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2016 Energy Market Outlook

Natural Gas

November, 2016.

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Commodities Management Group



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2015 – A Year of Records in the Energy Market

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

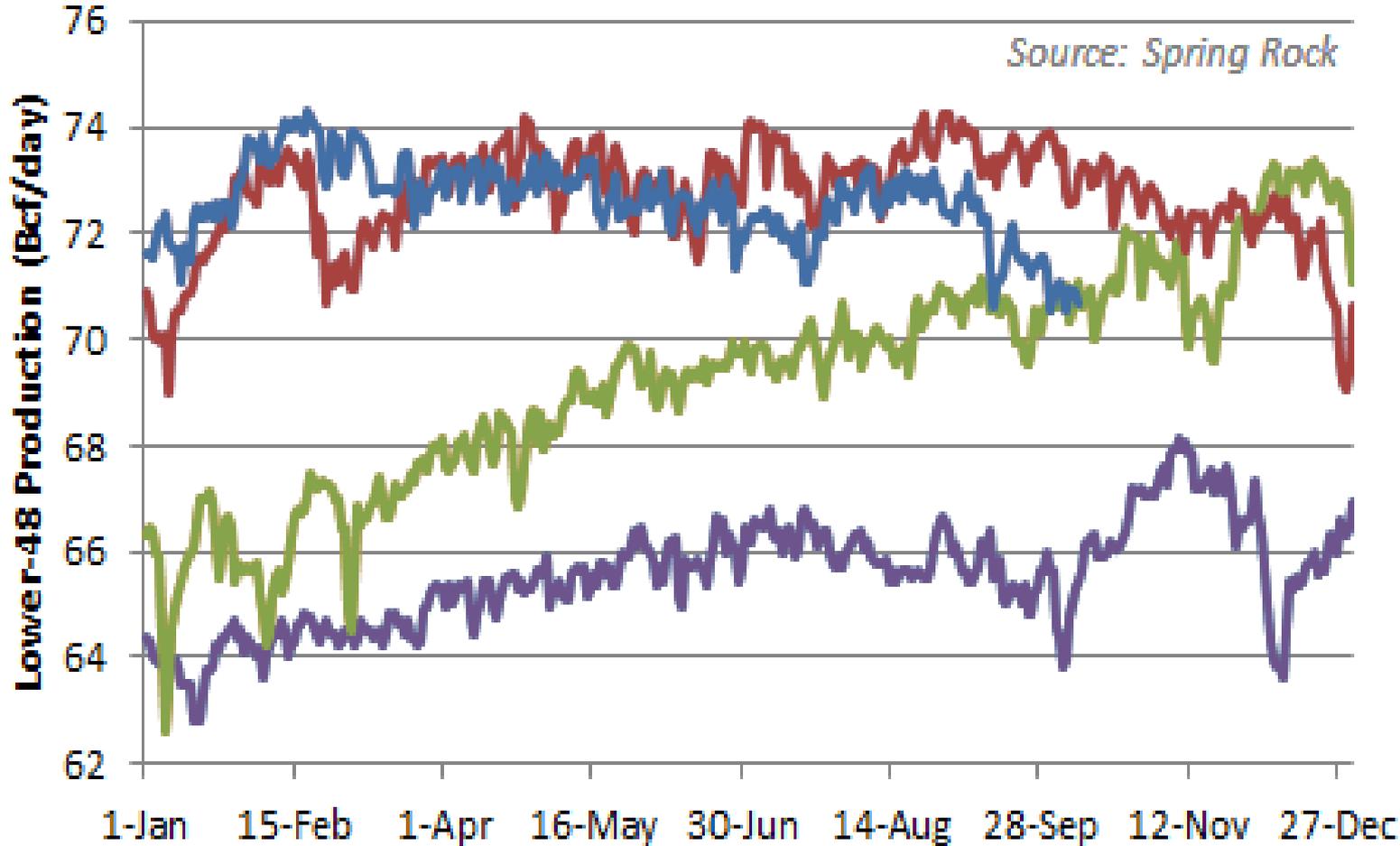


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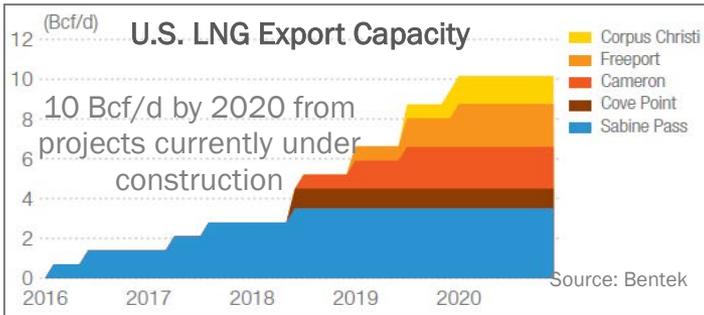
Unspectacular Output Continues

Natural Gas Production 2013 2014 2015 2016

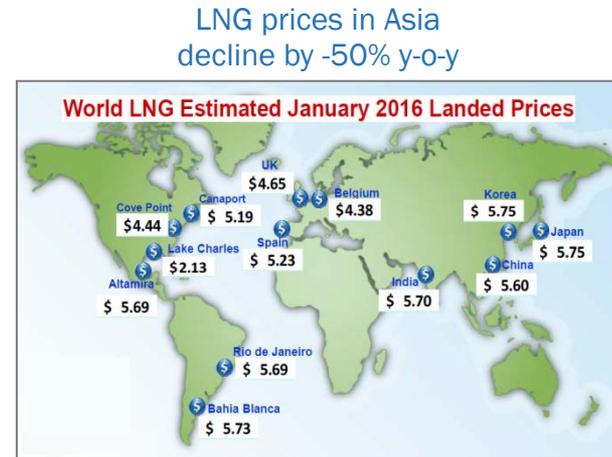
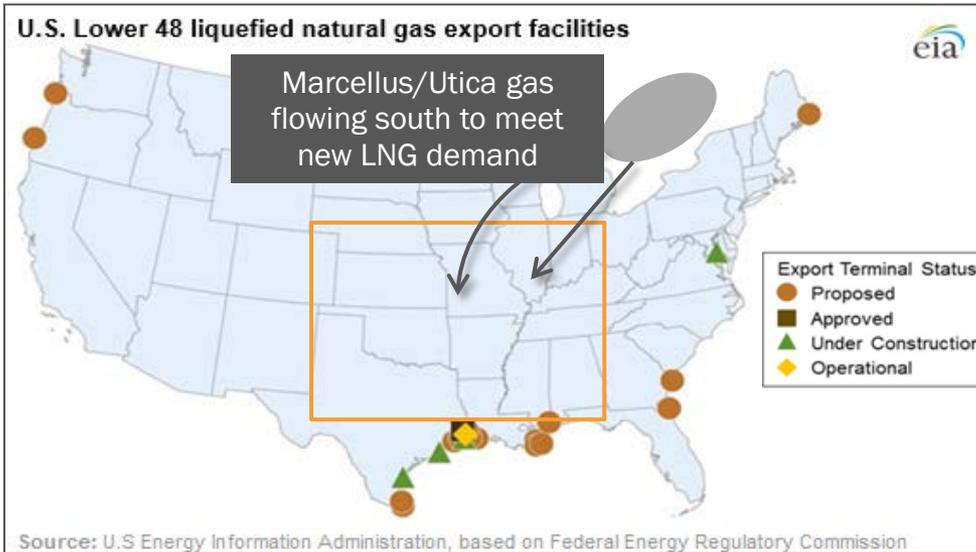


Data Source: Spring Rock Baker Hughes

Demand -- First U.S. LNG Export Cargos Leave Sabine Pass



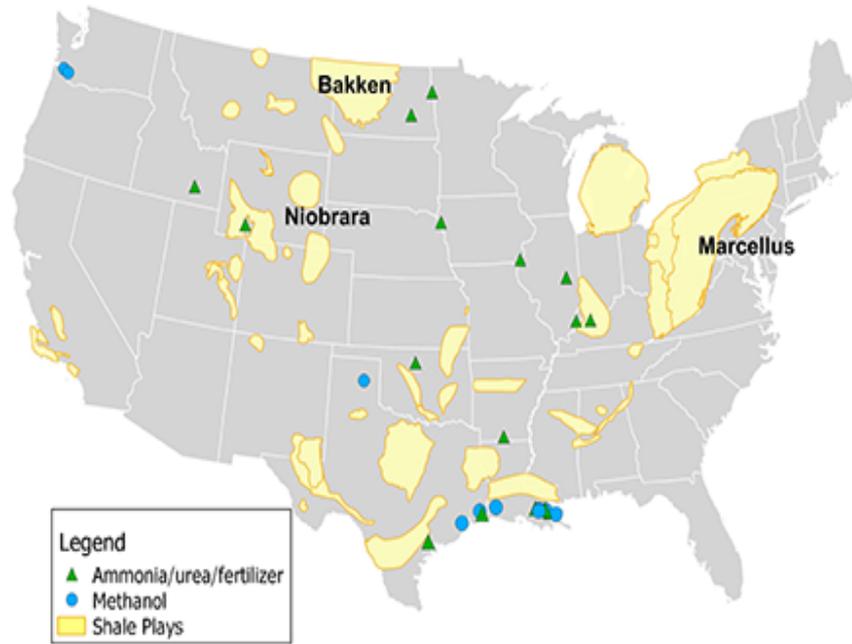
- The first cargo left Sabine Pass on February 24th bound for Brazil.
- Sabine Pass has its first 2 of 6 LNG trains operational at 0.55 Bcf/d.
- The collapse in LNG prices along with oil since Nov '14 has likely halted any final decisions on additional projects until prices recover. LNG was trading for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



Source: Constellation, FERC, Bentek, EIA

Demand -- Industrial Gas Demand on the Rise

Major proposed methanol and ammonia-based fertilizer plants, 2015-18

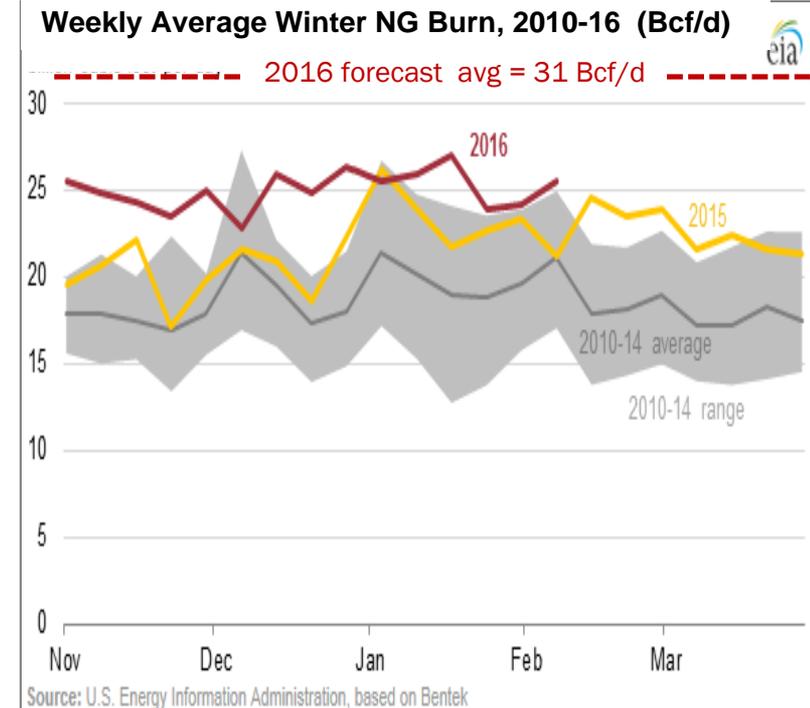
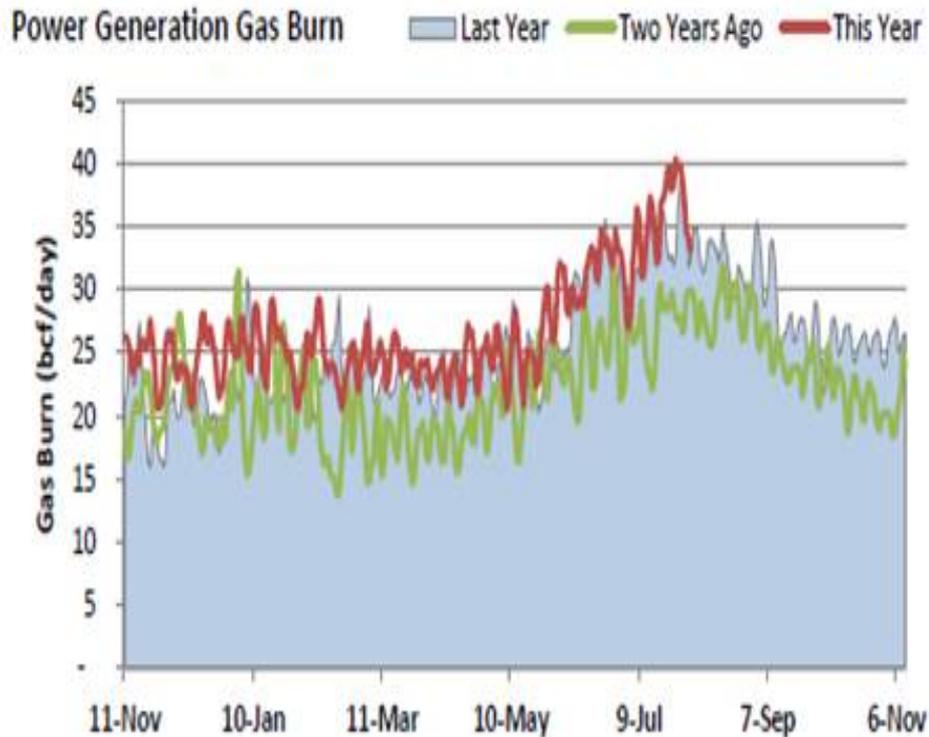


Source: U.S. Energy Information Administration based on Bentek Energy and industry reports.

Source: EIA

- 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

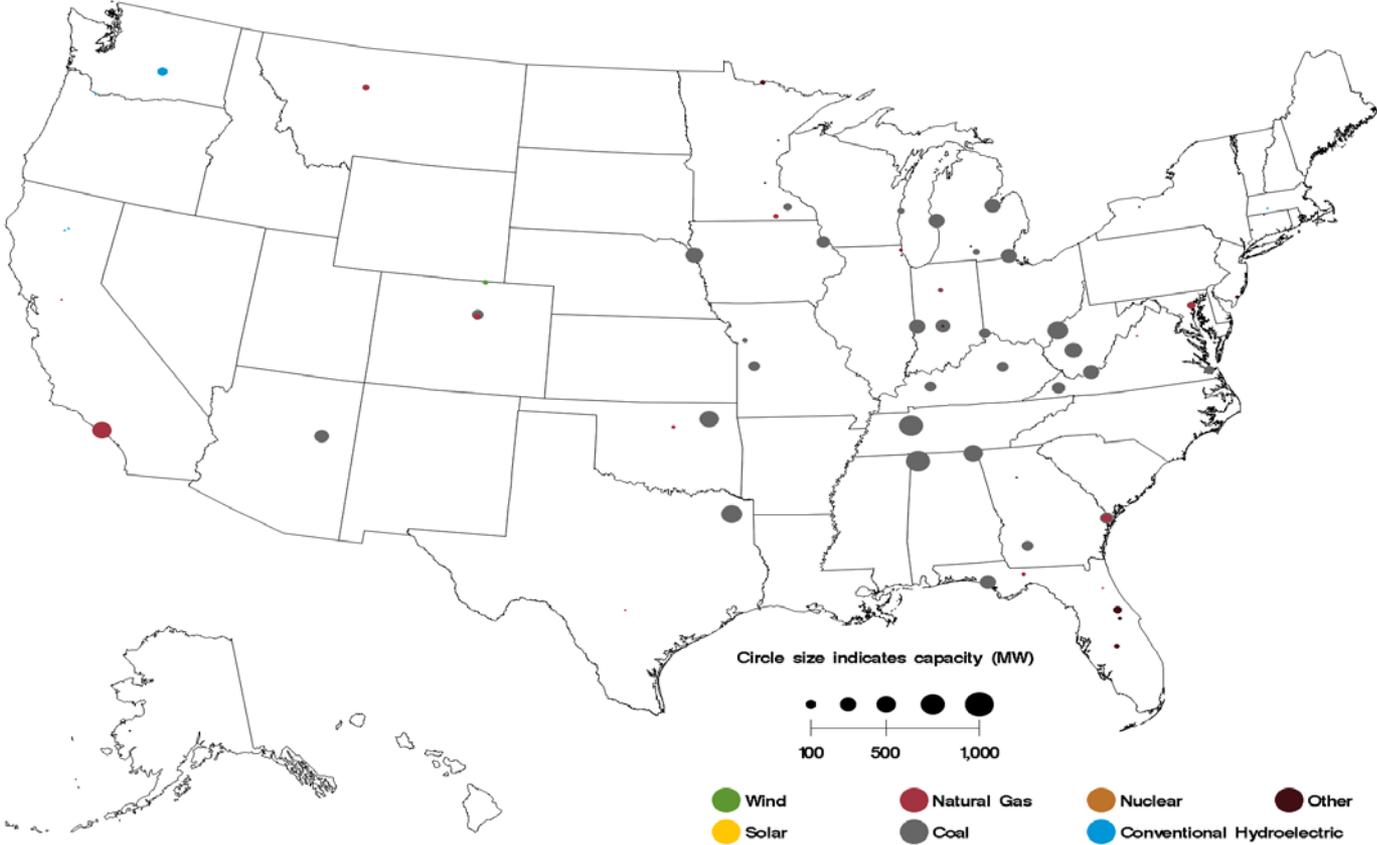


- The EIA projects that 2016 will be the first year on record that natural gas-fired generation will exceed coal-fired generation on an annual basis. NG has exceeded coal for power generation on a monthly basis since April 2015.
- Low natural gas prices, increases in NG-fired capacity, and growth in 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

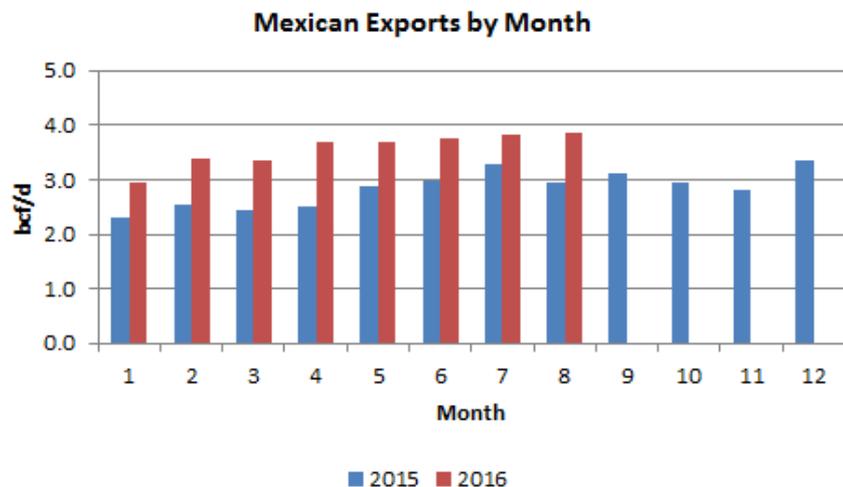
Future Demand: Coal Retirements Next 12 Months

Figure 6.1.D. Utility Scale Generating Units Planned to Retire from August 2015 to July 2016



Sources: U.S. Energy Information Administration, Form EIA-860, 'Annual Electric Generator Report' and Form EIA-860M, 'Monthly Update to the Annual Electric Generator Report.'

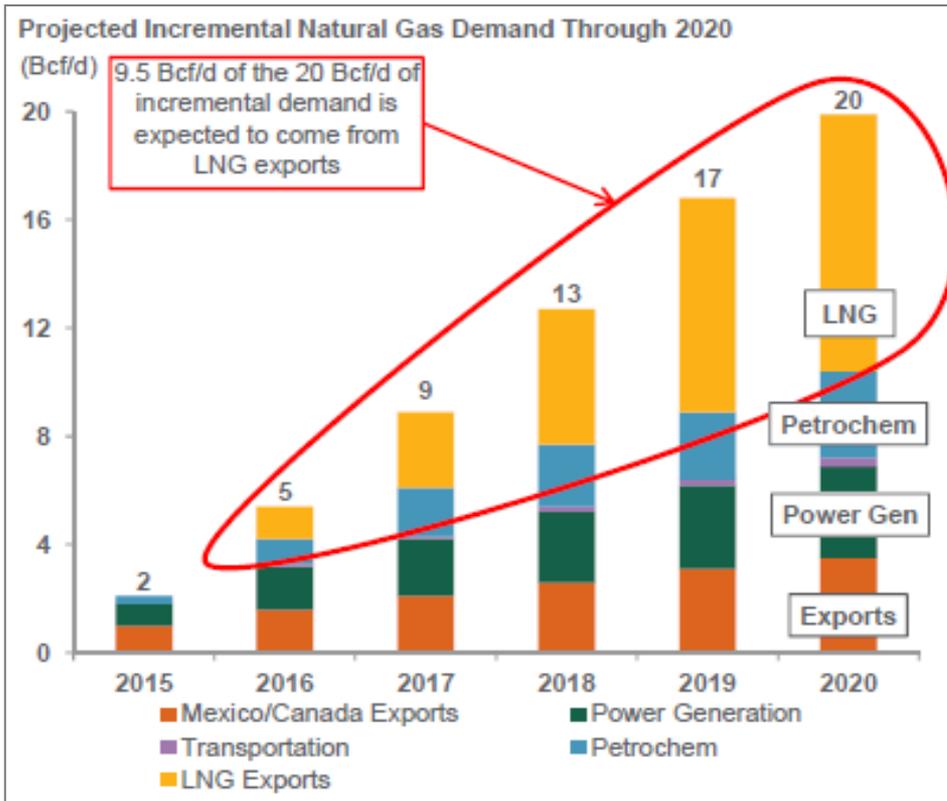
More U.S. Gas Headed to Mexico



- 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

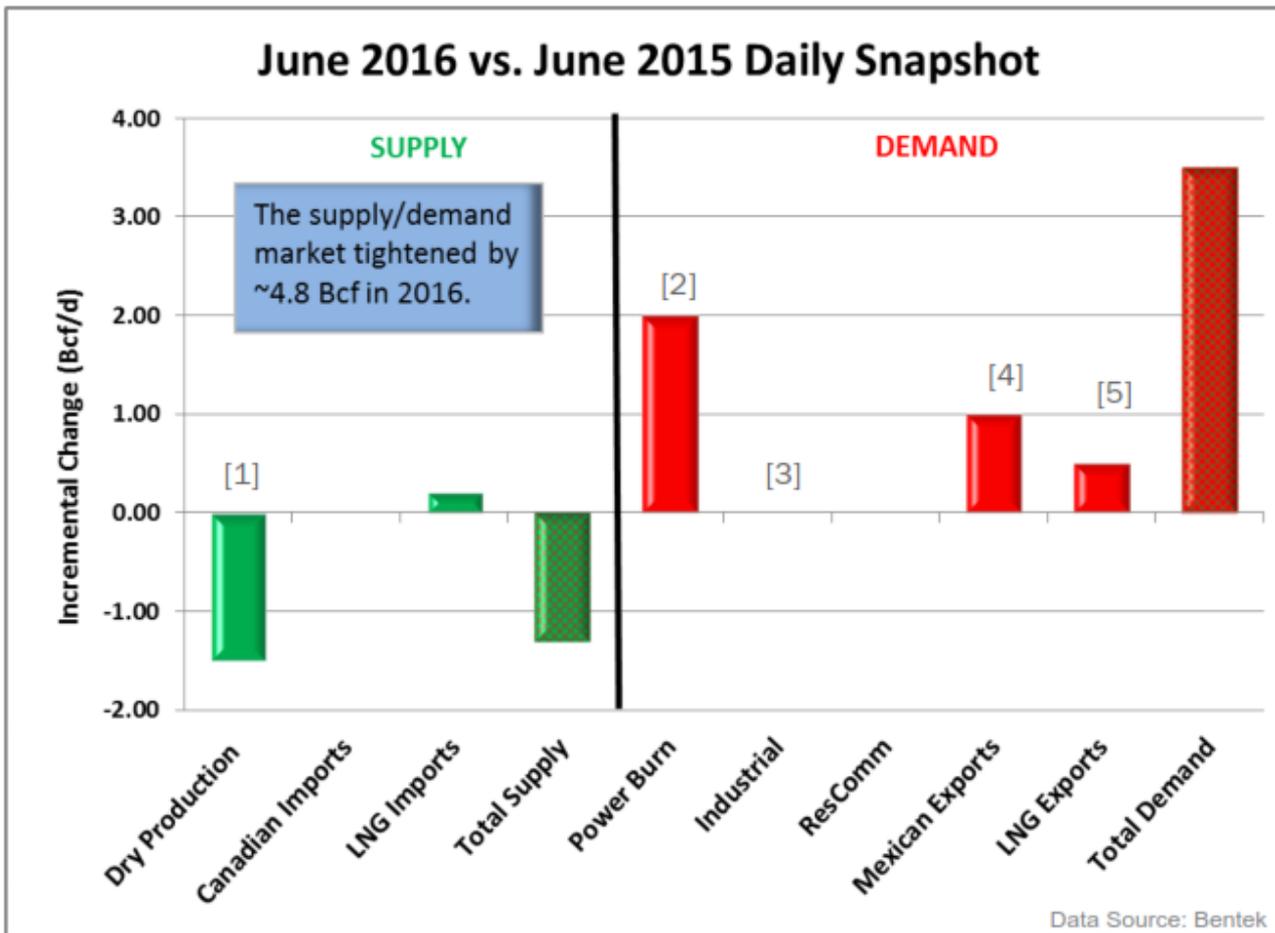


- New medium to long-term gas demand sources include coal retirements, exports to Mexico, industrial use, and LNG exports.
- Incremental gas demand due to coal retirements expected to peak in 2016, but additional upside possible due to the Clean Power Plan.
- Exports to Mexico grew to a new record last 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.

Annual Growth	2015	2016	2017	2018	2019	2020	Total
New Demand Bcf/d	2.1	3.3	3.5	3.7	4.2	3.1	19.9

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.

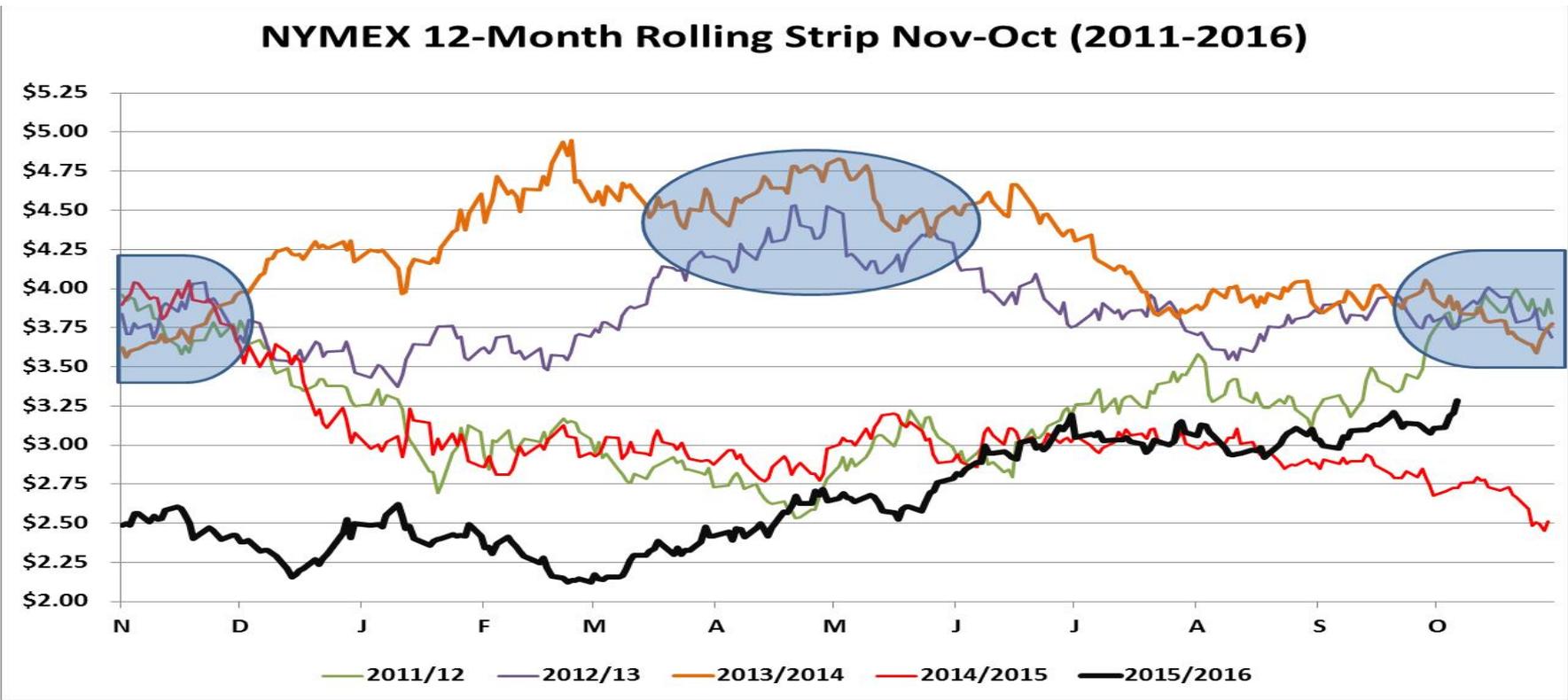
[2] Power burn expected to remain above 30 Bcf/day into summer as gas switching and additional gas generation in the stack should push to record highs; rising gas prices could cut back on coal-to-gas switching

[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.

NYMEX Forward Gas in Uncharted Territory



Nov-Oct	2009/10	2010/11	2011/12	2012/13	2013/2014	2014/2015	2015/2016	Current
Average	\$ 5.01	\$ 4.45	\$ 3.24	\$ 3.87	\$ 4.23	\$ 3.06	\$ 2.66	\$ 3.29

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.

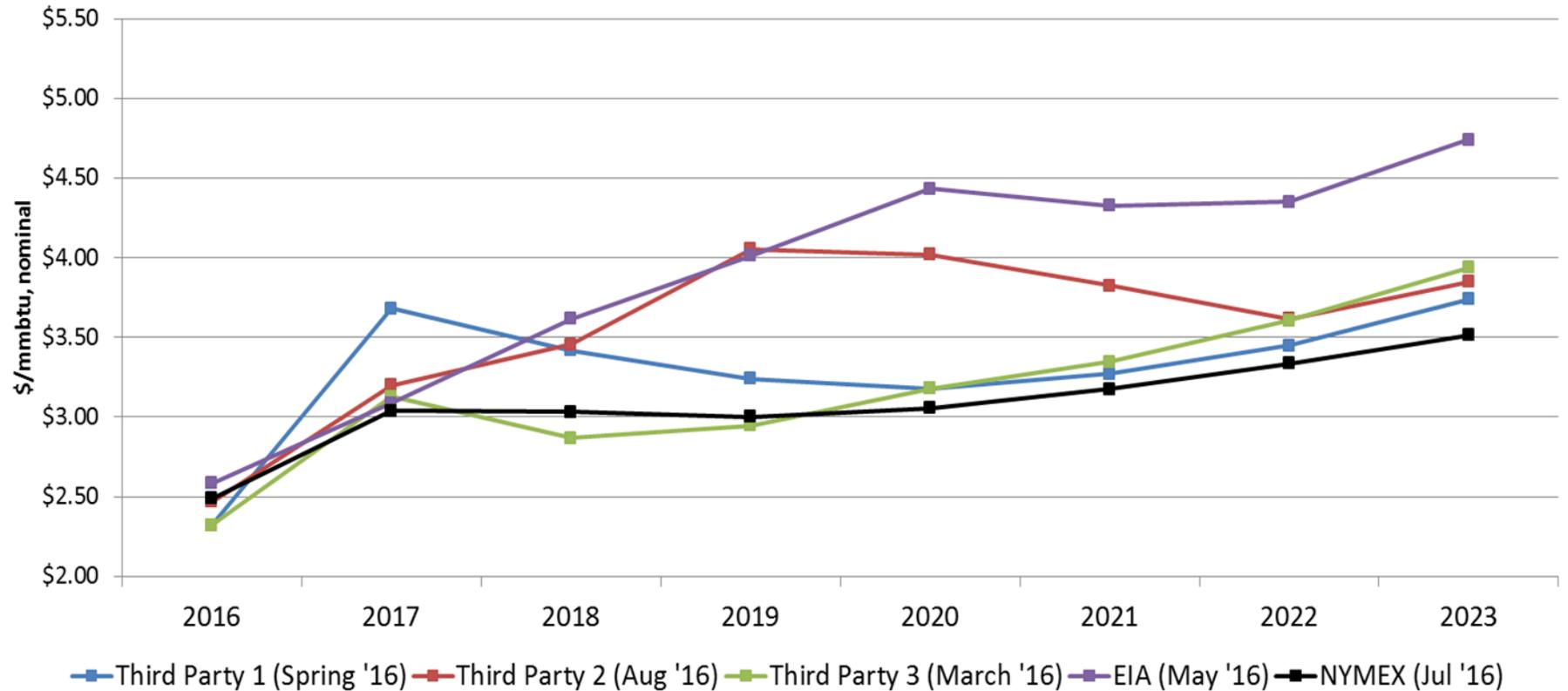
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Source: NYMEX Prices as of COB 10/10/2016



NYMEX Prompt Month Since June

Henry Hub Price Forecast: EIA & 3rd Party (2016-2023)



Data Source: Constellation

Prices as of COB 8/9/2016

Thank you.

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