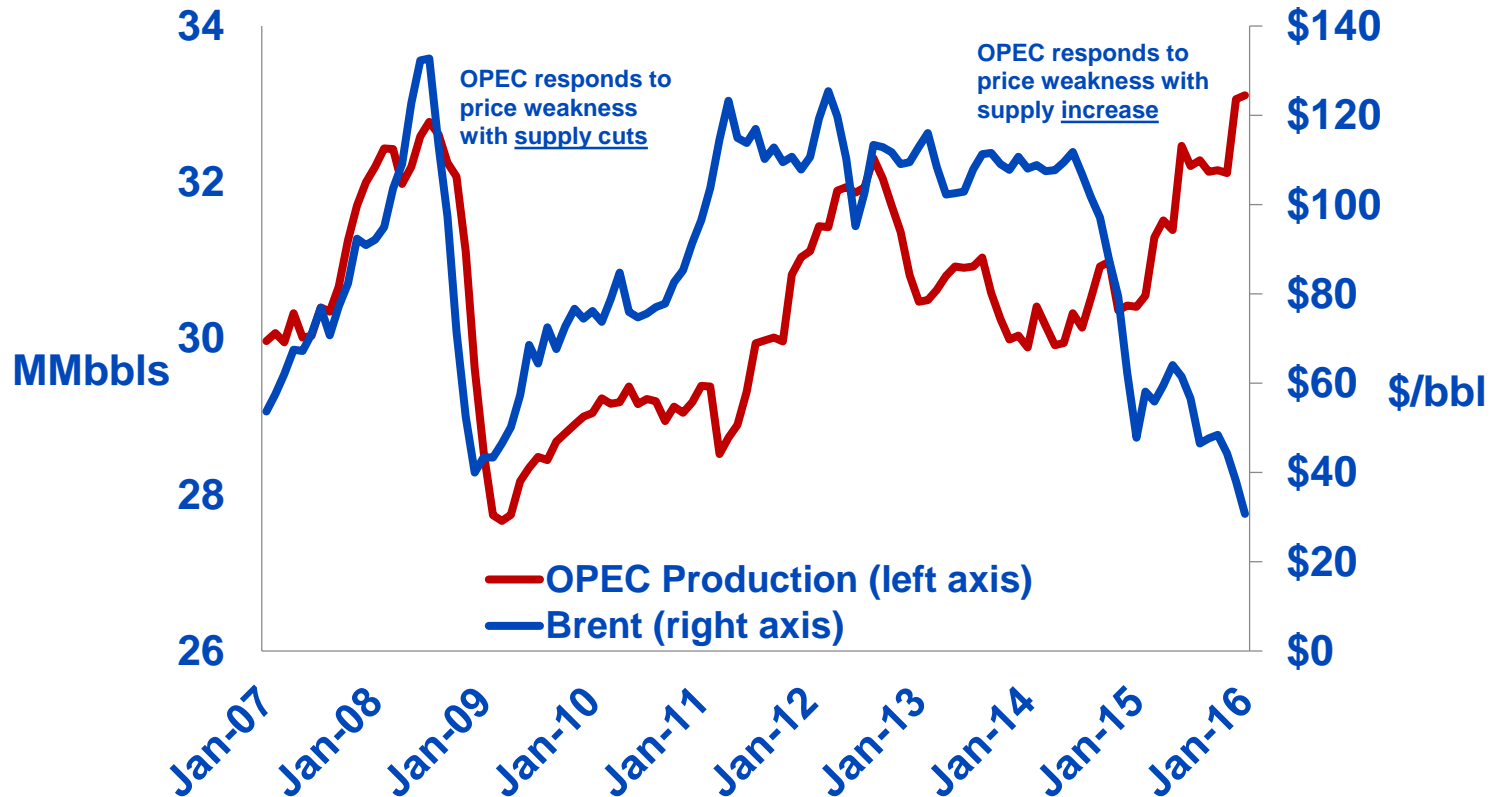


Oil Prices Drive Oil & Gas Company Stock Prices



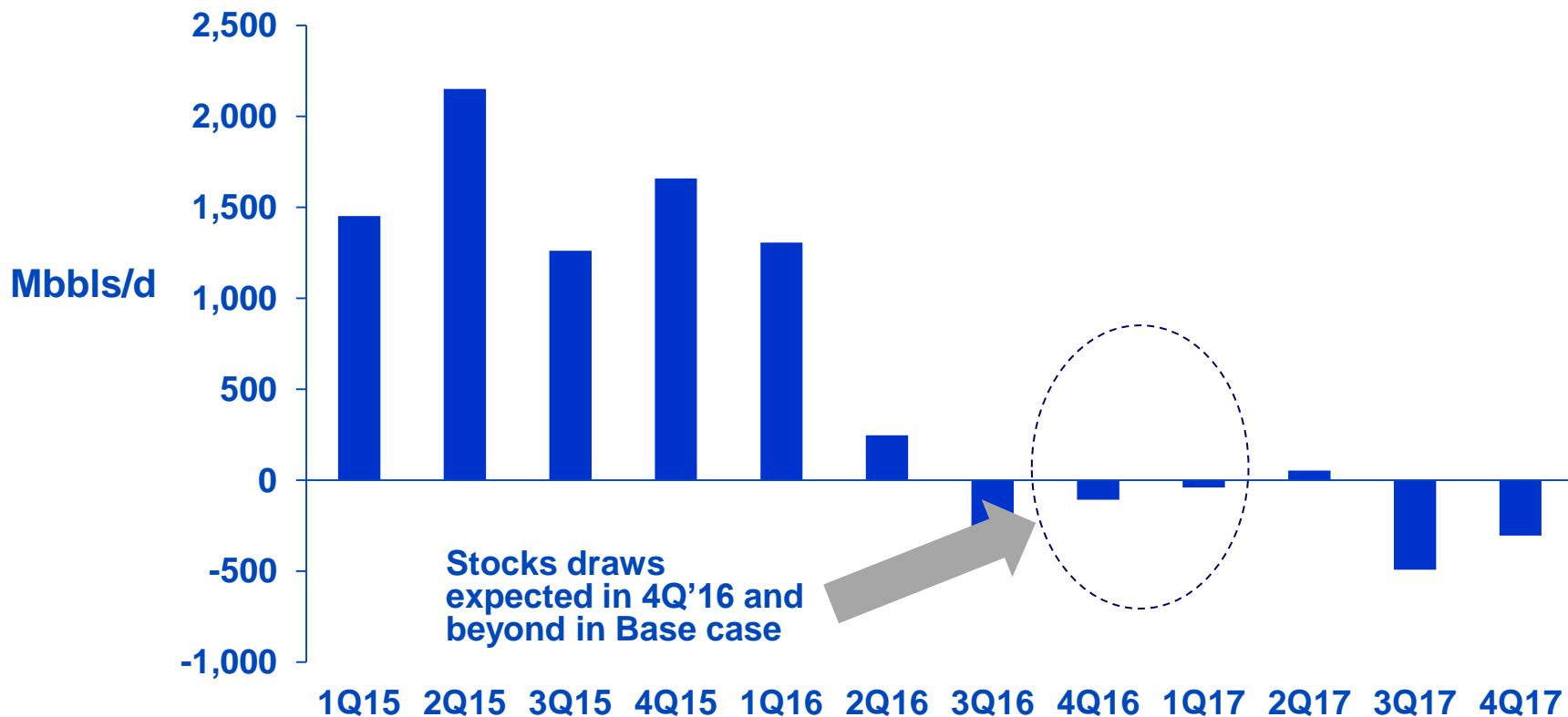
OPEC traditionally cut crude output in response to an oil price fall

OPEC Crude Output vs Brent Prices



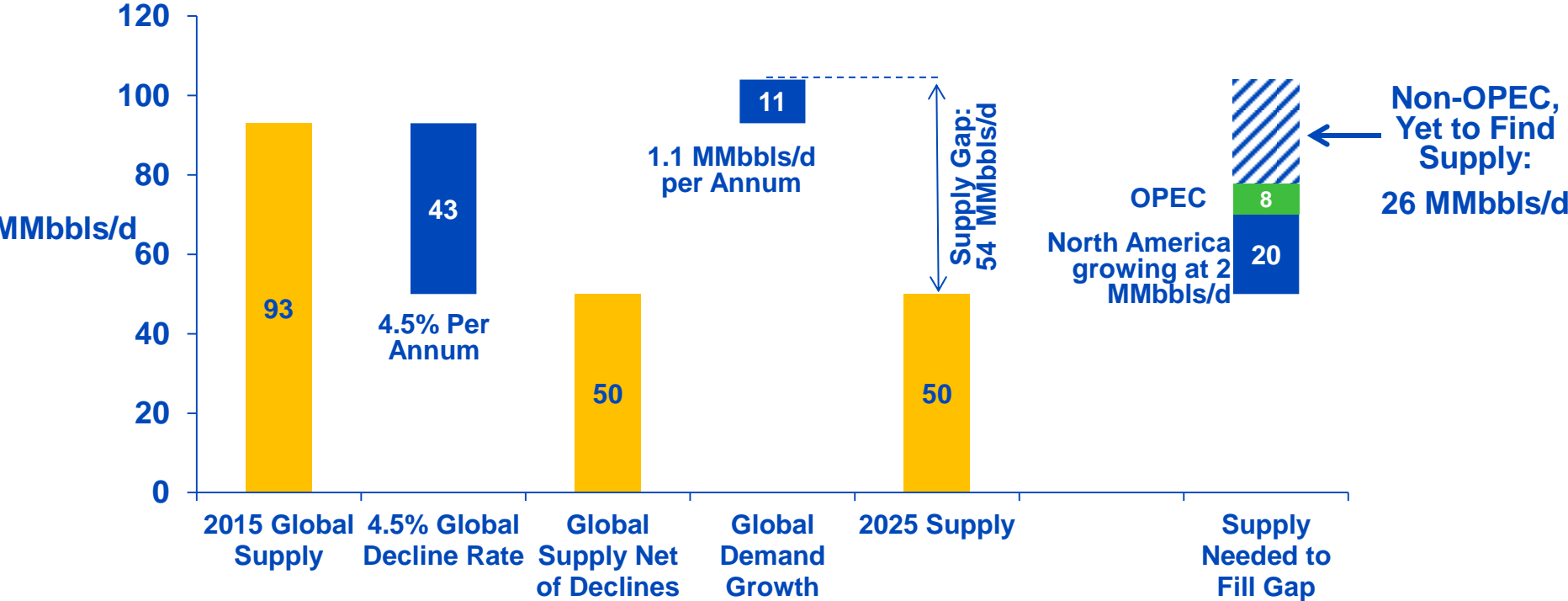
The coming flip from stock “builds” (bearish) to stock “draws” (bullish) should be price supportive

Implied Stock Build



Longer term, North American supply growth is not likely to be high enough to offset global supply decline rates and keep pace with global demand growth

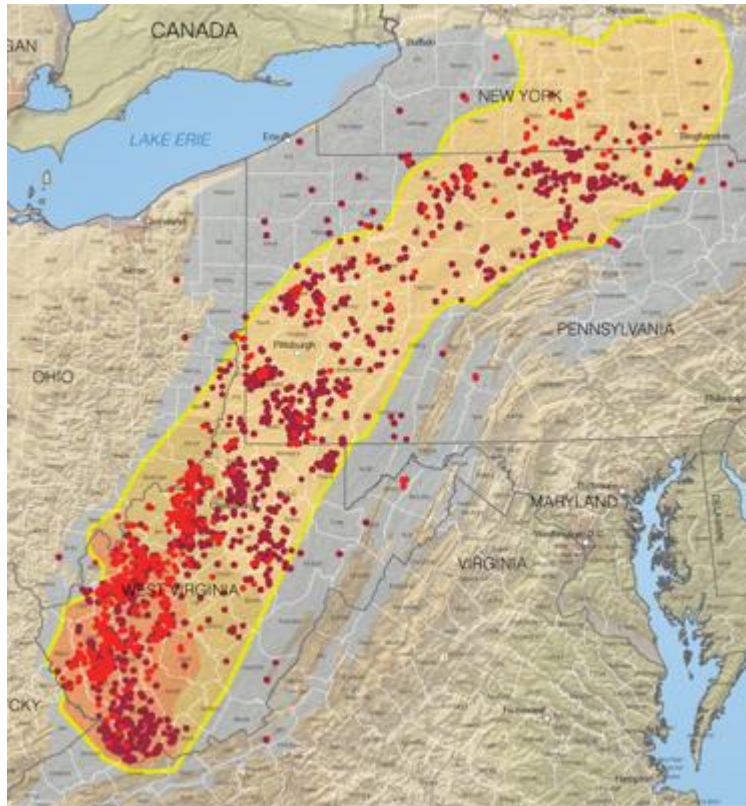
Projected Global Changes in Oil Supply and Demand
 (Cumulative 2015-2025)



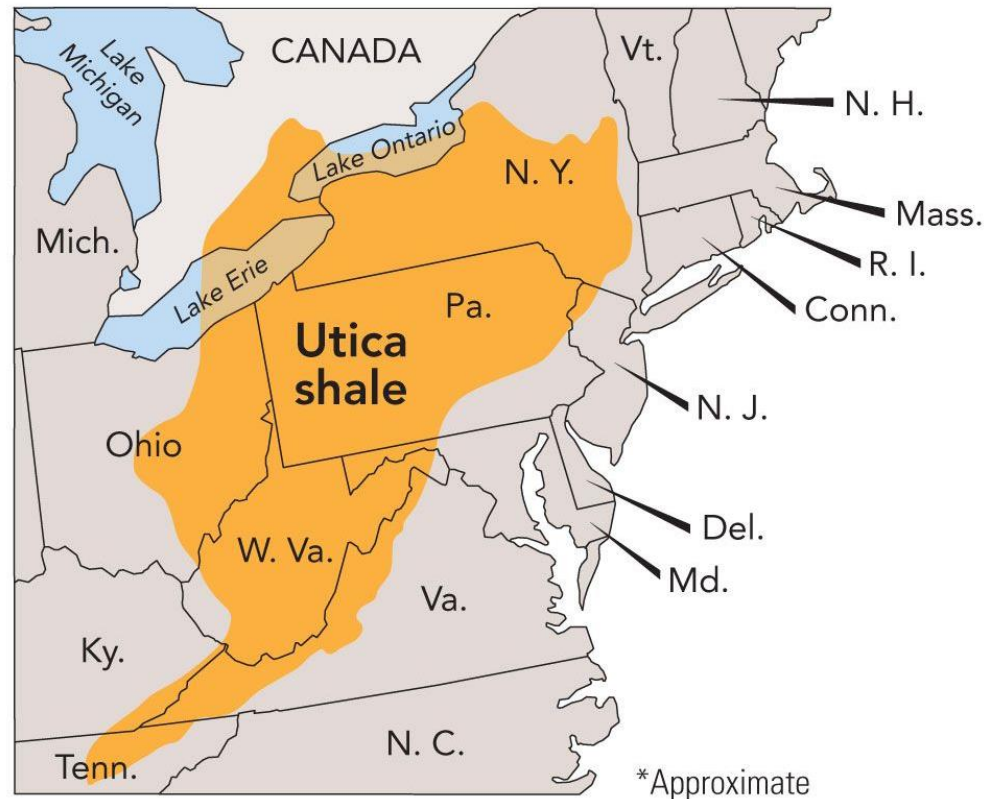
Fresh drilling outside of North America is needed and prices need to be \$66+/-/bbl to encourage sufficient level of drilling

Aerial Extend of Marcellus and Utica Plays

Marcellus Shale

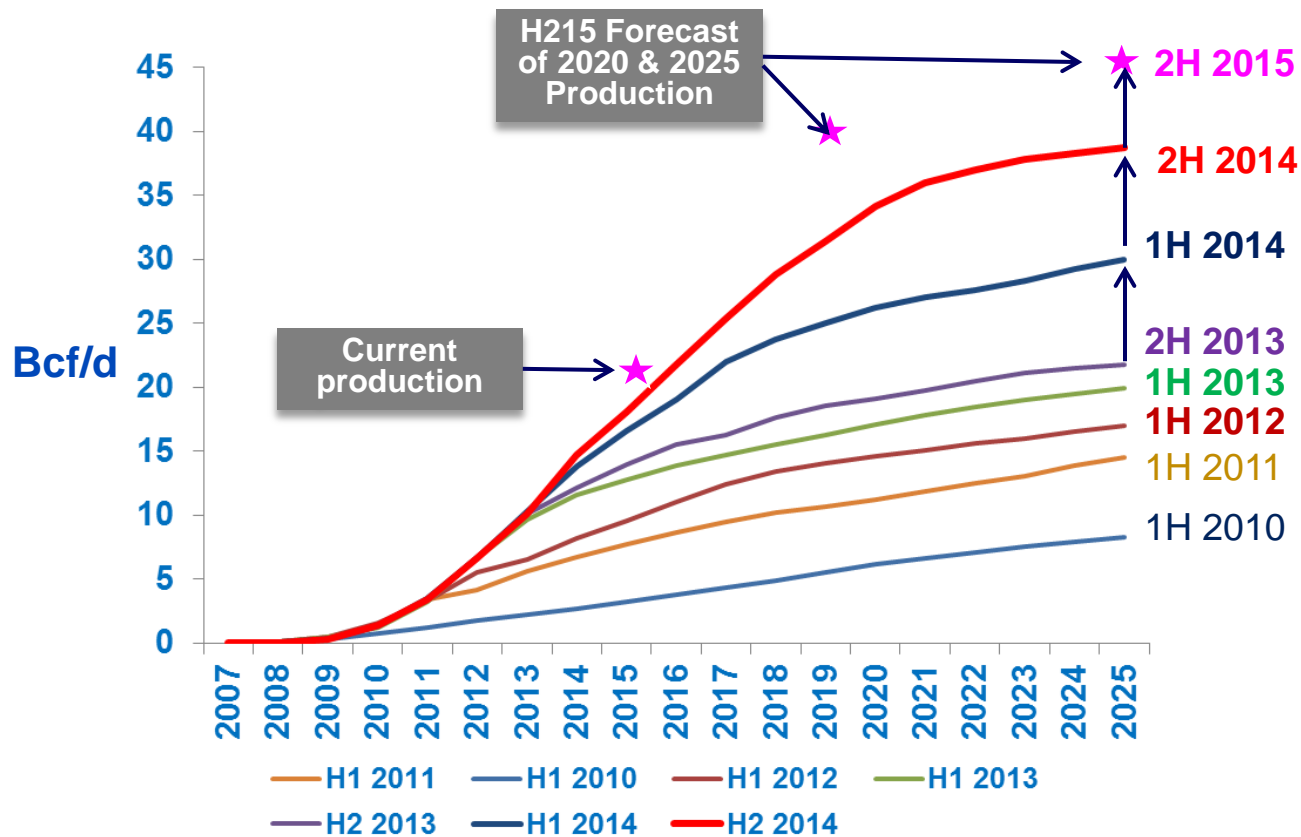


Utica Shale



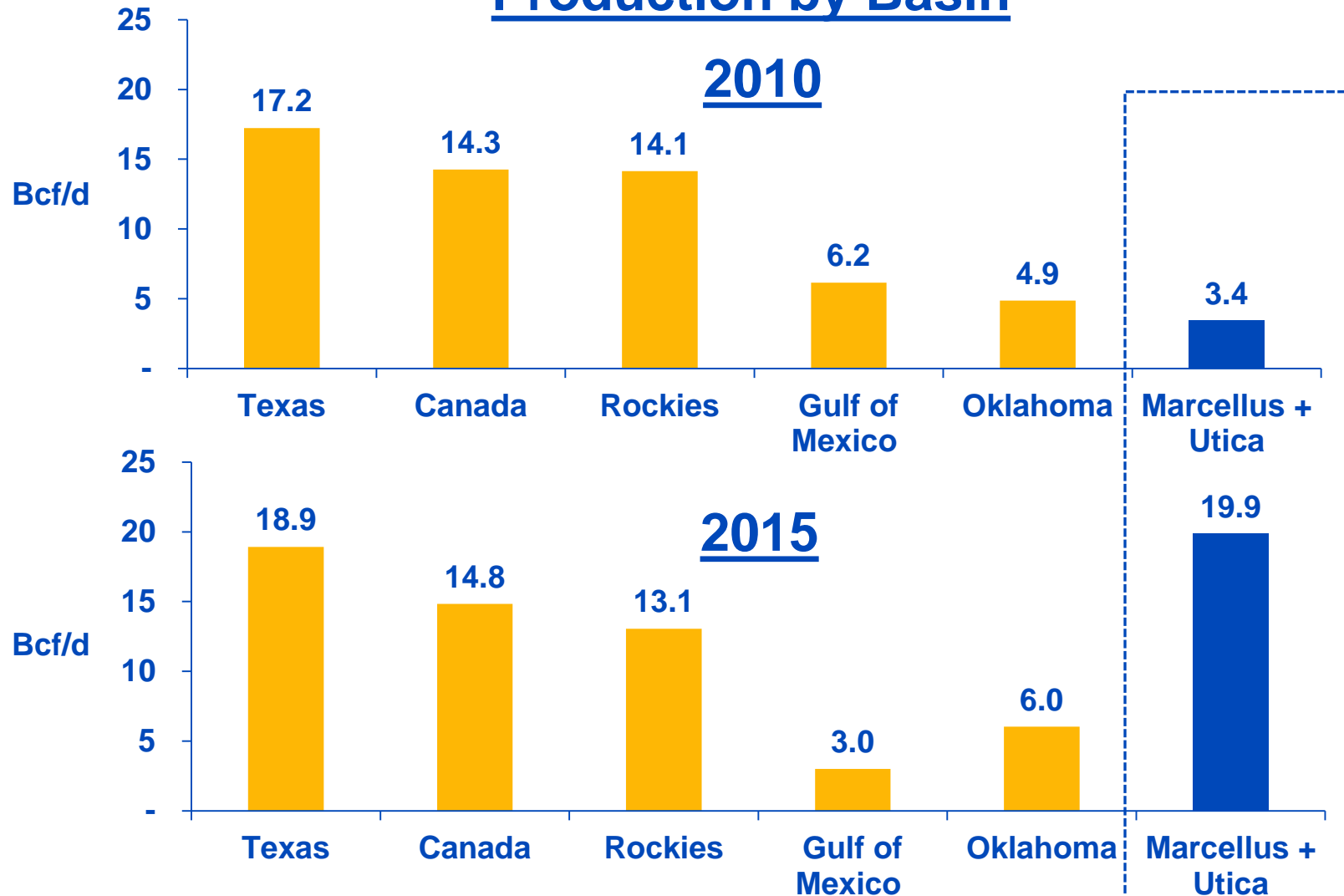
Forecasters have repeatedly raised their outlooks for the Northeast

Wood Mackenzie Marcellus & Utica Production Forecasts



The Marcellus/Utica have fundamentally altered the North American supply picture

Production by Basin



How Big Are These Wells?

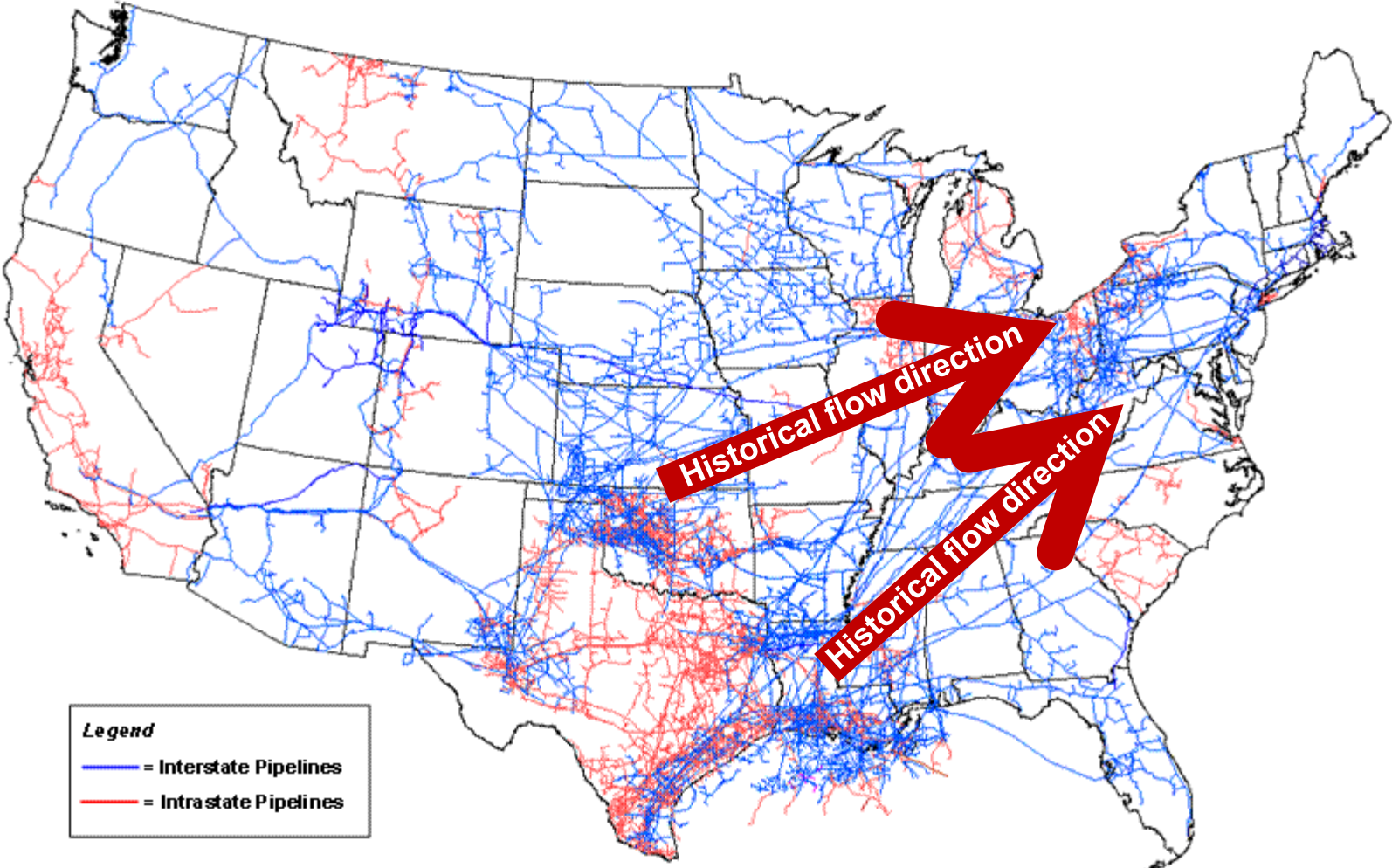
4 x Scotts Run = 200 MMcf/d

Riviera Beach, FL = 1,250 MW



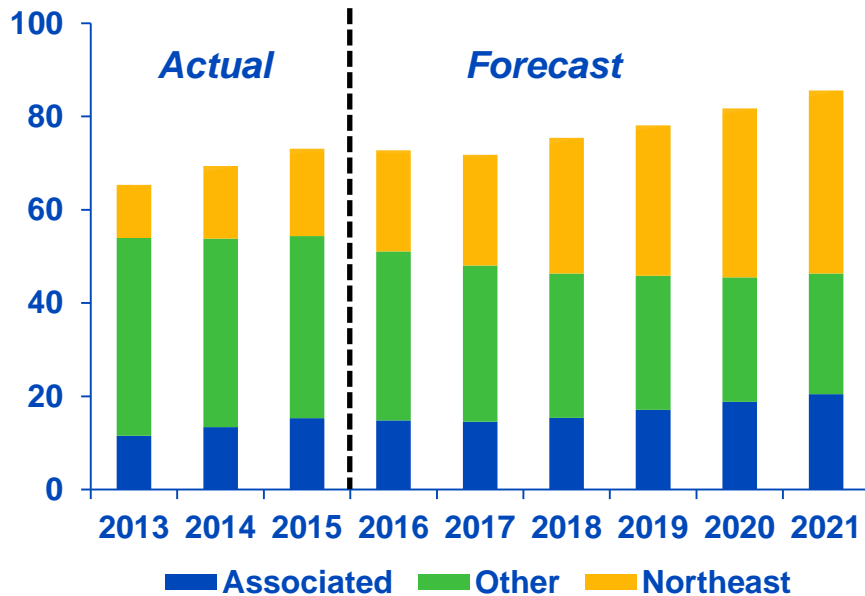
Supply growth from PA/OH will be paced by pipeline development

Major Natural Gas Pipelines

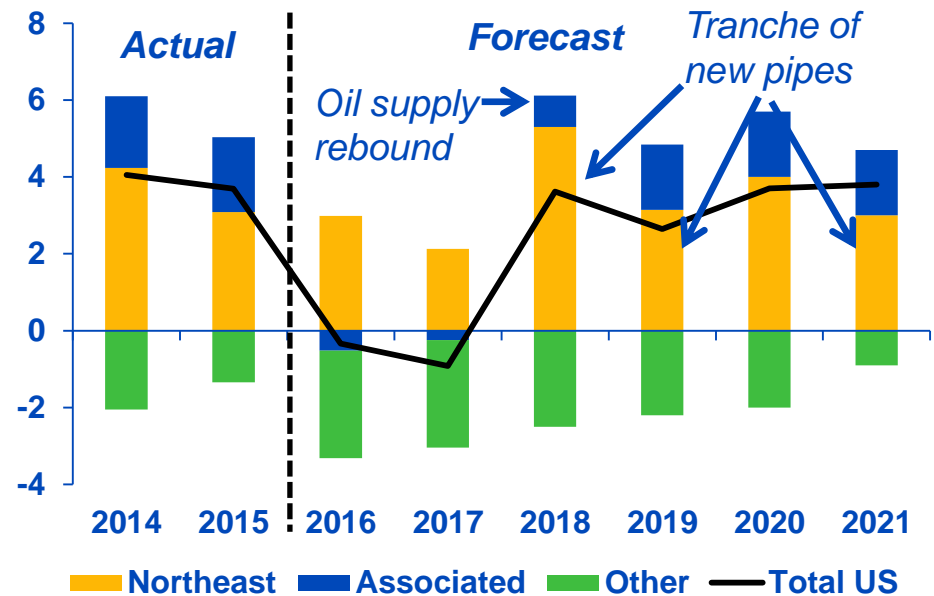


Associated gas from oil wells along with Northeast shales have been/will be responsible for all of the growth in U.S. gas supply

U.S. Supply (Bcf/d)



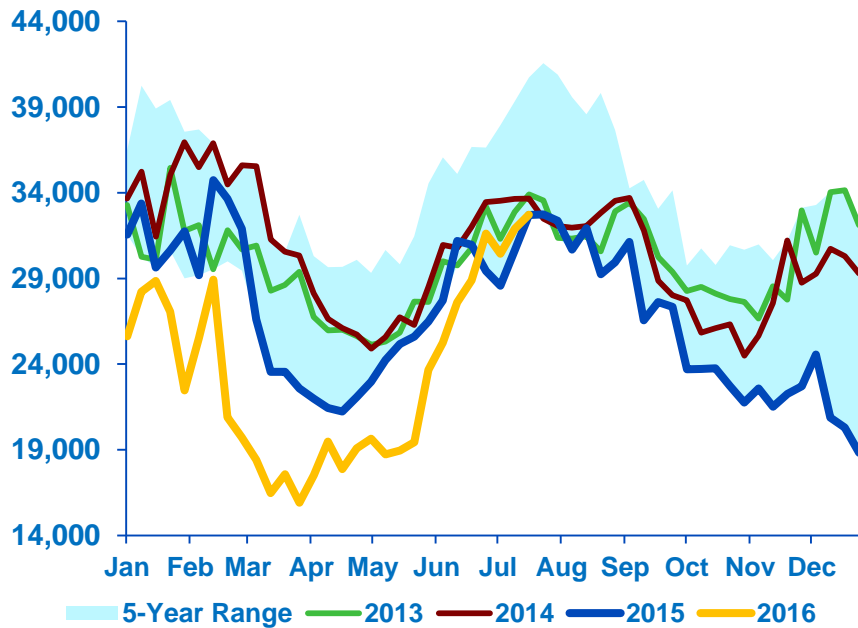
Y-o-Y Change in U.S. Production (Bcf/d)



Y-o-Y declines in associated gas and other basins cause U.S. production to decline in 2016 and 2017, followed by recovery in 2018+

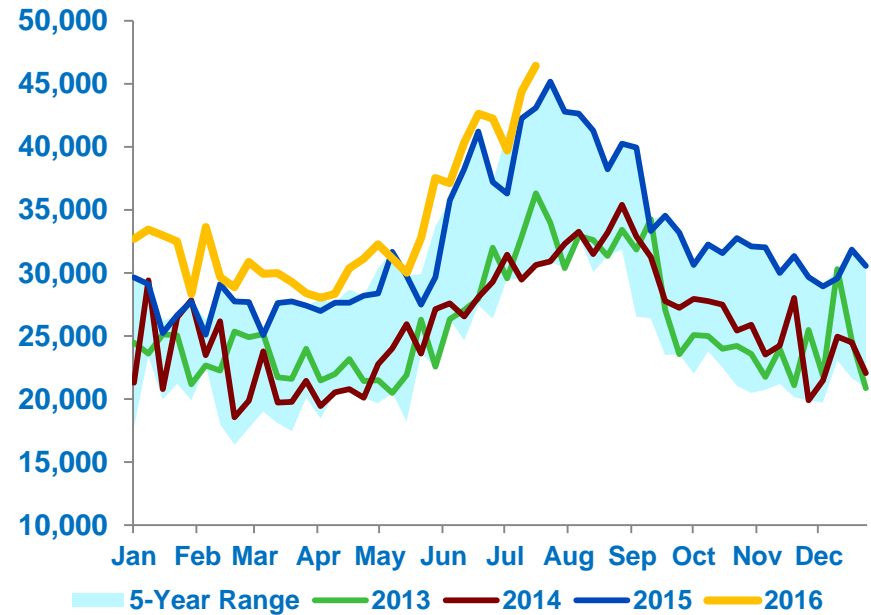
Weekly Coal-fired Generation

GWH



Weekly Gas-fired Generation

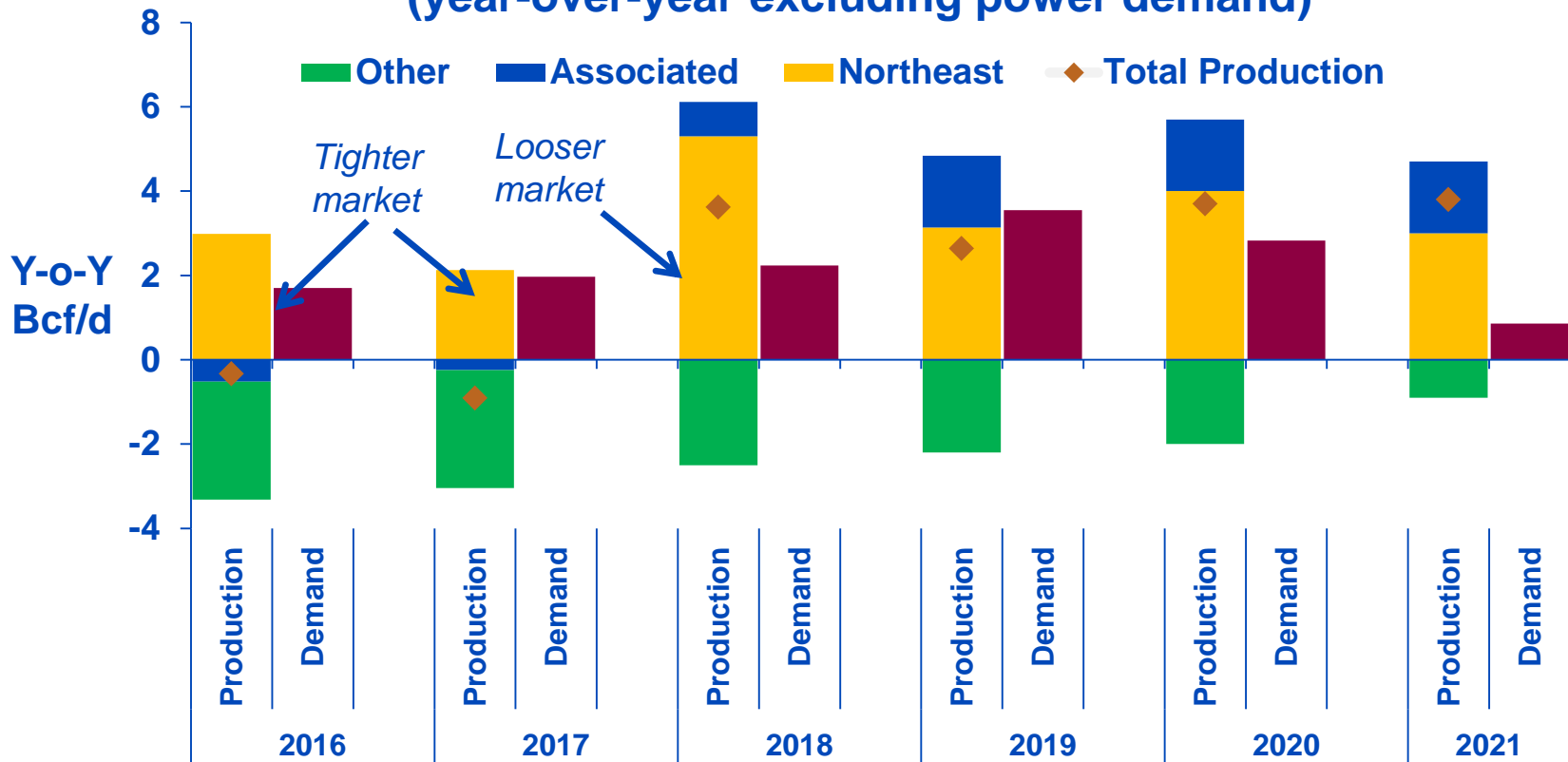
GWH



Gas generation hitting all time highs as coal generation hit all time lows

Tighter gas markets in 2017, but 2018 pipe additions suggest another leg down in price starting that year

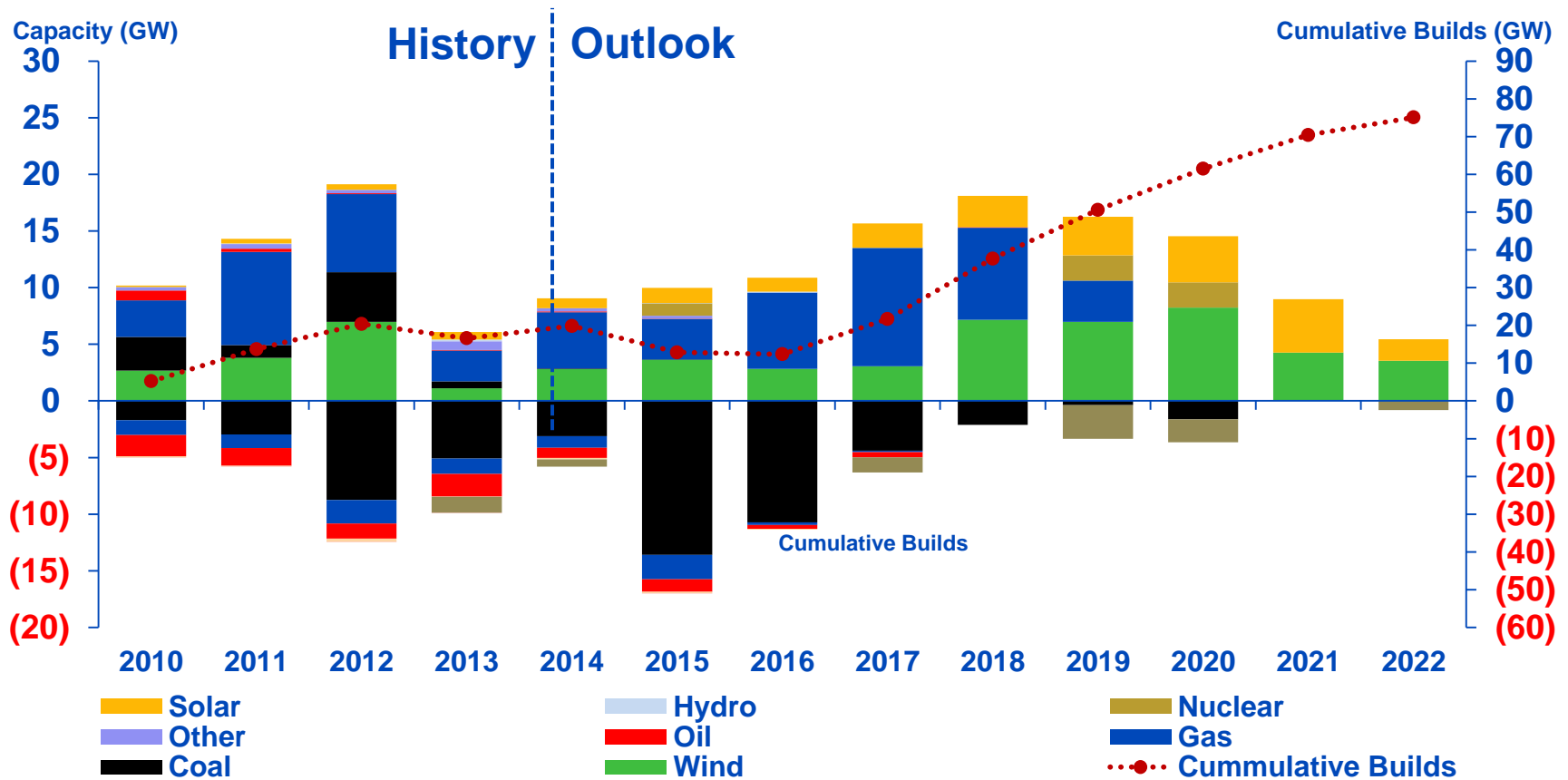
Forecast U.S. Natural Gas Supply and Demand Change (year-over-year excluding power demand)



Gas prices should rise modestly in 2017 and fall again in 2018 and beyond

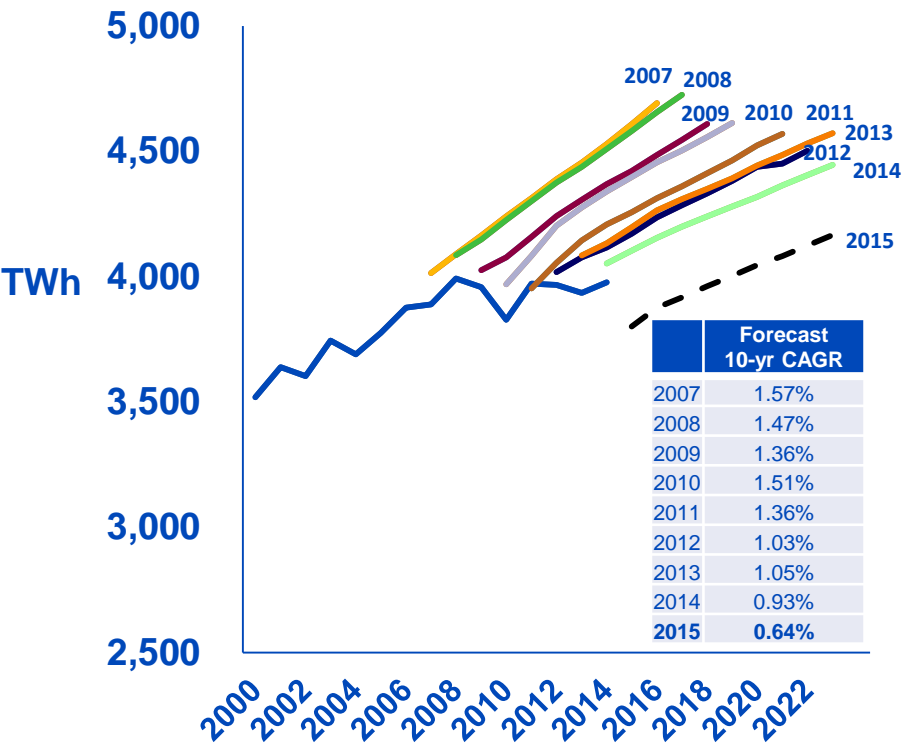
Significant coal and nuclear retirements

Eastern Interconnect Supply Evolution (2010-2022)

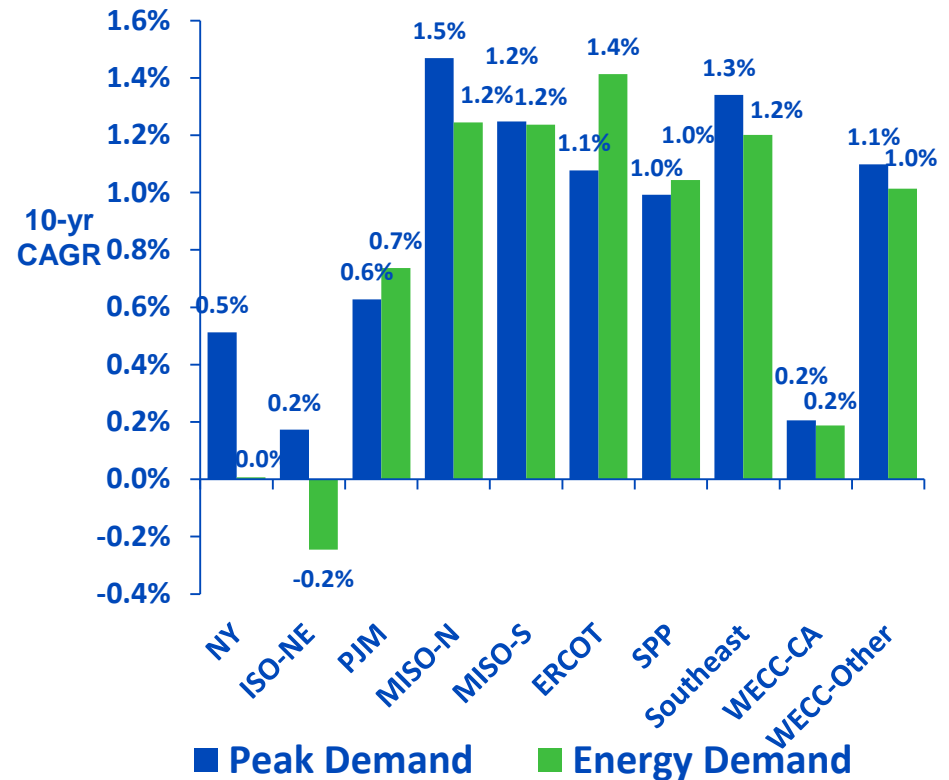


U.S. electricity demand has been virtually flat since 2008 with long-term forecasted growth rates falling annually

U.S. Demand Growth

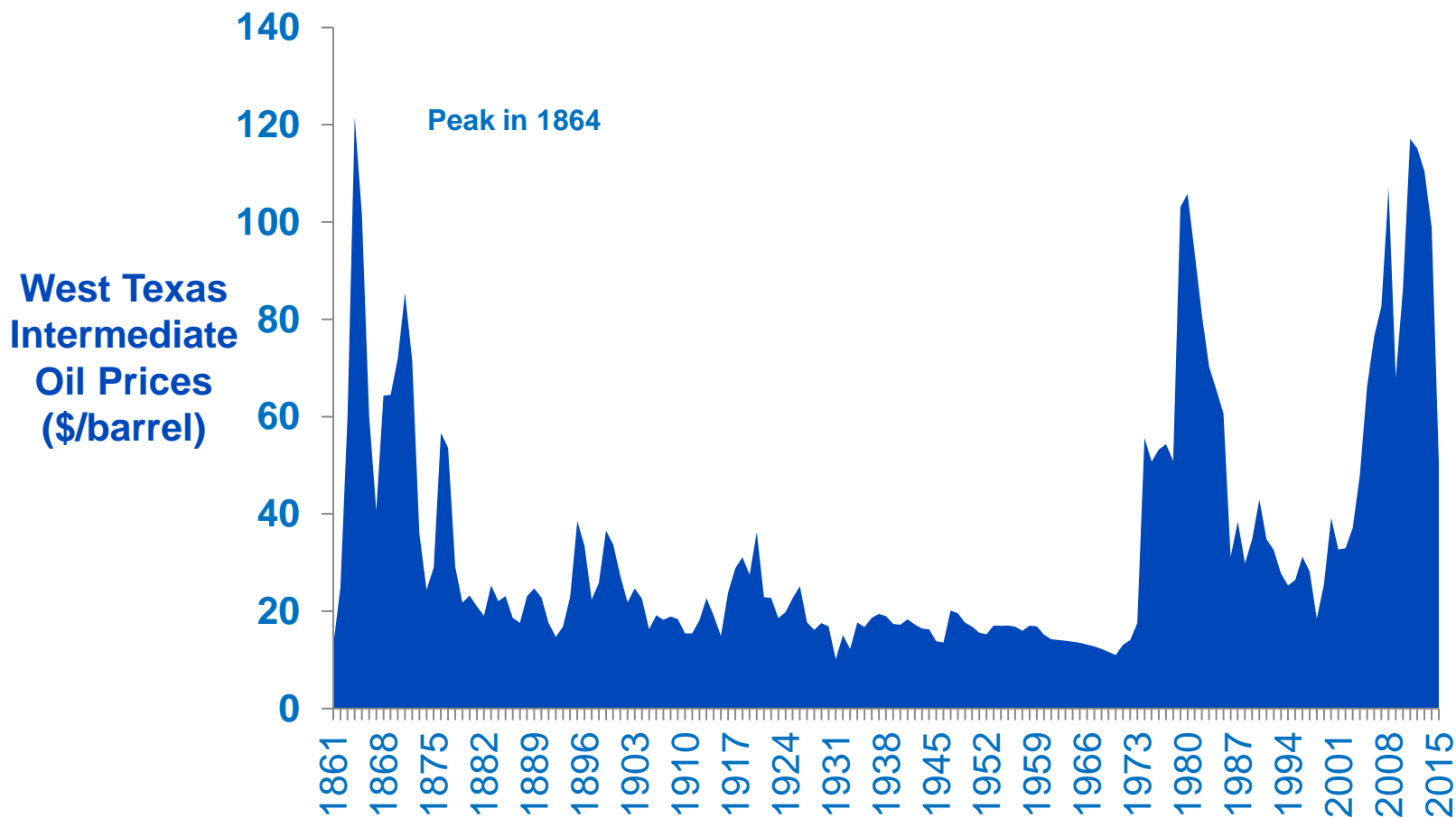


Regional Demand Growth



The all-time peak of crude prices was in 1864

Oil Prices



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