

Times Are A Changin': Florida Gas Market in the Shifting US Gas Landscape

Florida Gas Utility Annual Conference
June 2019 – Clearwater, Florida

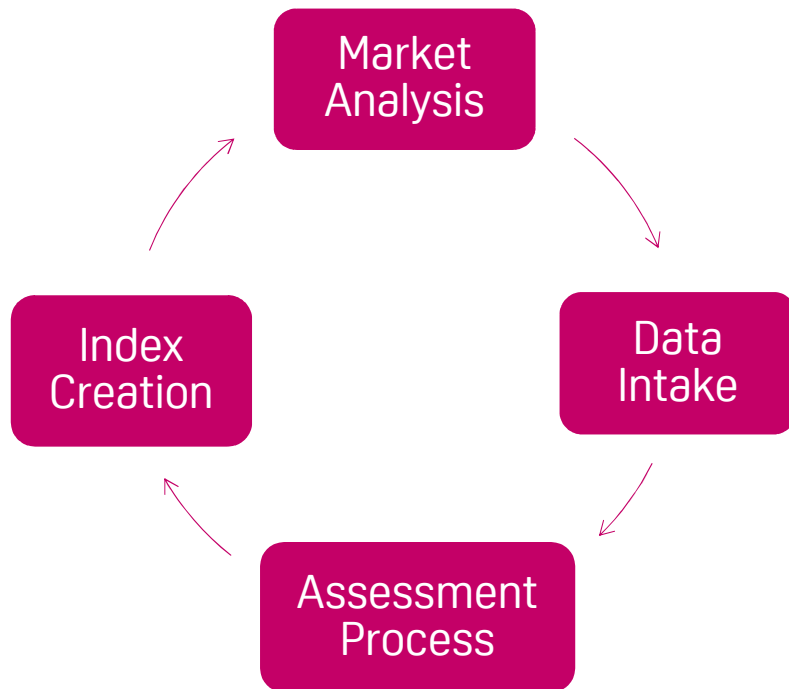
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Agenda

- Platts North American natural gas assessments: Florida Citygates and Beyond
- The Evolution of the “Revolution”: Shale Revolution 3.0 and Southeast Supply Impacts
- Shifts in the Florida market and its impact on pricing: New Pipes and Generating Capacity
- Looking further out to regional dynamics that could impact Florida supply in the short-term and long-term

The Development of Platts Natural Gas Indices



- Guiding principle is independence from internal and external market elements
- Between 4,500 and 6,500 trades feed into 110 daily and 90 monthly indices
- Indices inclusive of all ICE transactions, and about 50 market participants
- Methodology as a living document, constantly updated as market evolves

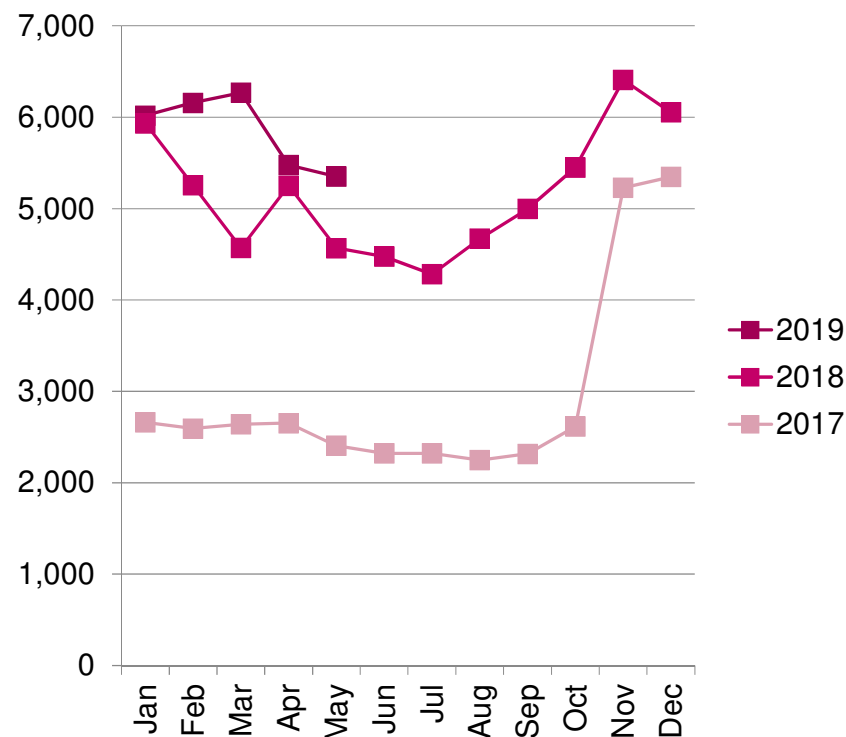
The Breakdown: What comprises Platts daily and monthly indices?

Daily Market:

- Next day, fixed price indices include all transactions done on ICE and bilateral price reporter deals
- Currently, no basis transactions exist in daily index

Monthly Market:

- Inclusive of all fixed price *and* basis transactions done on ICE and bilateral price reporter deals
- Bidweek is always last five business days of month
- Basis settles off of NYMEX futures settle



Overall, 80% of US physical market is settled at index, mostly settled off of Platts pricing

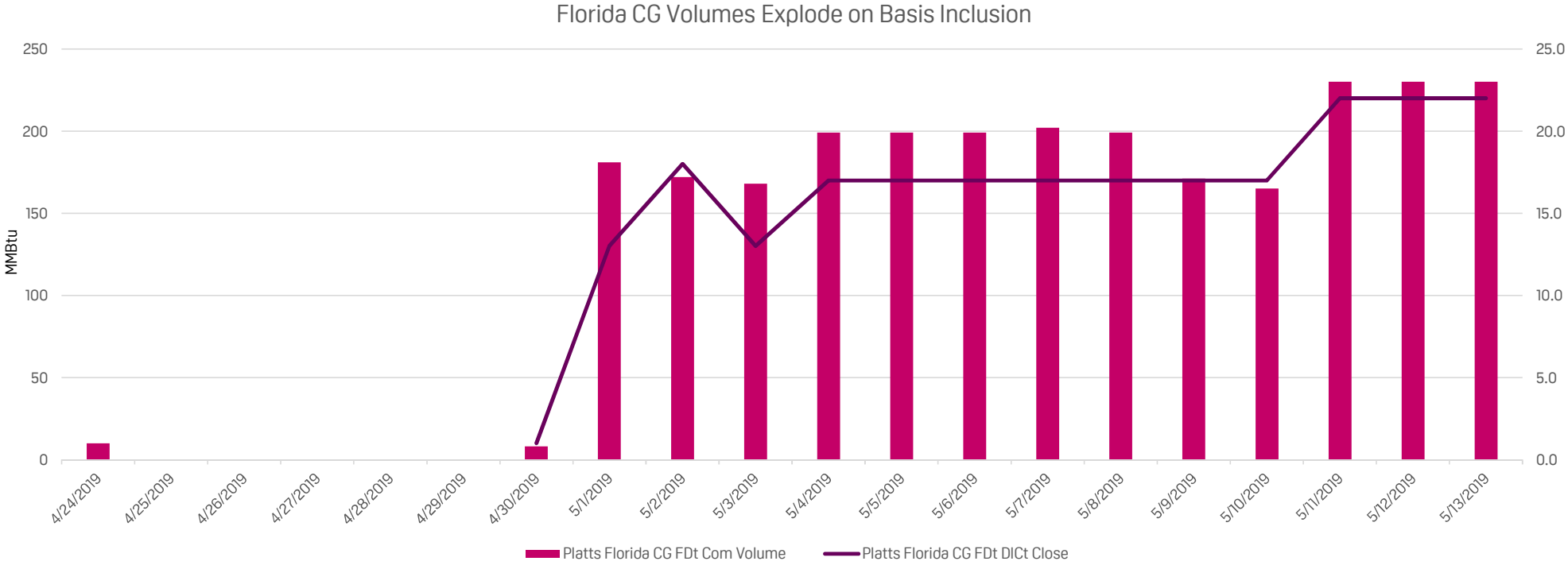
How Does Platts Conduct Methodology Changes?



- Methodology issues are a result of physical market dynamics such as new pipelines or changes in flows, constraints, or pipeline tariffs
- Goal is to ensure indices are reflective of trading activity, operating conditions, and tariff definitions
- Platts is reactive, not proactive, in methodology changes in order to view changes in price
- Market feedback is key in ensuring a market reflective approach to index development

Florida Citygates Evolution

UPDATE WITH NEW DATA



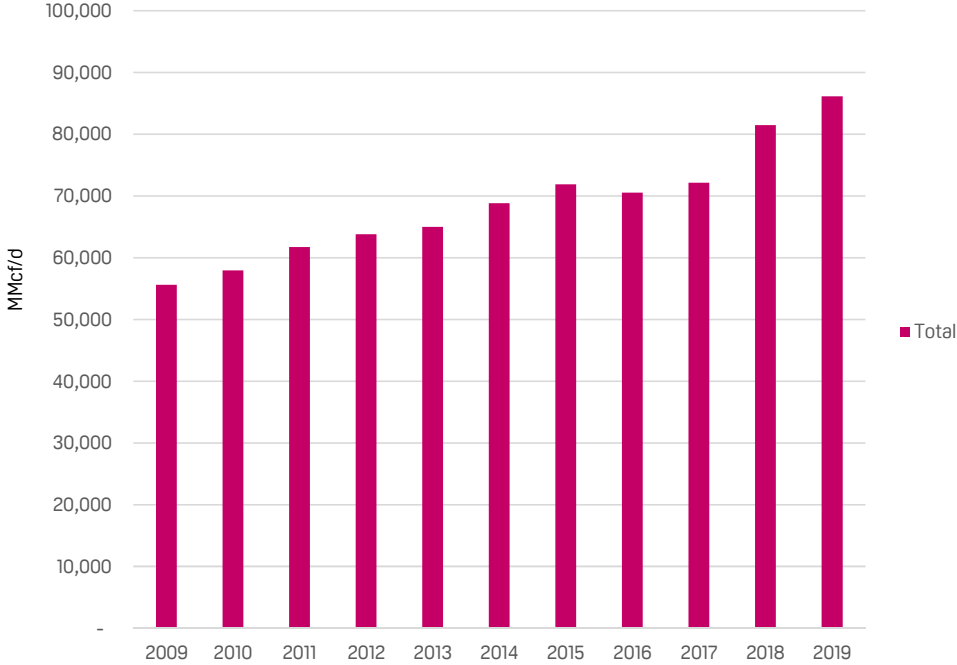
Source: S&P Global Platts

Now to the markets...

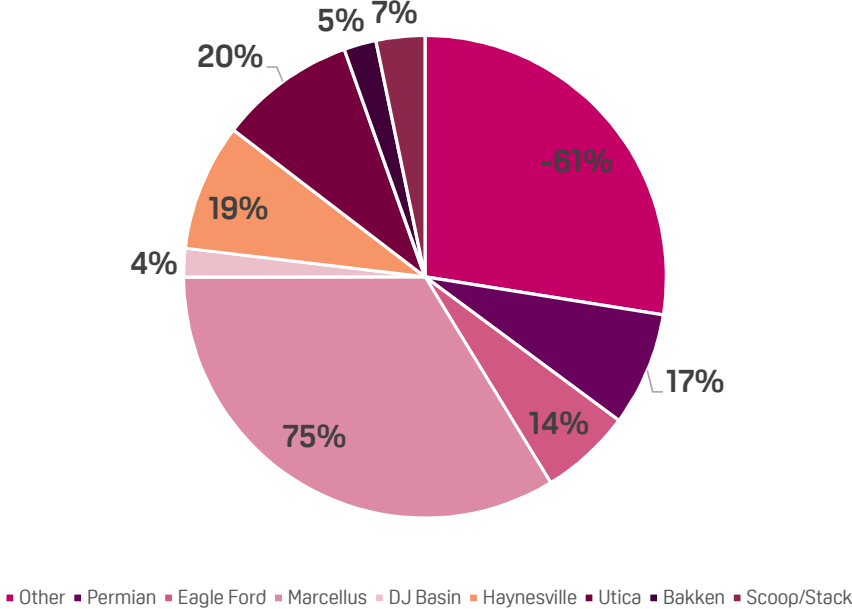
Where is the US market now, and what does it mean for Florida?

It All Started with the “Shale Revolution”

Total US Production Surges 55% from 2009

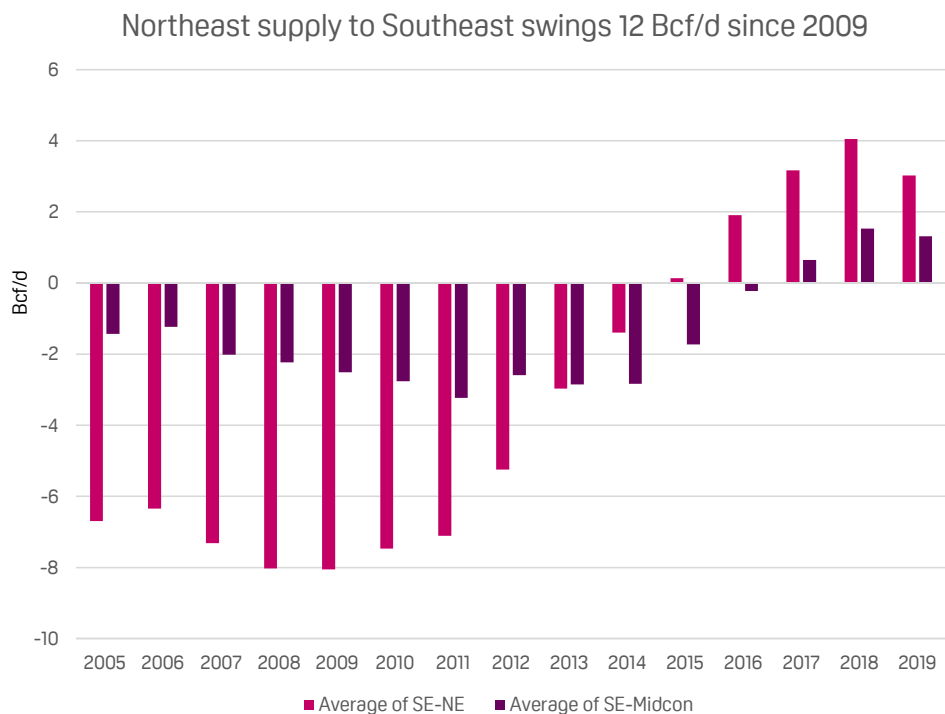


Marcellus Flips Traditional Market on Its Head, % change from 2009



Source: S&P Global Platts Analytics

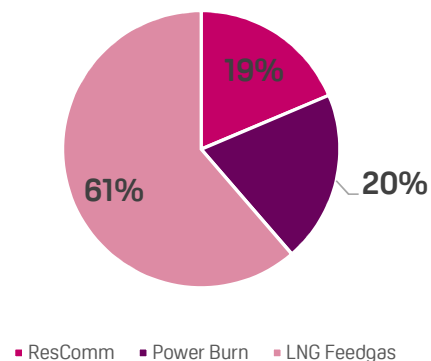
Shale Revolution 2.0: Greater Connectivity and Optionality



From 2009, US generating stack has been drastically altered:

- Power Burn: Increase of 39%, or 7.3 Bcf/d
- Industrial: Increase of 37%, or 6.3 Bcf/d
- ResComm: Increase of 54%, or 13.1 Bcf/d

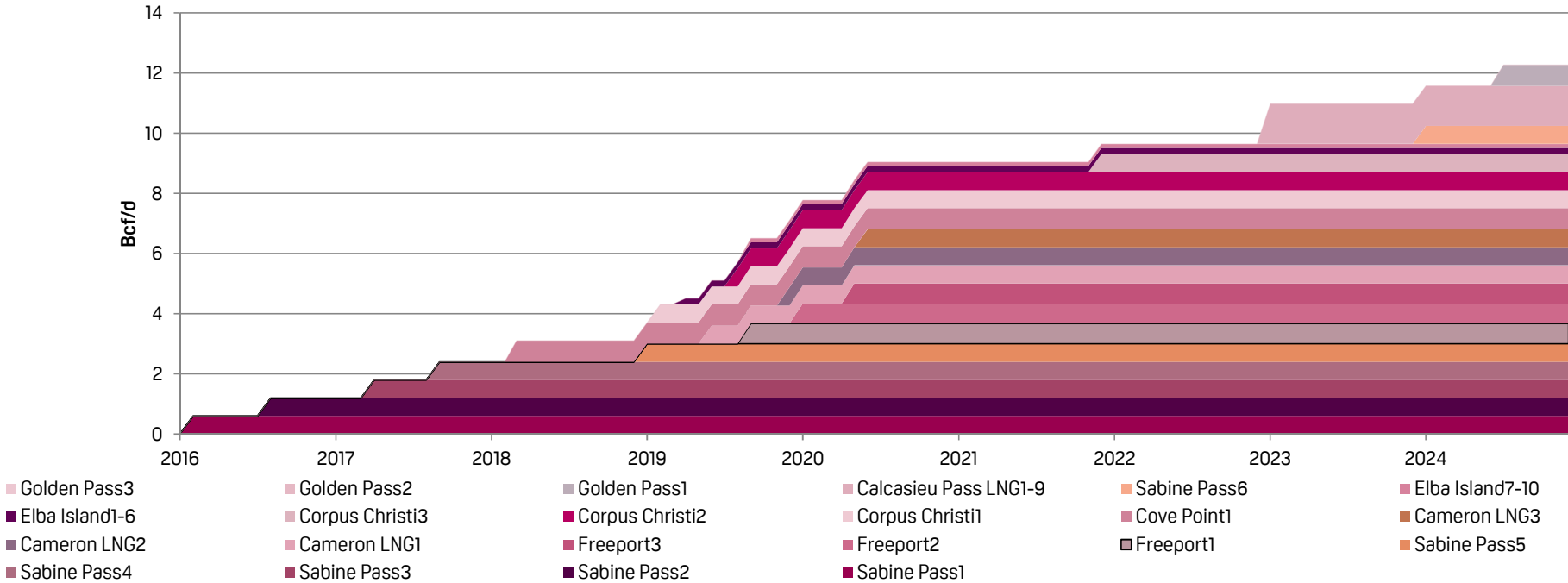
SE demand growth up 4.7 Bcf/d, 2015-2018



Source: S&P Global Platts Analytics

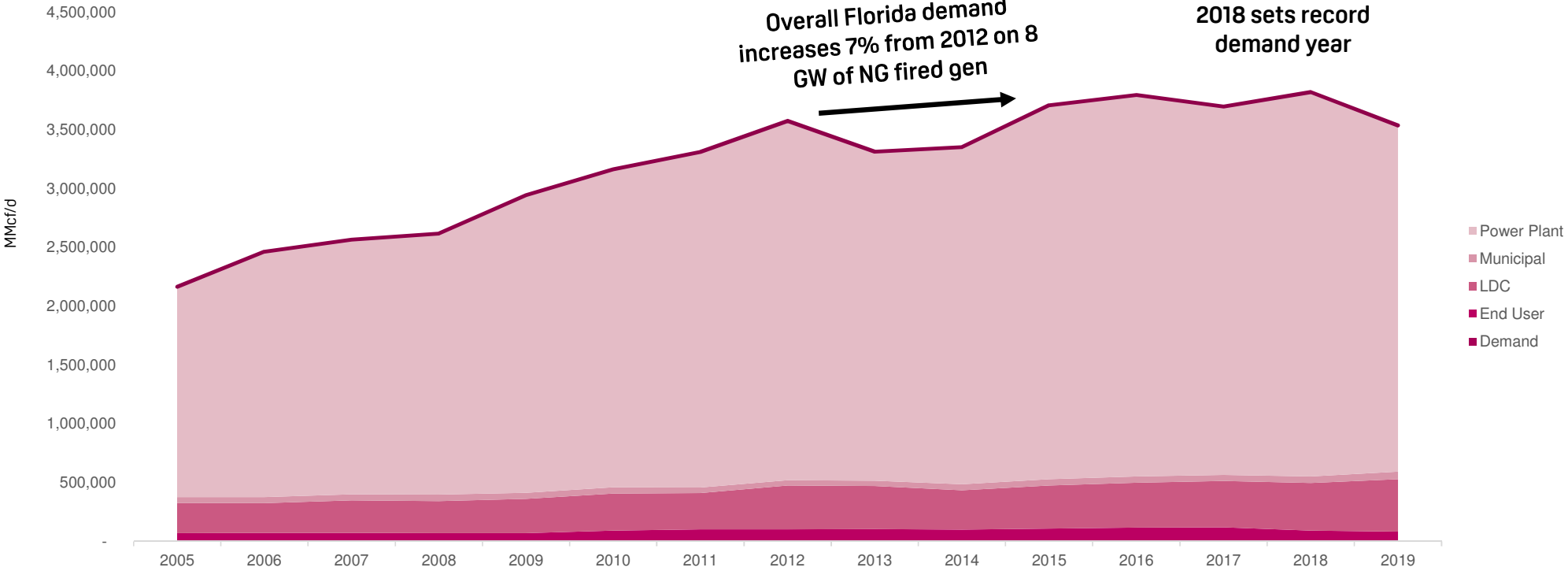
Shale Revolution 3.0: Moving shale gas beyond US shores

US LNG EXPORT CAPACITY



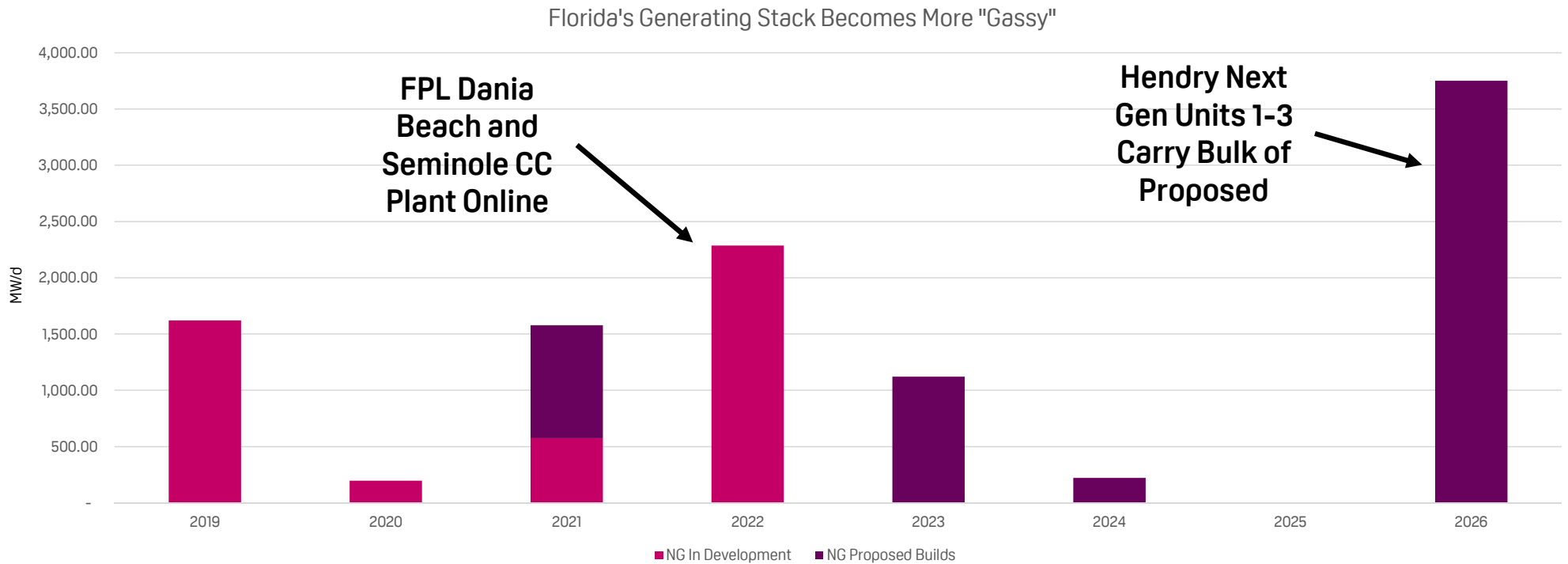
Source: S&P Global Platts

How does the Florida market fit into these shifting dynamics?



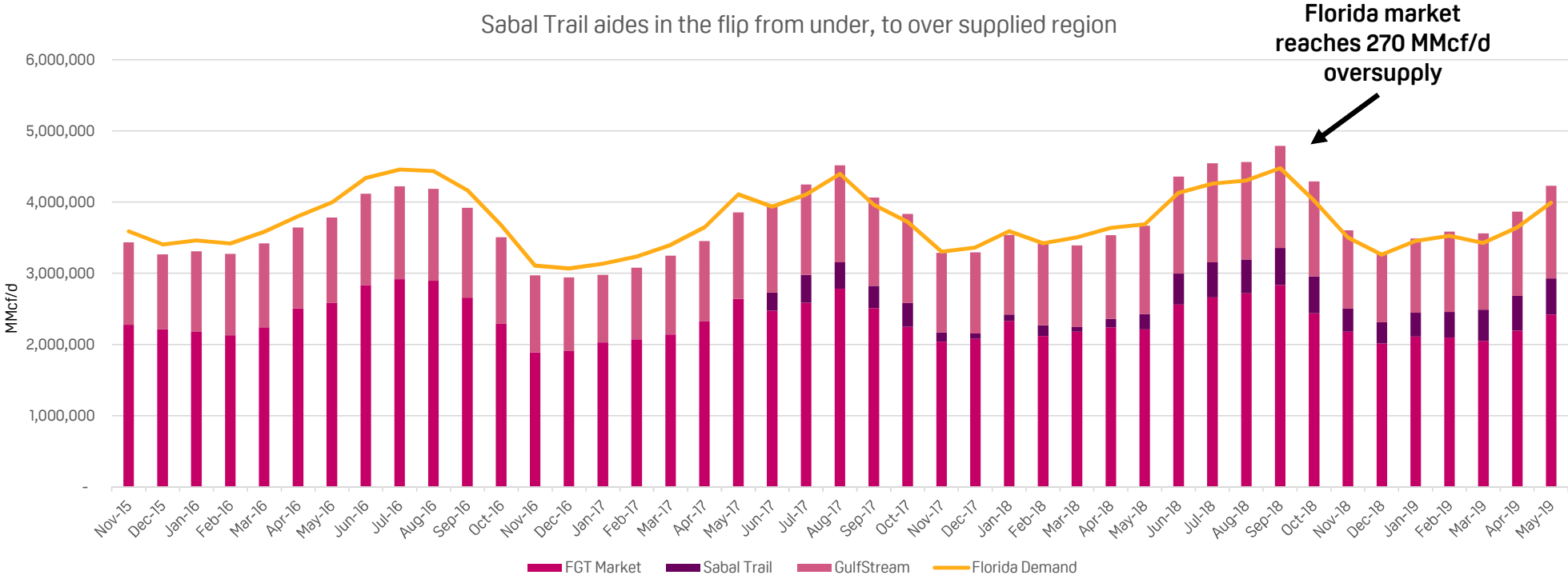
Source: S&P Global Platts Analytics

Florida Eyes 4.7 GW Gas Generation Increase by 2022, Another 6GW Proposed



Source: S&P Global Platts Analytics

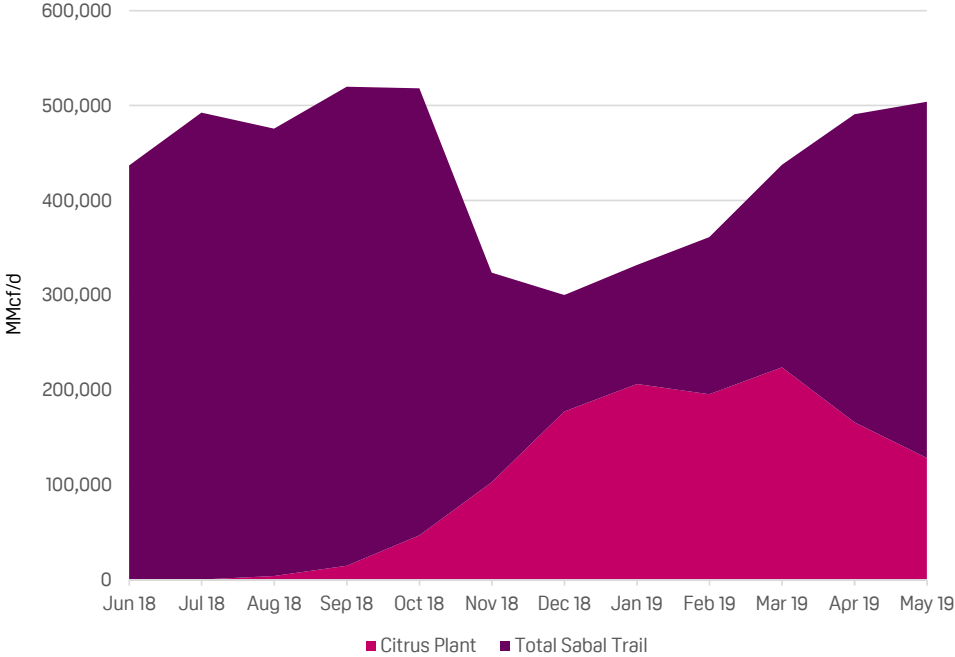
Advent of Sabal Trail Eliminates Peak Summer Supply Crunch



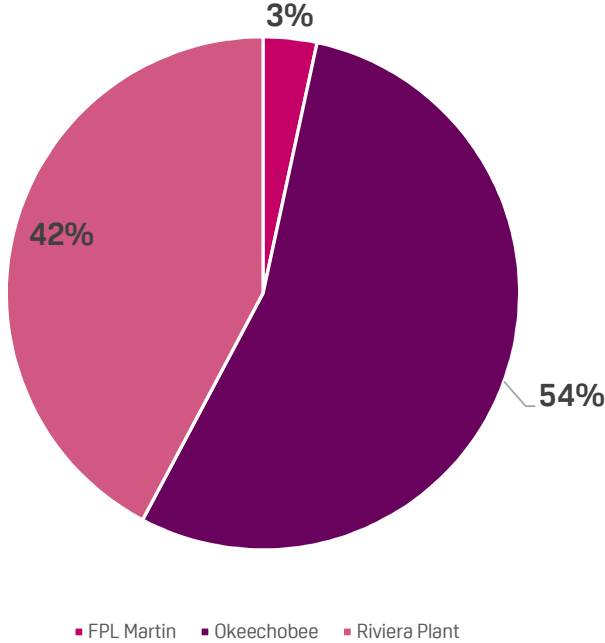
Source: S&P Global Platts Analytics

New Builds Sucking Up All New Supply

Citrus County Plant Consumes 45% of Sabal Trail Flows

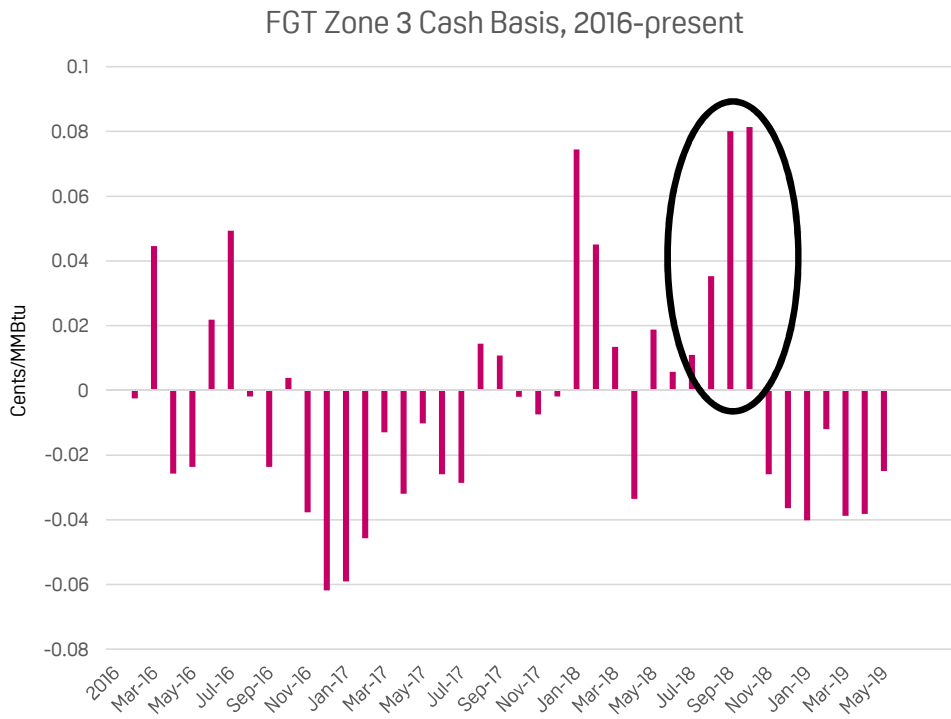


Okeechobee in service dominates FSC supply, May 2019



Source: S&P Global Platts Analytics

But Why Are Cash Basis Prices Higher??



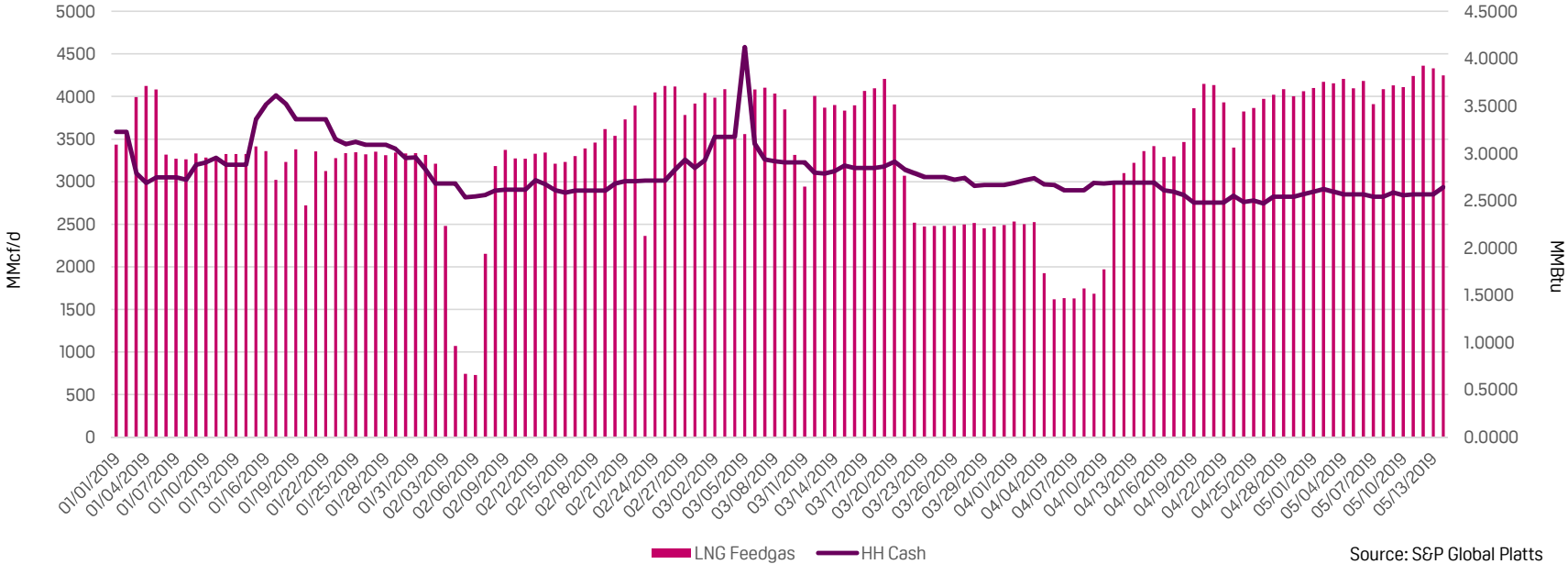
- September - October 2018 demand averaged 4.2 Bcf/d, 9% from the previous high
- FGT utilization averaged 92% throughout September, highest since 2016, resulting in more Overage Alerts than entire summer
- May 2019 gives glimpse of impact of Sabal Trail
 - Florida demand second highest on record
 - Sabal flows up 132% from last May
 - FGT Zn 3 cash basis at -0.025 cents/MMBtu

Source: S&P Global Platts

Top Regional Dynamics Impacting Florida Supply

Has LNG feedgas impacted regional pricing?

Minimal impact on regional pricing despite multi-year low feedgas



Source: S&P Global Platts

Key question: What will be the impact on Southeast, and ultimately Florida supply, once new terminals come online and there are global downturns in LNG demand?

Narrowing spreads will impact supply and pricing along Gulf Coast

Netbacks to Key LNG Markets Narrow to Multi-Year Lows

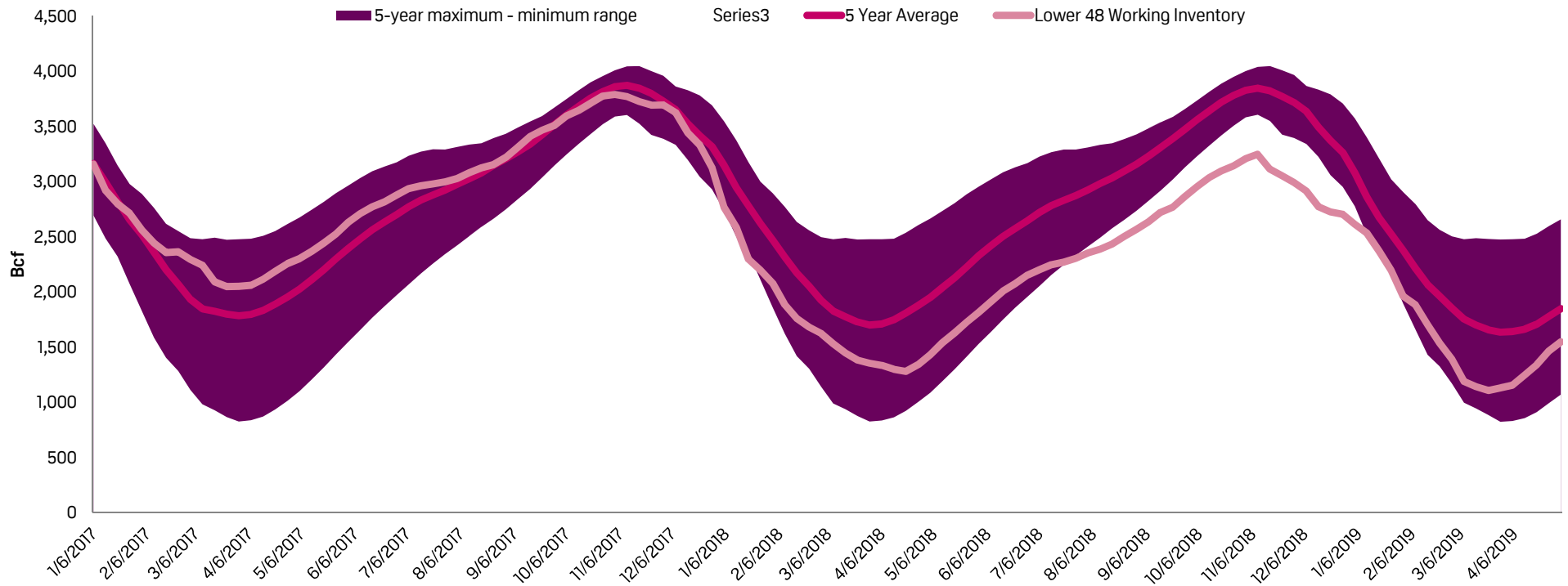


Source: S&P Global Platts

HH spreads to JKM drop 80% from year ago levels

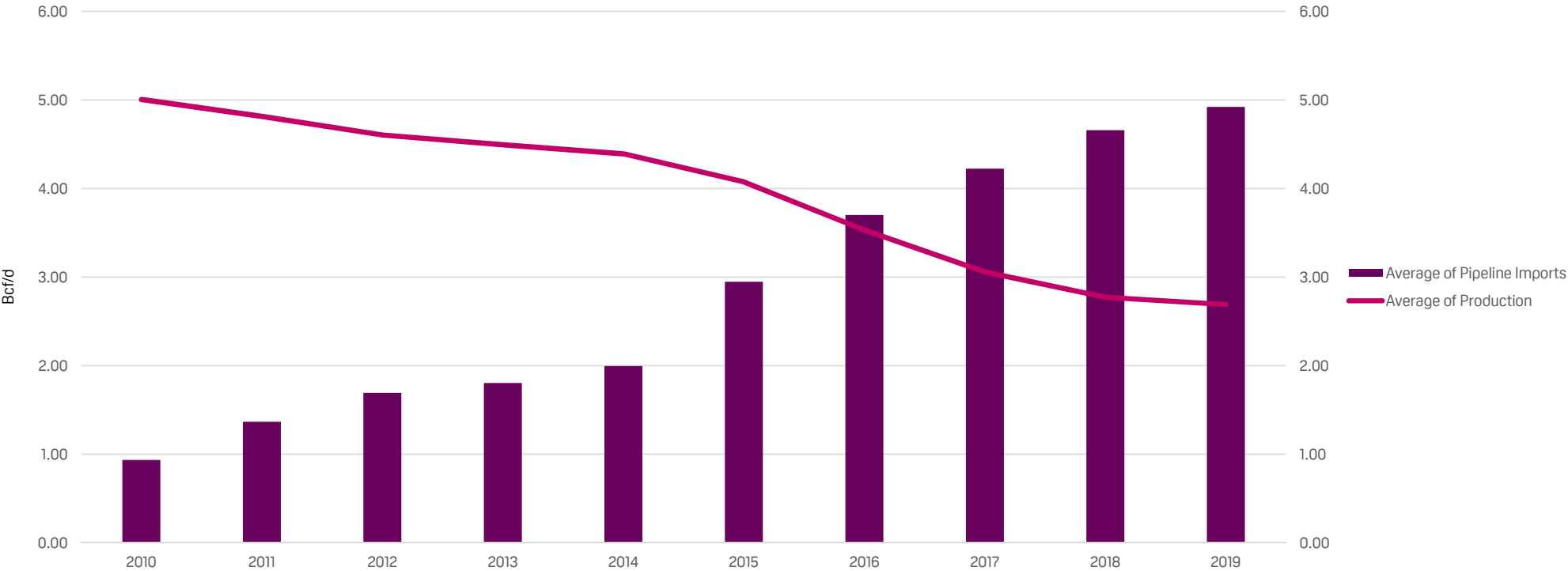
Storage as backstop for increased production and backed up feedgas?

EIA Working Gas in Underground Storage, 5-year Maximum and Minimum



Source: Energy Information Administration
Storage data for week ending May 3, 2019

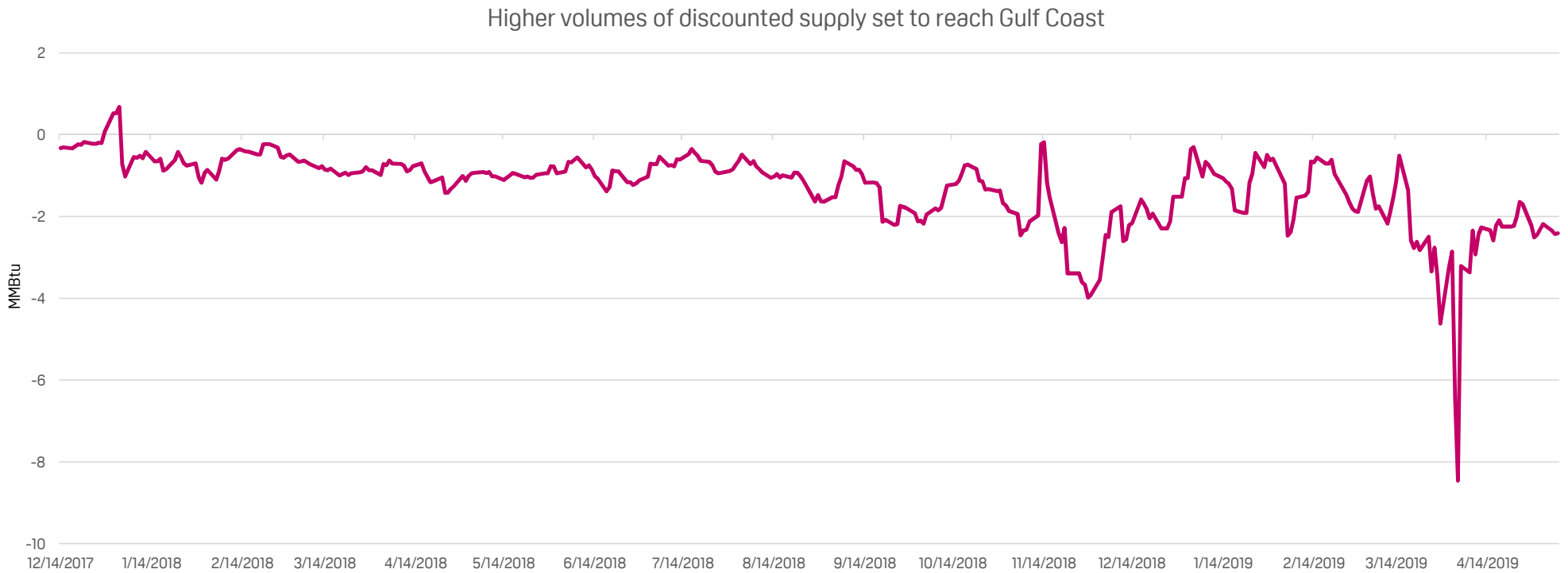
Rubber Meets the Road...2019 is supply-altering year for Mexican exports



Source: S&P Global Platts Analytics

Full tilt Wahalajara and Sur Texas – Tuxpan would add 3.8 Bcf/d in export capacity to Mexico from Texas

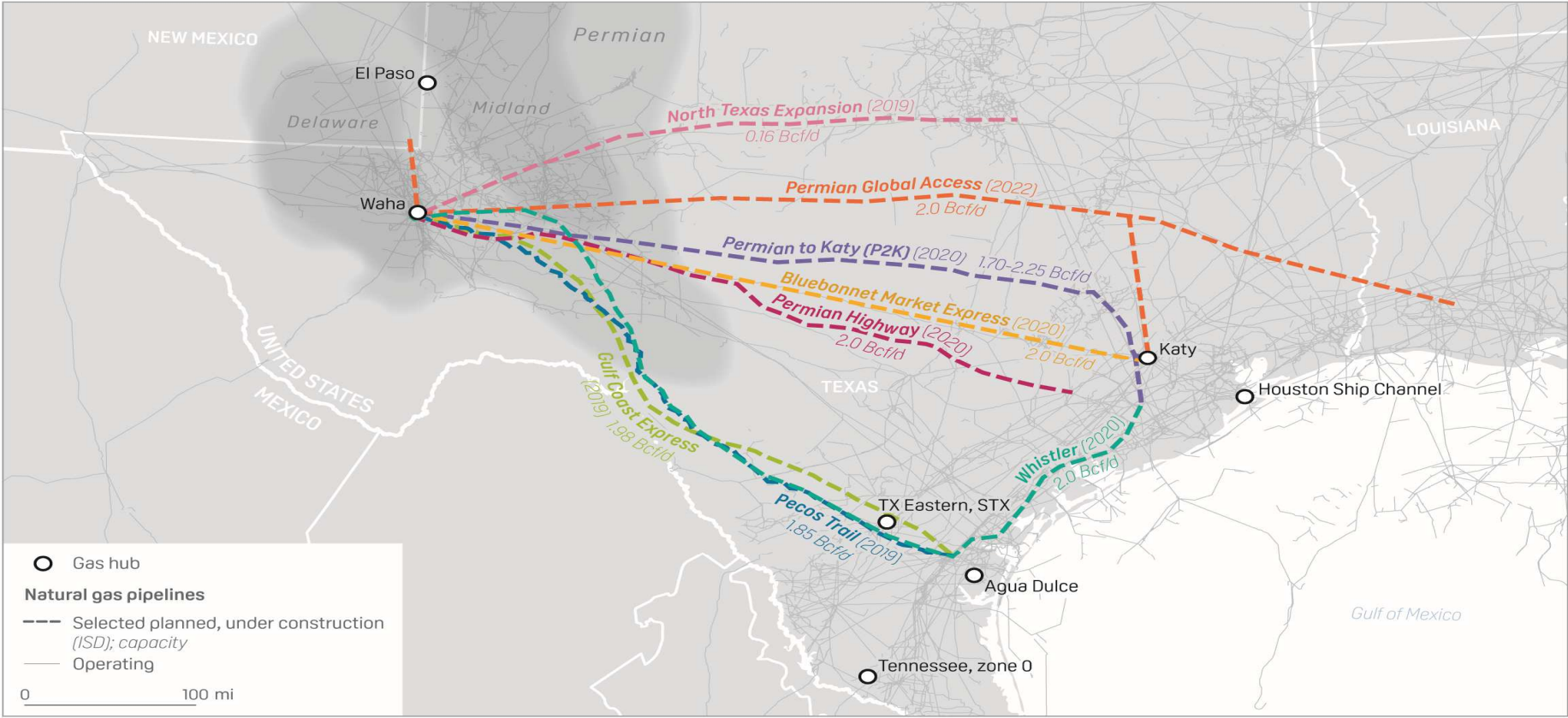
All Eyes are on West Texas for discounted supply to Gulf Coast



Source: S&P Global Platts

External Markets Chomping at the Bit, Establish Permian Safety Valve

FUTURE NATURAL GAS PIPELINE PROJECTS IN THE PERMIAN



Source: S&P Global Platts Analytics

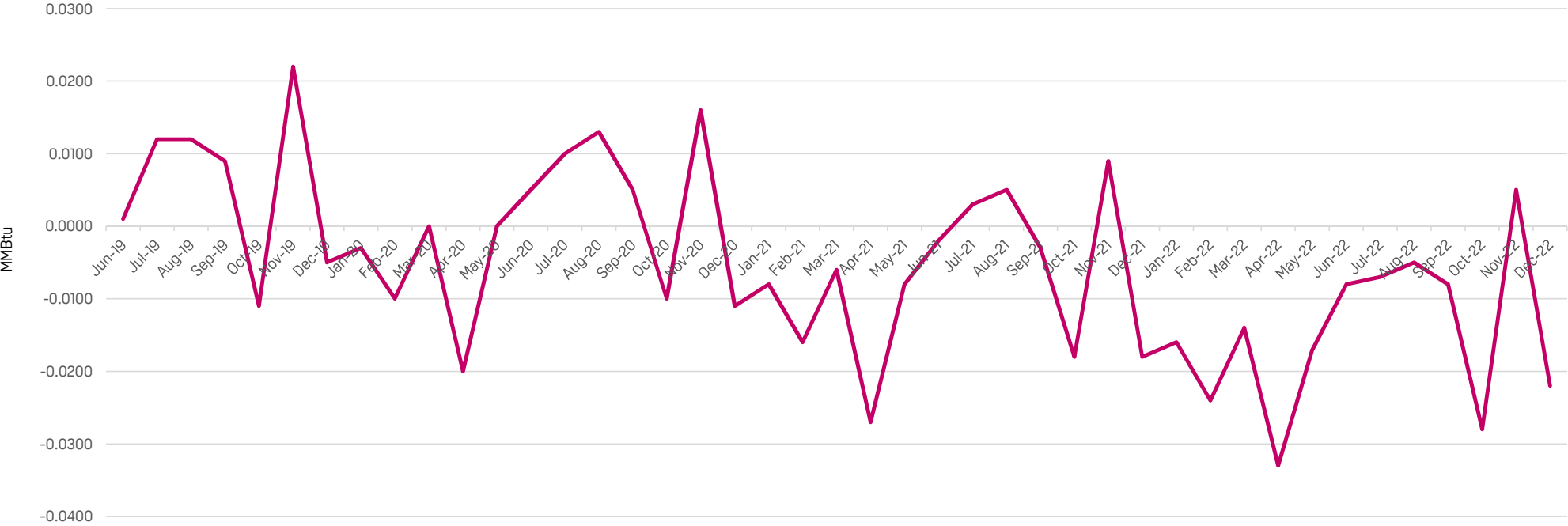
Despite takeaway, expectation is still for discounted supply



Source: S&P Global Platts M2MS Data
Date: Forward Curve as of May 10, 2019

Looking Ahead for the Sunshine State

Florida Gas Zone 3 Forward Curve through 2022



Source: S&P Global Platts M2MS
Curve as of 5/13/2019

Conclusions

- Use of basis deals in Florida Citygates daily index has resulted in volumetric growth, and possible pricing point for settlement in growing Florida demand market
- Increased optionality of sourced gas has resulted in minimized pricing volatility, setting the market up for increasing natural gas generation
- On the horizon, the Florida market is indicative of the larger changes gripping much of the US natural gas market, and its supply scenario will move with the whims of multiple dynamics, from global LNG, growing regional demand and Mexico

Thank you! Questions?

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