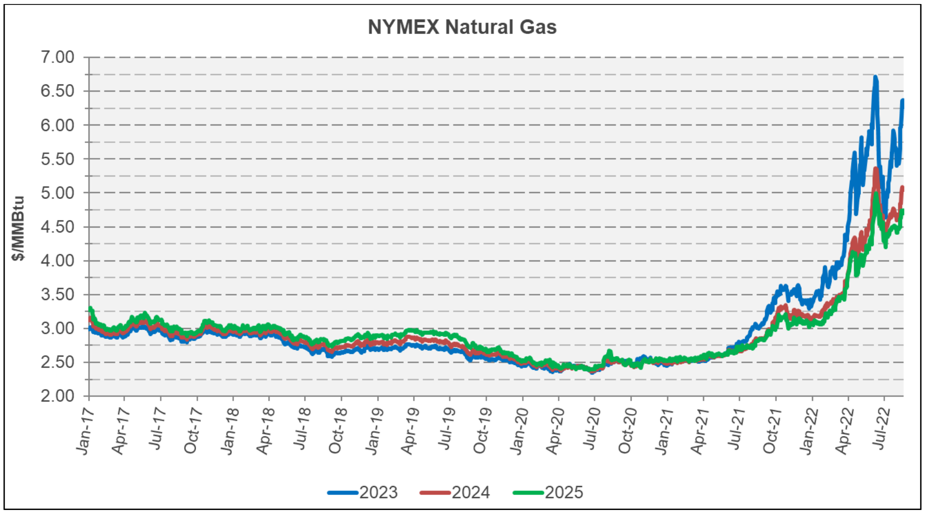
Natural Gas Market Executive Summary

Current Market:

Longer term outlooks show strong support for natural gas with the potential rebalancing in 2026-2027 on hopes of natural gas supply production increasing marginally and a return to more normal storage levels. However, with more volatility and uncertainty due to geo-political events, increased demand from the power sector and export demand to other countries, this expectation could quickly shift and lead to a longer recovery for domestic natural gas prices.

- Cold weather in early 2022 combined with record export levels pushed natural gas storage levels well below the 5-year average.
  - Storage levels 10.5% below last year at this time and 12.7% below the 5 year average
- Strong demand for power generation in the warmer months and the continuation of strong export demand at the same time we're trying to recover storage levels will keep the market tight this year.
- Prices for next winter (2022/23) are still elevated in anticipation of entering the season with low storage levels.
- Natural gas prices have found support since early 2021 on increasing exports and limited growth in supply.
- The storage deficit that lingered for the majority of 2021 has returned in 2022 adding to prices through next winter.
- Longer term prices are also seeing support as any rebalancing of the market may take several years.
- After pricing at a slight discount to the national benchmark for several years, regional prices for natural gas into the Chicago region are now practically flat as the market in the Chicago region has tightened.
- Gas prices for the Chicago region for future years is slightly higher due to expectations of increasing regional demand for natural gas to generate electricity as coal power plants are retired.
- Per the EIA, daily U.S. electric generation from natural gas hit a record high in mid-July at 6.37 million megawatt hours on July 21, 2022. Despite relatively high natural gas prices, demand for natural gas for electricity generation has been strong throughout July as a result of above-normal temperatures, reduced coal-fired electricity generation, and recent natural gas-fired capacity additions
- This summer, coal-fired power plants have not been used as much as in prior summers. Continued retirements of coal-fired generating plants, relatively high coal prices, and lower-than-average coal stocks at power plants have limited coal consumption. New capacity has increased the availability and use of natural gas-fired electricity. Over the past 10 years, developers have added about 62 gigawatts of combined-cycle gas turbine capacity.



Currently, Nicor supply rates year to date have averaged $9.19/DTh with August prices = $12.40 and North Shore Gas has averaged $8.18/DTh year to date and August is currently = $9.53/DTh

Recommendation:
Tradition Energy recommends securing a fully fixed price agreement with Constellation in the next 36-48 month range so as to insulate from further volatility and hedge against the material risk of prices moving higher. Our expectation is that in 2026/2027 we will begin to see the natural gas market rebalance based on the current production run rates compared to the forecasts in demand. This timeline would be sufficient to help recover from the current storage deficit we are in and procure lower prices at later date.

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