Natural Gas Market Update
May 2022

GAS SOUTH

Pricing Outlook

After a month of heightened volatility, the May NYMEX natural gas futures contract expired last week at **$7.27/MMBtu**. May's settlement represented more than a 35% increase over April's expiration, and it was the highest prompt month close in well over a decade. May prices surged to a high above $8/MMBtu mid-month, did an about-face and retreated to the mid-$6 range, and then marched higher once again as the contract expiration date neared. Since assuming the prompt month position, the June contract has jumped to more than **$8.40/MMBtu**. The current market price conditions are the highest seen since September 2008.

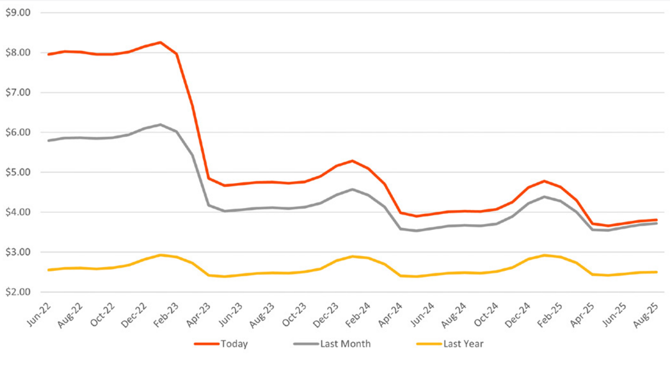
Not to be outdone, the Transco Zone 5 South basis—a proxy for delivered prices in the southeastern United States—is also significantly higher. The November 2022-March 2023 Transco Zone 5 South basis strip recently cleared at **$4.98/MMBtu**—an indication that baseload prices for the 151-day period spanning November through March are projected to average more than $13/MMBtu this upcoming heating season.

So, what's driving the surge in prices? While many are characterizing the recent move higher as "irrational," increasing pressure on supply fundamentals is creating strong market price support, and it's not yet clear where meaningful resistance will be met. Pullbacks in the near term may be limited as market participants see these as buying opportunities amidst fears that prices could run higher. Nationwide storage stocks are now more than 20% below the five-year average, and there is a general belief throughout the industry that the market will be challenged to close the gap. The core cooling season begins in earnest in another six weeks, and supplies for storage injections will be increasingly competing against power generation demand. LNG exports, meanwhile, continue to run near maximum capacity amidst the ongoing conflict in Ukraine.

While prices through the upcoming heating season remain elevated, production firms have been reluctant to ramp up operations amidst concerns over the state of the economy, skepticism over the sustainability of the current price environment, and environmental headwinds. Current production levels are lagging those seen late in 2021. Moreover, the market remains capacity constrained in some regions. Just last week, the Mountain Valley Pipeline was delayed yet again until late 2023. Interestingly, as you look beyond the 2022-2023 heating season, you'll find a significant reduction in forward prices highlighted by a nearly $4/MMBtu spread between January 2023 and May 2023.

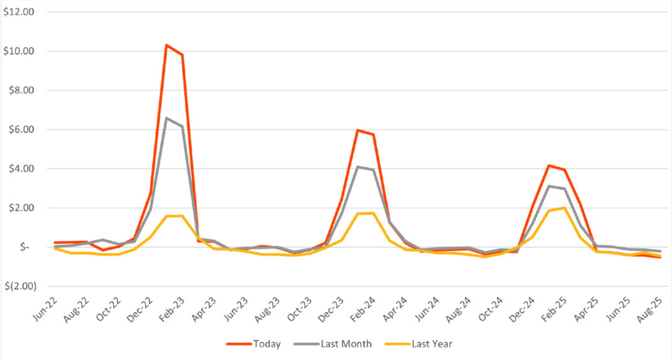
In this market price environment, one thing is certain: natural gas prices will remain unpredictable as fear premiums seep into the market. Significant swings higher and lower are sure to come in the weeks ahead.

NYMEX Forwards



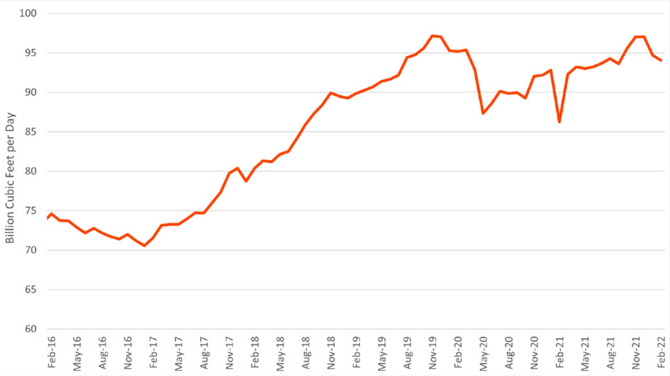
Once again, the NYMEX strip is up significantly month-over-month and year-over-year as the market and geopolitical fundamentals continue to create upward price pressure.

Transco Zone 5 Forwards



Sentiments similar to the NYMEX also drive Transco Zone 5 market prices significantly higher month-over-month. Continued delays in capacity expansion (e.g., Mountain Valley Pipeline) inhibit production and transport to market and increase the Southeast's locational basis.

U.S. Dry Gas Production



Monthly dry gas production, which is reported on a two-month lag, retreated from its early winter peak.

News From Gas South

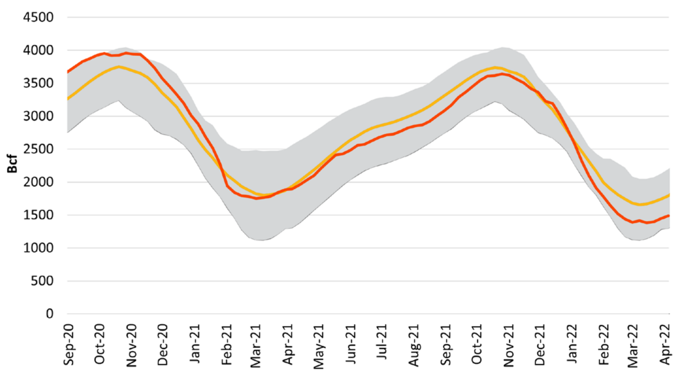
Gas South is committed to helping preserve the planet, and we want to help our customers to find simple solutions that cut carbon footprints, meet regulatory requirements and contribute to building a low-carbon economy. That’s why we’re expanding our clean choice product offerings to help our customers reach their sustainability goals.

We’re pleased to announce our newest green product, FlexRNG. FlexRNG is the first of its kind in the environmental commodities market. It blends renewable natural gas (RNG) with carbon offset credits for a verified carbon neutral solution that fits your budget and offers a direct path to ESG targets. Read more about **our announcement here.**

NYMEX Prompt History

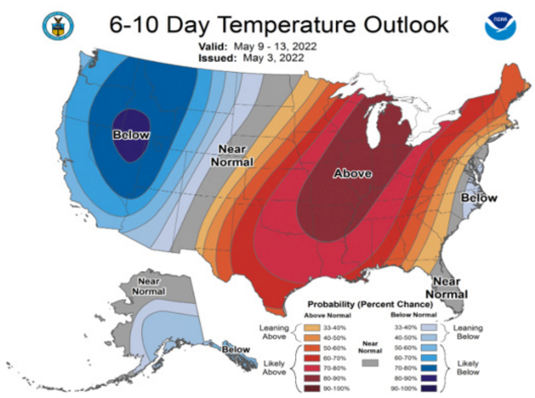
NYMEX prices surged higher over the course of the past month. Amidst the heightened volatility, the market reached its highest levels since September 2008, with prices consistently traded between $7-$8 per MMBtu over the past three weeks.

Nationwide Storage Inventory



Working gas in storage is nearly 20% behind the five-year average and well behind last year’s pace. Concerns are growing about whether this deficit can be resolved in time for heating season, another contributor to the rising price environment.

NOAA 6-10 Day Temperature Outlook



As warmer temperatures set in, the rush is on to fill nationwide storage stocks before competing demand kicks in for gas-fired power generation for cooling.