



ENERGY UPDATE

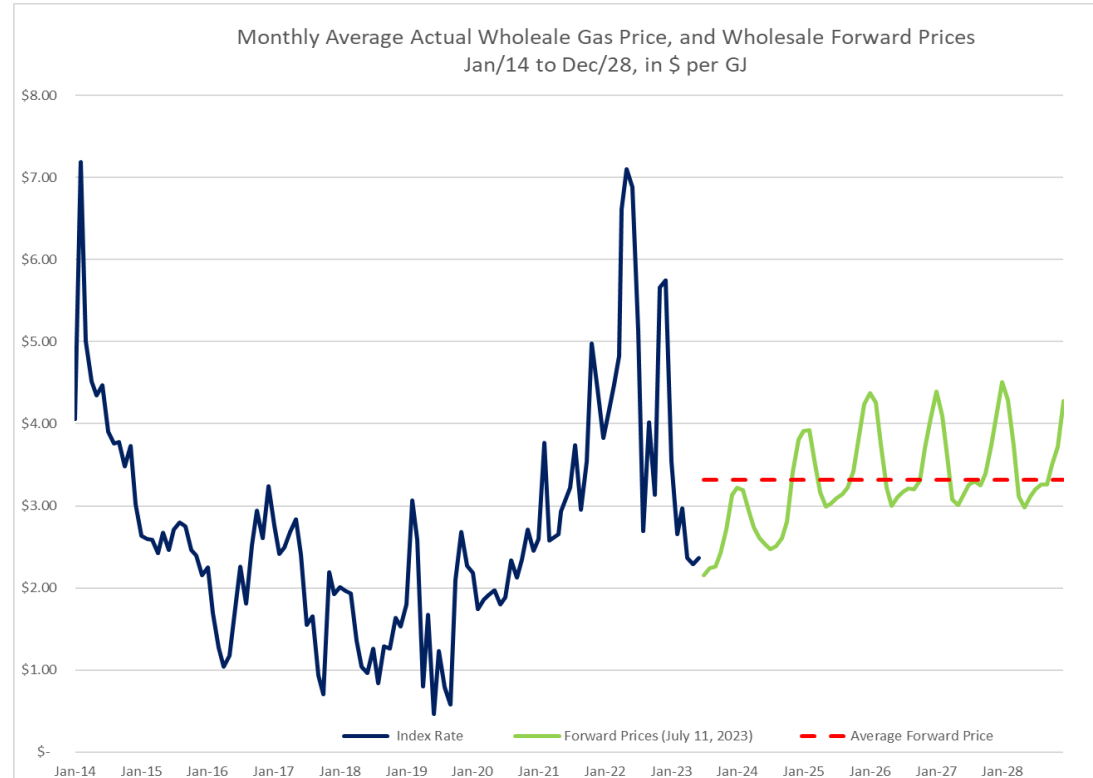
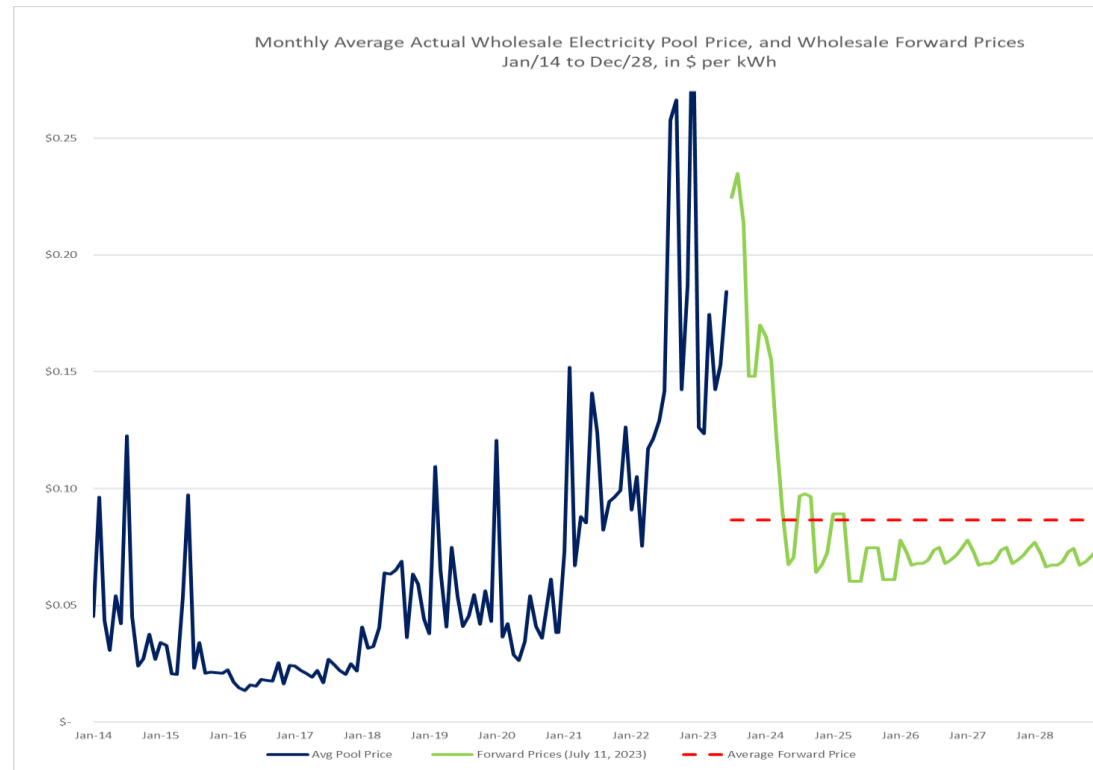
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THE MOST UP TO DATE ENERGY INFORMATION TO HELP WITH YOUR BUSINESS DECISIONS

HEADLINES:

- ✓ Electricity prices remained high through calendar 2023. Average floating prices YTD (June) were \$0.151/kWh, compared to \$0.162/kWh for calendar 2022.
- ✓ Forward electricity prices for 2023 remain high but start to moderate after mid-2024 and beyond in anticipation of additional generation coming online.
- ✓ Natural gas prices decreased significantly through calendar 2023. Average floating price YTD (June) was \$2.70/GJ compared to \$5.04/GJ for calendar 2022.
- ✓ **RECOMMENDED BUY:** 8760 believes there is particularly good value for contracting fixed price electricity for any term for years 2025 to 2028 and for natural gas for any term for 2023 and 2024.

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COMMENTARY

General Overview

The fundamental factors underlying the large increases in electricity and natural gas prices over the last two years have been discussed extensively in our last few reports. Many of these fundamental factors are still contributing factors to the current market prices.

In this report, we will focus on the large decrease in forward electricity prices over the next year, and the recent shorter-term decrease in natural gas prices.

Electricity

Current Price Environment:

Floating prices for calendar 2022 ended with an all-time monthly average record of \$0.312/kWh in December 2022. The full year average price was \$0.162/kWh for 2022.

Floating average prices for June 2023 YTD were \$0.151/kWh, trending slightly lower than experienced for calendar year 2022. While these prices continue to be very high relative to long-term historical averages, they have decreased marginally for 2023 to date. Weather for this past winter was moderate, with no extended periods of extreme cold snaps in January or February driving electricity prices higher as we experienced in the two previous winters.

We did experience an unseasonably hot spring, but surprisingly, this did not result in significant sustained price spikes. So far this year, electricity prices were highest in June 2023, at \$0.184/kWh. A welcome decline in natural gas prices, as discussed below, have also helped moderate electricity prices to a degree.

Electricity Forward Prices:

Overall forward prices have increased since our last update. This is primarily due to the balance of 2023 increasing by \$0.05/kWh and a slight increase for 2024. This increase at the front of the forward curve was offset slightly by a decrease of \$0.01/kWh for 2025 along with slight decreases for 2026, 2027 and 2028.

The large increase in forward prices for the remainder of 2023 is primarily due to very high electricity prices expected for July, August and September, stemming from anticipated high electricity demands due to hot weather. To date, these extreme price jumps have largely not materialized.

Full year wholesale electricity prices for 2023 will likely end up in the \$0.17/kWh to \$0.18/kWh range, but then prices are expected to drop to the \$0.10/kWh range for 2024, and then into the \$0.07/kWh range for 2025 to 2028.

The significant drop in forward prices later in 2023 and into 2024 is due to two large natural gas-fired electricity supply additions coming online – the new 900 MW Cascades power plant in later 2023 – and 600 MW of incremental additions arising from the re-powering of Genesee Units 1 and 2 in earlier-mid 2024. These much welcomed supply additions will significantly increase the base-load supply in the province and will provide a greater supply cushion against price shocks arising from extreme weather or unit outages.

8760 Recommendations:

Our recommendations remain consistent to those outlined in our last report. We continue to suggest that a floating price strategy is generally not appropriate for most customers, and we continue to recommend contracting a fixed price for electricity to protect from the extreme price volatility and go forward market uncertainty.

As we hopefully start to be getting on the “downslope” from peak electricity prices, customers will be contracting at price levels higher than long-term historical averages but at levels still more attractive than those seen in the last year.



Once the summer months pass, fixed price contracting starting on October 1, 2023 can lead to contract prices in the \$0.09/kWh to \$0.105/kWh range, with the lower end of that range being obtained if longer term contract periods are selected.

Contracting starting on April 1, 2024, once the winter 2023/2024 price peaks have passed, can lead to prices in the \$0.085/kWh to \$0.09/kWh range, with the lower end of that range being achieved if, once again, longer contract terms are selected.

Contracts starting on/after January 1, 2025, can lead to fixed prices in the \$0.08/kWh to \$0.085/kWh range.

8760 believes that forward electricity prices after January 1, 2025 **are good to excellent value**, and are reasonable value for calendar 2024. For customers who have contracts expiring in 2024, 2025 and even 2026, we suggest it is an excellent time to start considering extending for two or three more years.

There is currently some debate in the electricity industry as to whether the forward prices truly do reflect enough of a reduction after all the new natural gas fired supply additions come on-line, not to mention the ongoing additions to wind and solar generation. While further decreases in forward prices is certainly a possibility, on balance 8760 suggests that the forward prices have already reflected a massive decrease in prices from actual levels experienced in calendar 2022 and

forecasted for the full 2023 calendar year. As outlined above, calendar 2022 prices were \$0.152/kWh and calendar 2023 prices are forecasting to end up in the \$0.17/kWh to \$0.18/kWh range. Forward prices for 2024 in the \$0.09/kWh range, and for 2025 to 2028 in the \$0.07/kWh range, represent a reduction of over half from those recent levels.

8760 believes the risk/reward trade-off is asymmetrical in that the potential reward from forward prices decreasing further is lower than the risk of forward prices increasing further. 8760 believes that with current market fundamentals, \$0.07/kWh is close to a “floor” level for future wholesale electricity prices for the medium-term at least.

In other words, for those sitting on the sidelines waiting to get a fixed rate at a reasonable price – now could very well be the time to do that.

Natural Gas

Current Price Environment:

Floating average wholesale prices ended calendar 2022 at \$5.04/GJ. This was the highest level of annual prices realized since calendar 2008.

Floating average prices for June 2023 YTD were \$2.70/GJ, a significant reversal from the \$5.66/GJ average price in November 2022 and a \$5.75/GJ average price in December 2022, due to short-term cold snaps that occurred in early winter. The

overall milder weather in late winter was not only a key factor to more moderate electricity prices, but also to lower natural gas prices. On a broader scale, the energy crisis in Europe arising from the Russia-Ukraine conflict has also reduced somewhat. Europe similarly benefitted from a milder winter and when combined with energy conservation and demand management measures the region as a whole had been putting in place, this has moderated European demand for gas supply from North America relieving upward pressure on gas prices.

Storage levels in Alberta are currently trending above historical levels at this point in the year, which is alleviating some supply concerns and helping lower price expectations for this coming winter.

Gas Forward Prices:

Overall, wholesale forward prices have decreased marginally since our last update – with price decreases occurring mostly in 2023 and 2024. All other years experienced price drops in the \$0.20/GJ to \$0.30/GJ range.

Average forward wholesale prices for 2023 and 2024 are in the \$2.50/GJ to \$3.00/GJ range, leading to a retail price in the low \$3.00/GJ range after adjusting for the load shape of higher consumption in the higher priced winter months. Forward prices for 2025 to 2028 are in the \$3.50/GJ to \$4.00/GJ range, leading to a retail price in the lower \$4.00/GJ range.



8760 Recommendations:

Despite the short-term drop in gas prices, we continue to suggest that a fully floating price strategy for natural gas is no longer a prudent strategy for most customers. We also suggest a fully fixed natural gas price strategy is also not prudent at this time.

We continue to suggest a blended approach using a block product whereby a portion of your consumption is at a fixed price while the remaining volumes float at a market price. Typical strategies are 50% fixed and 50% floating, with a more conservative strategy being 75% fixed and 25% floating.

We suggest that forward prices levels for 2023 and 2024 **represent excellent value**, and a good opportunity to partially fix at least 50% of your gas volumes. Forward price levels for 2025 to 2028 are reasonable value and at price levels that 8760 expects to be the “new normal” for gas going forward.

Carbon Taxes

The Federal Carbon Tax increased by 30% on April 1, 2023, to \$3.42/GJ. It was previously at \$2.63/GJ.

The next scheduled increase is April 1, 2024 when it will again increase by 30% to \$4.45/GJ.

Pool prices attained from AESO system reports.
Forward prices provided by NE2 Group

New Cascade Generation Facility

The Alberta Utilities Commission approved the Cascade Power Project in November 2019 and construction began in late August 2020. Details include constructing a 900 MW combined cycle power generation facility that will provide power to 900,000 homes in Alberta. (<https://majorprojects.alberta.ca/details/Cascade-Power-Project/3710>)

The facility is being constructed in Yellowhead County, approximately 12 kilometres southwest of Edson, Alberta. The Project is located on crown lands on a 52-hectare site and will have the capacity to supply over 8% of the province’s average electricity demand. The facility will utilize modern, highly efficient industrial turbines, fuelled by natural gas, and will commence operations in 2023.

The anticipated construction work effort is expected to require 3,000,000 work-hours in the local area. Once operations commence, 25 direct, long-term skilled jobs will be created in the community. The total capital investment associated for the Project is approximately \$1.5 Billion.

Cascades Power Generation Station is expected to come online the latter part of 2023. As discussed above, it will bring some much needed supply cushion to the grid resulting in lower prices.

Final Recommendations:

Electricity

BUY: After October 2023 – longer terms

STRONG BUY: April 2024 and beyond – longer terms

EXCELLENT BUY: January 2025 and beyond

Gas

EXCELLENT BUY: 2023 and 2024

BUY: 2025 to 2028



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