

# MARKET ALERT SUMMARY



## ENERGY PROCUREMENT SOLUTIONS

Summer 2021

### CBRE PERSPECTIVE

**BRACE FOR HIGHER PRICES:** Energy prices have rebounded from their pandemic lows and shot past 2019 levels. The trend has prices near or at 2017/2018 and reversing a 2 plus year overall decline. Those with expiring contracts will need to factor higher cost projections into budgets and expectations, for example **NYMEX natural gas 12-month strip is up 35% and power is up 25% to 60% in 12 months.**

- **Demand** – consumption has rebounded above 2018/2019 levels
- **Supply** – natural gas production over 5% behind 2019 highs
- **Renewables** – National REC price increase is 3X – state and corporate renewable mandates are increasing as projects have been delayed by pandemic related issues
- **Infrastructure** – generation and pipeline/equipment issues in TX and CA have other regions seeking regulatory increases or more control over grid resiliency
- Give us a call or visit our website [cbre.us/eps](http://cbre.us/eps) and get a free supply analysis

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### ELECTRICITY VALUE SUMMARY

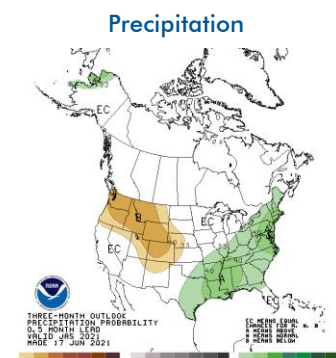
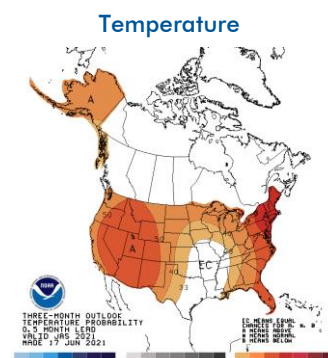
#### Summary of regional electricity price assessments and market perspective

- Historical Percentile, Historical Average and Weighted Average provides indicators of where current prices are in terms of value, expected, high or extreme price position
  - Historical Average (7 years) and Weighted Average (40%, 30%, 20%, 10%)

Region	Perspective	Price Position	Historical Percentile	Historical Average	Weighted Average	Risk / Reward Ratio
ISO - NE	Neutral	Above	60th	Above	Above	1 to 1
NY City	Neutral	Above	70th	Above	Above	1 to 1
PJM East	Neutral	Mixed	50th	Equal	Above	1.5 to 1
PJM West	Neutral	Above	70th	Above	Above	1 to 1
ERCOT	Bullish	Mixed	95th	Above	Below	? to 1
CA - ISO	Bullish	Above	80th	Above	Above	1 to 1

### WEATHER

**Summer - Bullish** – most of the country has a better chance of above normal temperatures for Summer. The projected heat and lack of precipitation in the West is a significant risk as hydroelectricity is a major generation source. The current drought has prices up over 50% from last year.





### ELECTRICITY

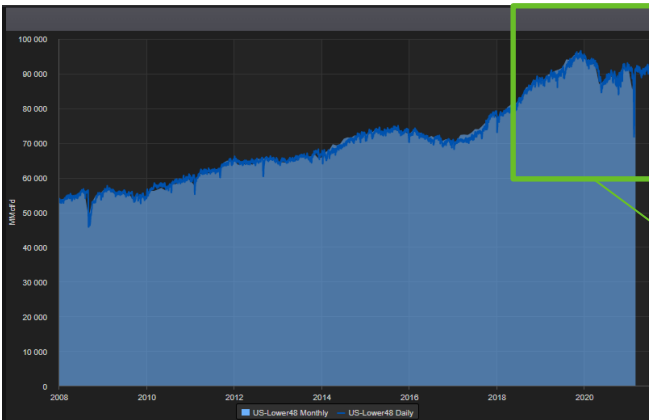


Manufacturing Demand

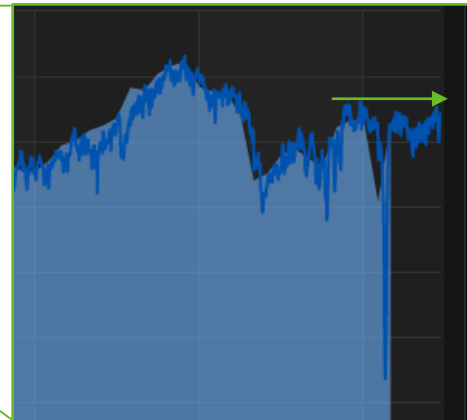
#### Power Price Factors

Demand is out pacing supply

- **Demand** – Manufacturing demand above pre-COVID levels, residential demand remained strong and commercial use is returning (ex.1)
- **Supply** – Natural gas is the largest fuel source for generation and is the chief swing fuel for usage fluctuations. Natural gas production has plateaued below 2019 levels and hasn't kept up with demand.
- **Weather** – Above normal temperatures in large consuming regions is supporting higher usage



Natural Gas Production



Expanded Recent Natural Gas Production

### REGION SUMMARY

Forward 12-month supply commodity costs have jumped since this time last year.

Region	12 month % Increase	Commentary
ISO - NE	60%	Generation fuel costs and source mix combined with demand drive up prices from last year. In addition, NE saw a bigger drop last year than other regions.
NY City	58%	Generation fuel costs and source mix combined with demand drive up prices from last year. In addition, NY saw a bigger drop last year than other regions.
PJM East	26%	Prices are higher due to increases in fuel cost and higher demand
PJM West	26%	Prices are higher due to increases in fuel cost and higher demand
ERCOT	22%	ERCOT transmission and generation concerns require attention and price spikes are likely. Even with higher prices fixed price is recommended.
CA - ISO	55%	Generation concerns due to the drought have prices elevated and reversing the trend with take much milder temperatures and some rain.



### CBRE PERSPECTIVE

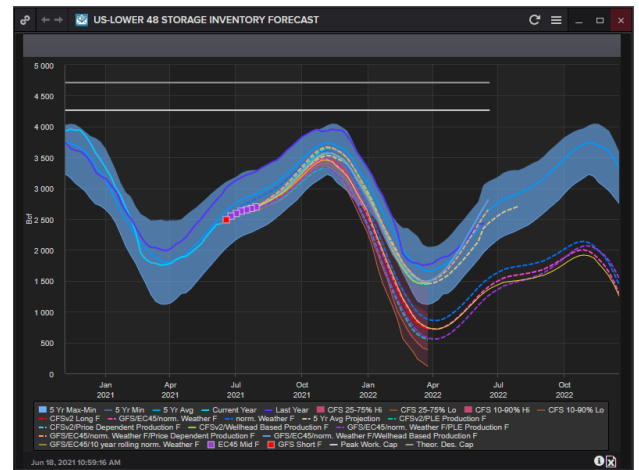
#### Natural Gas

New contracts will be higher, and it will be more difficult to find savings compared to default supply. Natural gas prices have trended back to 2017/2018 levels, with the 12-month strip up 35% from a year ago. The increase in demand has out paced the return of production.

- **Demand** – all sectors (residential, commercial, industrial and power gen) are up 5.8% from last year and about the same as 2019
- **Supply** – production is hovering near 90 Bcf with 2019 highs over 95 Bcf – additional 5 Bcf would help reverse the trend and get prices below \$3.00
- **Storage** – National storage is behind last year and the 5-year average
- Give us a call or visit our website [cbre.us/eps](http://cbre.us/eps) and get a free supply analysis



NYMEX 12-month strip up 35% from last Spring



Storage levels below 5-year average and most projections are at or below 5-year average at end of season

### VALUE SUMMARY

#### Natural Gas is ABOVE Value Parameters

- Based on historical percentiles, averages and risk/reward ratio, natural gas pricing is elevated. It will be difficult to beat contracts from 2020 and utilities with programmed hedging policies.
  - 12 month rolling average affected by pandemic lows
  - There is an equal chance of prices increasing by 20% as decreasing by 20%

Value Parameters	
Current	\$3.20
Average	\$3.14 ⊗
12M Roll Avg	\$2.54 ⊗
Wgt LR Avg	\$2.56 ⊗
Percentile	65% ⊗

