



# Webinar

What's Happening in the Energy Markets and  
How it Impacts the Hospitality Industry

David Pickens and Todd Bohan | July 2022



# Agenda for Today's Webinar

- Introductions
- Explain how utilities buy and source energy for their customers
- Show how energy prices are coming off historic lows
- Discuss what forces are pushing energy prices higher
- Communicate to all NYSHTA members the importance of taking control of your energy costs
- Demonstrate the need to be proactive in energy procurement and not reactive
  - This NYSHTA program is designed to help you



# Introductions

## Todd Bohan

- 25 years of industry experience in energy/regulatory
- Employed by various electric & gas utilities in New England
- Worked for a state regulatory commission and consultant
- Procured utility-provided electric supply for a multi-state electric and natural gas utility company

## David Pickens

- Director, Natural Gas Sales New England
- 28 Years of industry experience in Upstate New York
- Team leader in developing forward market assessments for internal sales groups
- Team leader in creating customized unique buying strategies for Sprague customers



# The Regulatory Approach



- The Regulatory Process tends to move rather slowly
- Regulators also tend to be **reactive** rather than proactive in their approach to policymaking
- Relying on a Regulatory Approach for determining the commodity price you pay, can lead to price uncertainty – especially in a volatile energy price environment
- At Sprague, we would like you to be more **proactive** about your energy supply needs
- Our team can help bring commodity price certainty to your planning and budgeting process

# Regulatory Methodology

- Generally speaking, we are well over 25 years into deregulated energy markets
- We have seen events and price volatility in the past
- Why is this a surprise to regulators?
- It should not be at this point

## My Experience – Just an Example

- Regulators continue to change the rules and procurement methodology to “fit the moment”



# Regulatory Notices Regarding Price Volatility

## **Some regulators are issuing notices warning about energy price increases**

**NY PSC:** Press Release (May 2022): *Average Summer Residential Electric Prices Expected to be Higher Than Normal*

[pr22044.pdf \(ny.gov\)](#)

**PA PUC:** Press Release (May 2022) *PUC Alerts Consumers of June 1 Price Changes for Electric Generation; Consumers Urged to Act Now to Compare Prices, Consider Shopping with Competitive Suppliers and Energy Options on PAPowerSwitch.com*

[PUC Alerts Consumers of June 1 Price Changes for Electric Generation | PA PUC](#)

**CT PURA:** Press Release (May 2022) *Revised Electric Standard Service Generation Rates to Take Effect July 1*

[Revised Electric Standard Service Generation Rates to Take Effect July 1](#)

**OH PUC:** (May 2022) *News Bureau: Rising Energy Prices*

[News Bureau: Rising energy prices | Public Utilities Commission of Ohio](#)



# Regulatory Actions Regarding Price Volatility

**Some regulators are revisiting procurement process in light of energy price increases**

**IL Power Agency:** (June 2022) *Electricity and Capacity Procurement for Eligible Retail Customers Request for Stakeholder Comments*

[2023 procurement plan stakeholder feedback request final \(6-26-22\).pdf \(illinois.gov\)](#)

**TX PUC:** (July 2022) *Review of Rates Applicable to POLR Service*

<https://interchange.puc.texas.gov/search/filings/?UtilityType=A&ControlNumber=53820&ItemMatch=Equal&DocumentType=ALL&SortOrder=Ascending>

**NH PUC:** (June 2022) *DE 22-021 Eversource Energy 2022 Energy Service Solicitation*

***“...investigatory docket as introduced in Order No. 26,582 shall further include a statewide review of electric distribution company default service procurement practices...”***

[26-645.pdf \(nh.gov\)](#)



# And So What is The Concern?

- Energy Prices Are Up
- Cost of utility-provided commodity pricing (electric and gas supply charges) are expected to increase

*perhaps significantly so.....*

- New York utility-provided commodity service prices\* are determined each month and are not known beyond that horizon
- Other states have different mechanisms used to procure utility-provided commodity service
- To demonstrate my point and show the concern I am raising, please see the graph showing electric commodity service prices for selected regional electric utilities

\*Utility-provided electric commodity service is referred to in other jurisdictions as default service, standard offer service, provider of last resort service, etc.



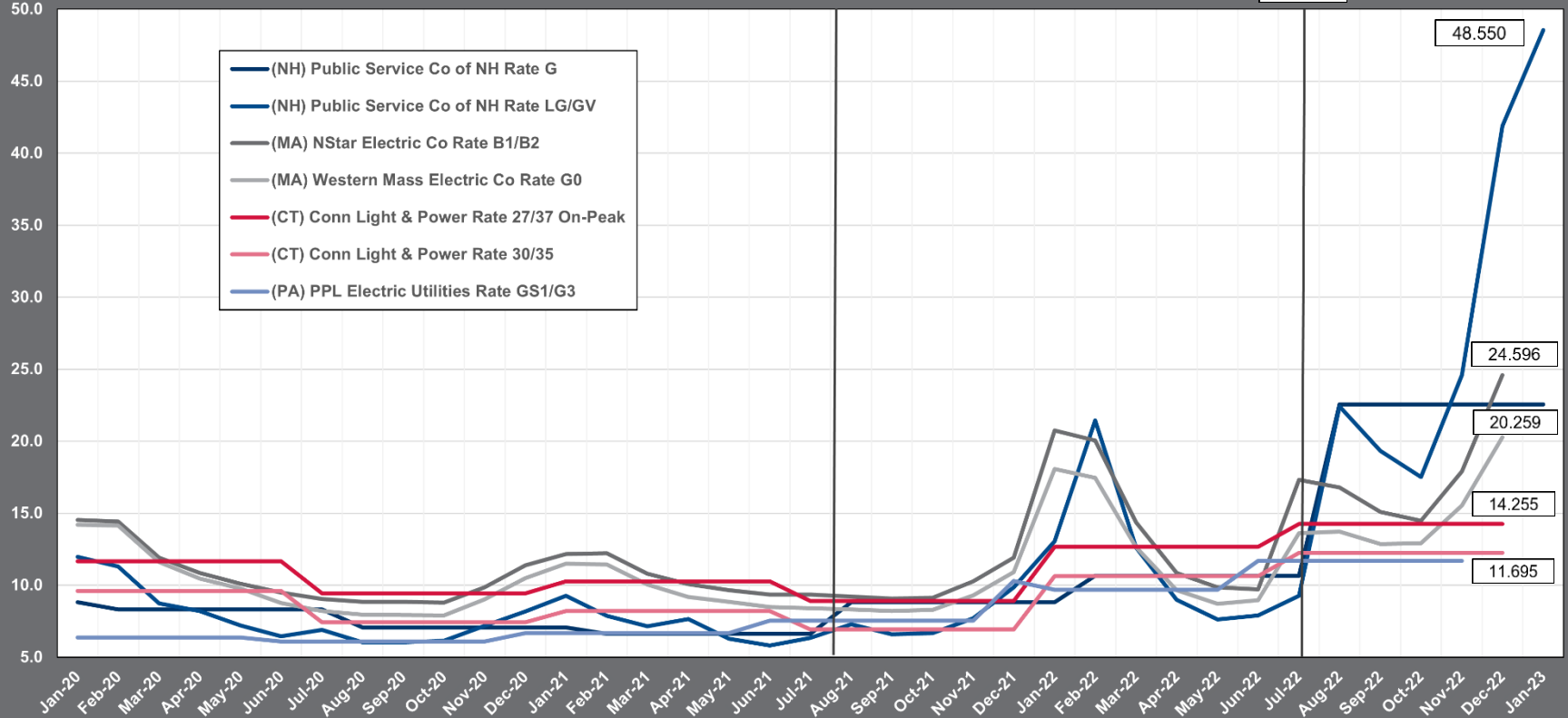


# Selected Northeast Electric Utility Commodity Prices: January 2020 - January 2023

c/kWh

1 Yr Ago

Today

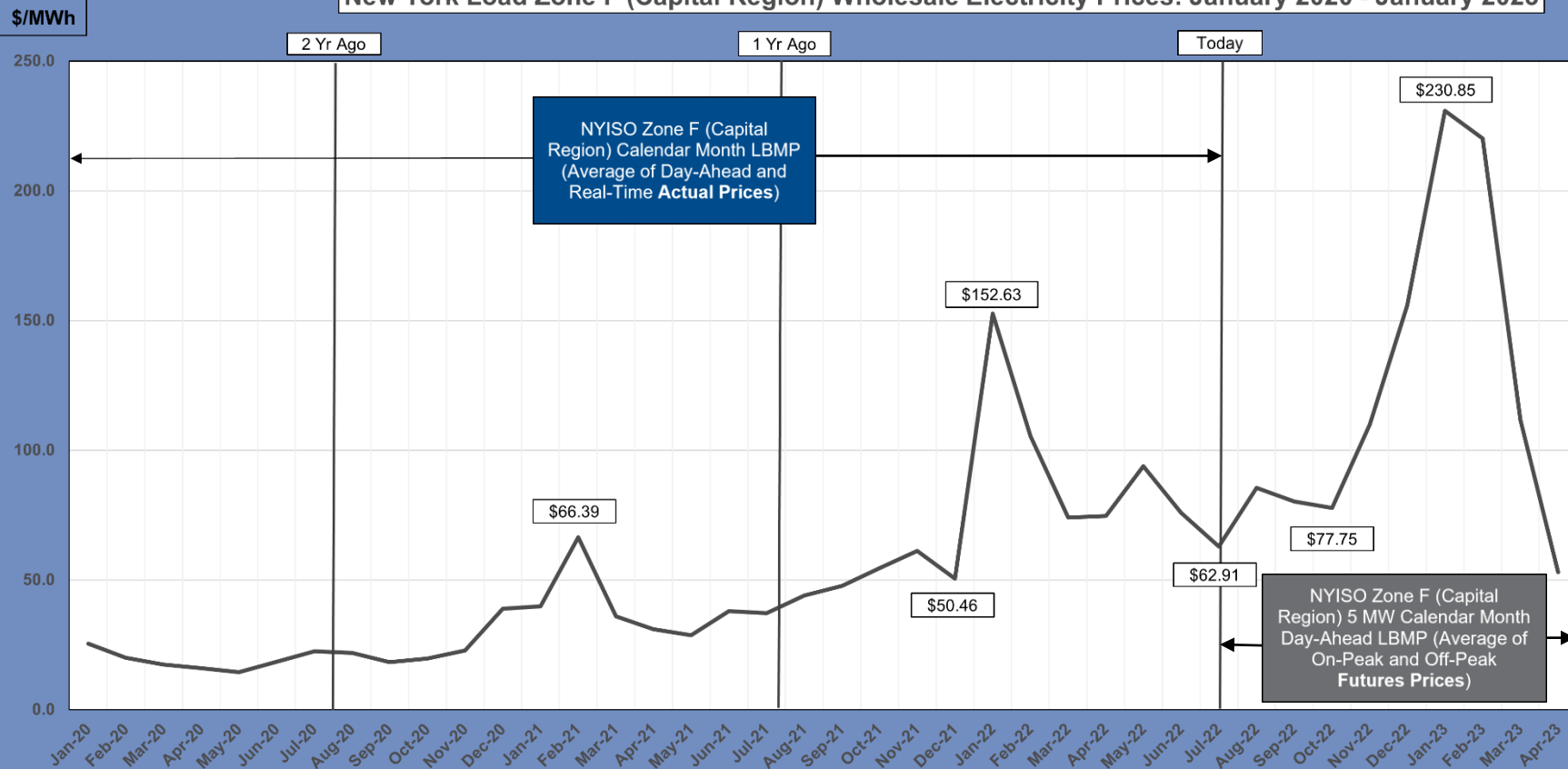


# What Does This Mean?

- We do know that the key driver of the utility-provided electricity is the wholesale cost of power generation and that is typically measured in dollars per megawatt-hour (MWh)
- We also know that there are other ancillary services costs that go into the wholesale cost of power such as voltage support, regulation and frequency control, operating reserves, and blackstart service
- For our discussion we will set these additional costs aside for the moment
- We don't have a crystal ball, but.....



# New York Load Zone F (Capital Region) Wholesale Electricity Prices: January 2020 - January 2023



# Key Drivers to Energy Price Increases

- A number of factors are contributing to the current increase in energy prices
- Natural gas prices have risen dramatically in the last year
- Why? A strong increase in world demand for U.S. natural gas, particularly in Europe and Asia
- This aspect was only exacerbated by the Russian invasion of Ukraine
- Surge in domestic demand in the post-pandemic environment
- Inflation and supply-chain issues raising costs generally

**40% of Europe's  
natural gas is  
provided by Russia**

NYISO: (May 2022) Impact of National & Global Conditions on Electricity Prices in New York  
[ea6c1616-02a5-5bdd-9964-bfd6e98a2dc5](#)  
([nyiso.com](#))

**Inflation has  
increased to 9.1%  
as of June 2022**

U.S. Bureau of Labor Statistics: (July 2022)  
Economic News Release - Consumer Price Index  
[Consumer Price Index Summary - 2022 M06](#)  
Results ([bls.gov](#))



# Going Forward

## Short-Term

- World demand for U.S. natural gas will likely remain strong
- This will keep upward pressure on domestic natural gas prices
- Domestic demand in a post-pandemic environment is likely to continue
- There is the possibility of a recession as the Federal Reserve continues its fight against inflation and this could ease some of the energy price increases

## Long-Term

- **Climate Leadership and Community Protection Act (Climate Act)** (July 2019) requires NY to reduce economy-wide greenhouse gas emissions 40% by 2030 & 85% by 2050 from 1990 levels
- **Clean Energy Standard (CES)** (August 2016 however, continually evolving) has targets of 70% renewable energy by 2030 & 100% zero-emissions electricity by 2040
- **All-Electric Building Act** (November 2021) if enacted would prohibit infrastructure, building systems, or equipment used for the combustion of fossil fuels in new construction statewide no later than December 31, 2023 (< 7 stories) and July 1, 2027 (> 7 stories)



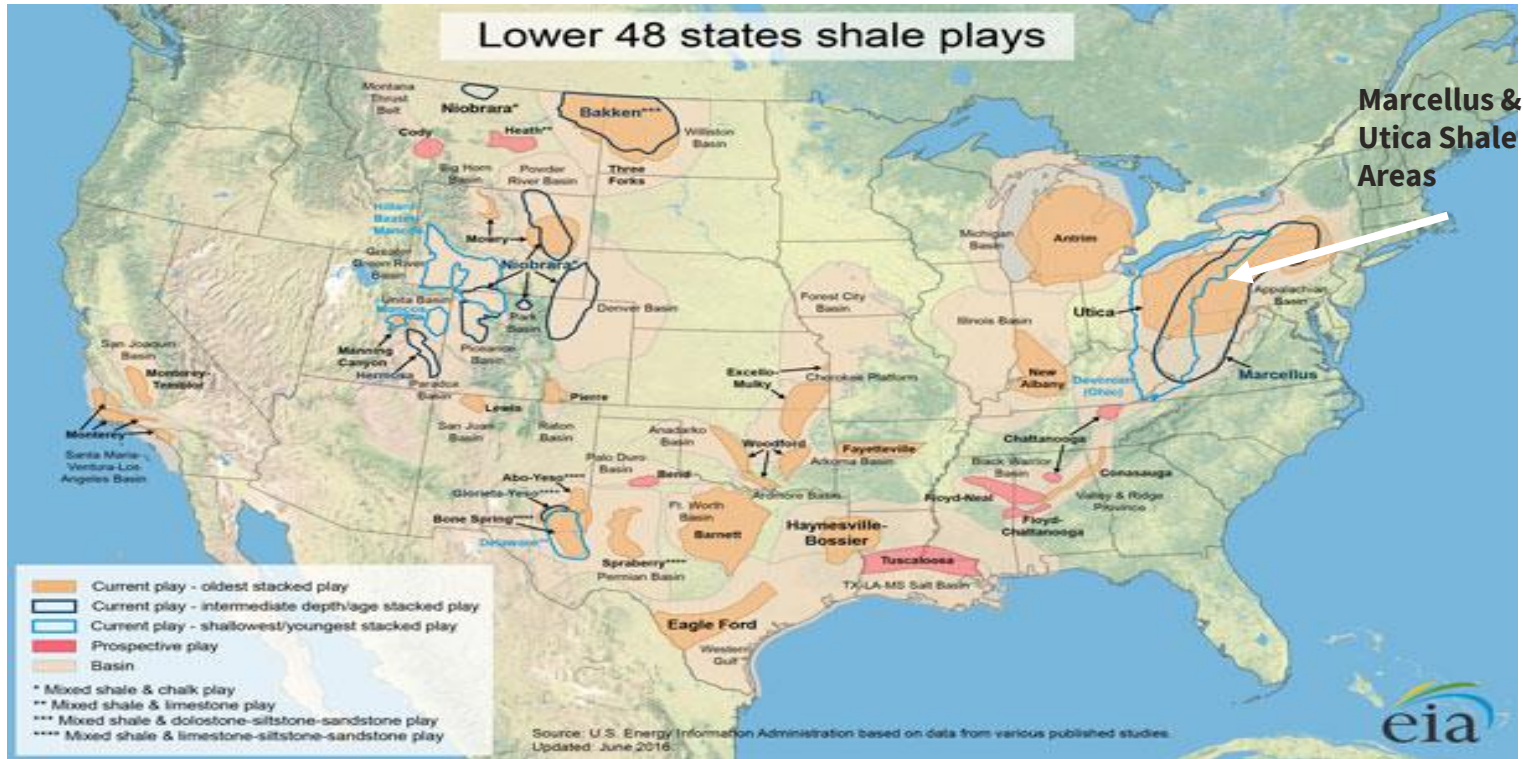


# Why Are the Markets Different?



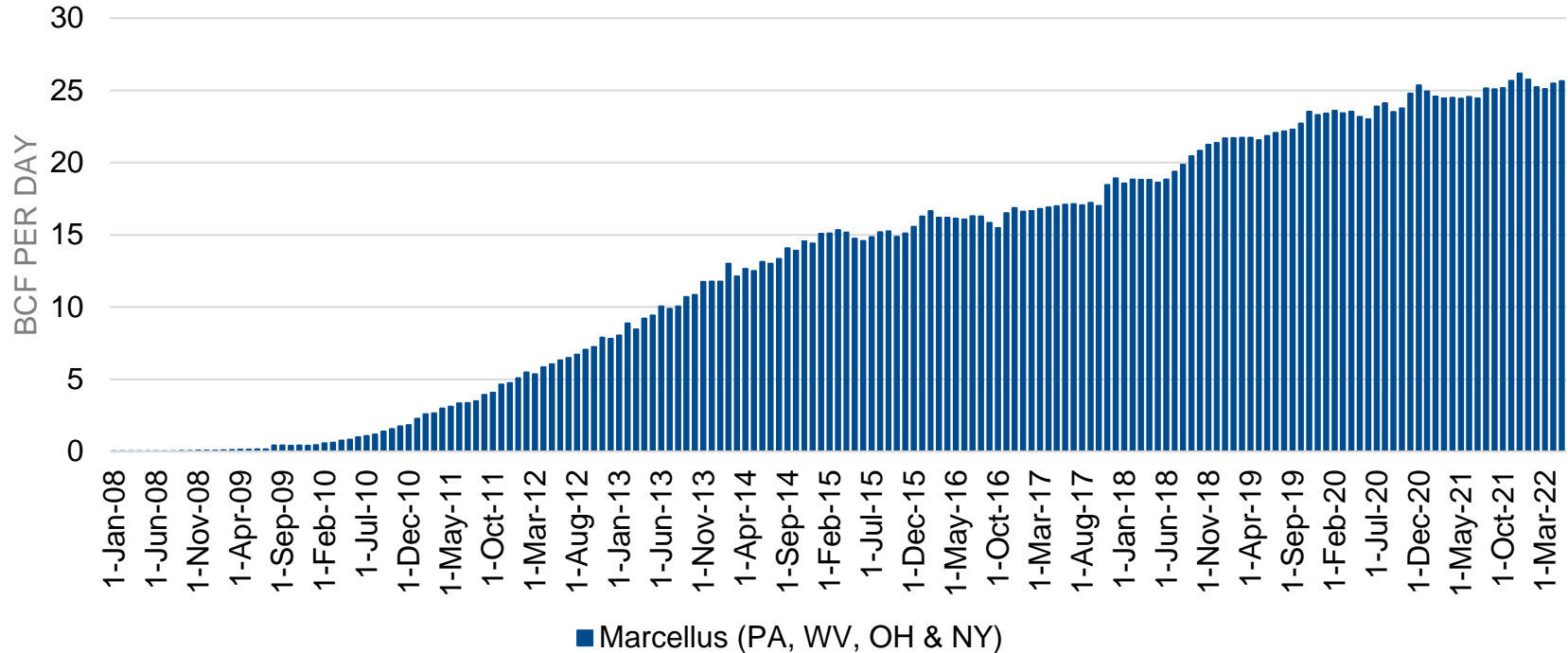


# Shale Gas Production Areas



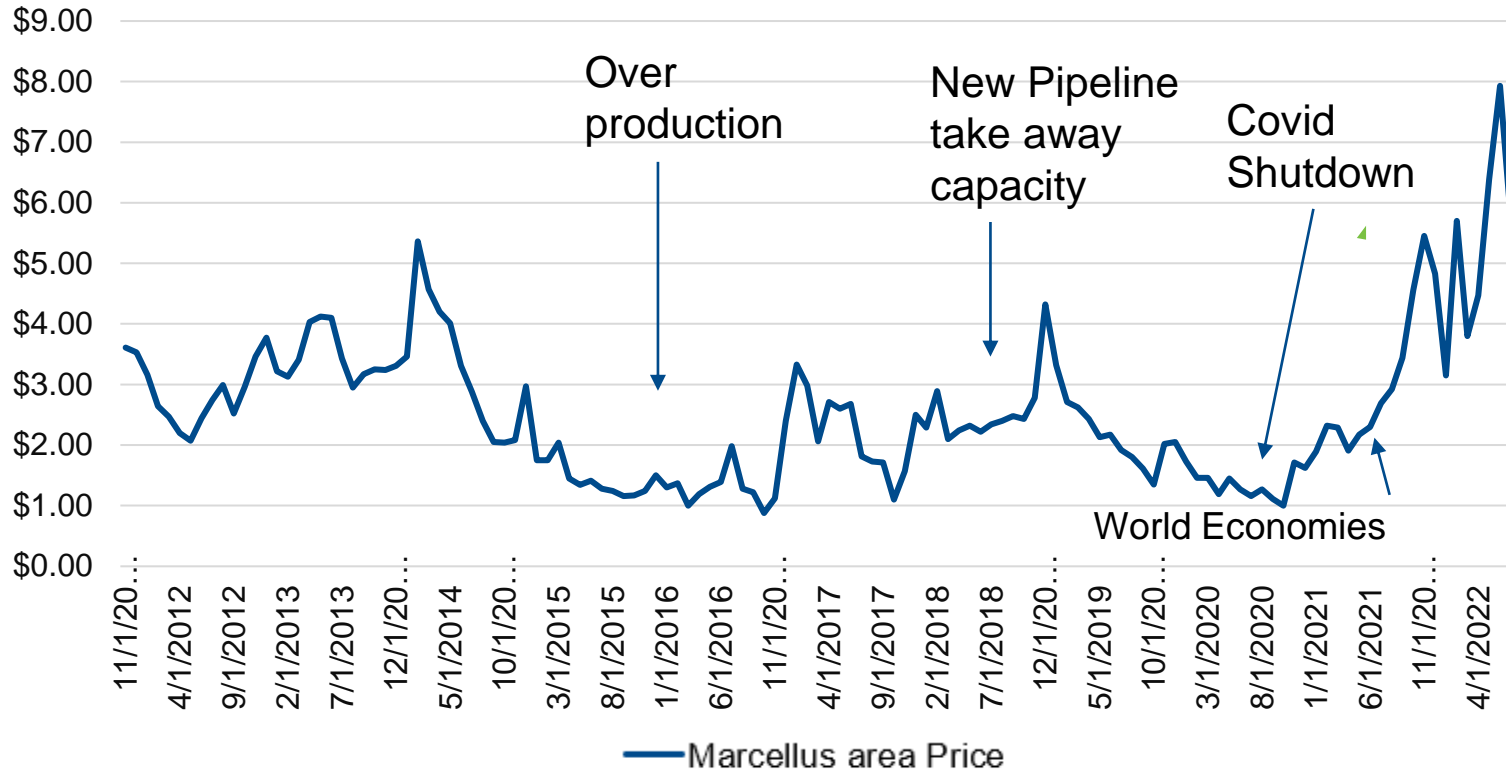
# Marcellus Shale Natural Gas Production History

Marcellus (PA, WV, OH & NY)

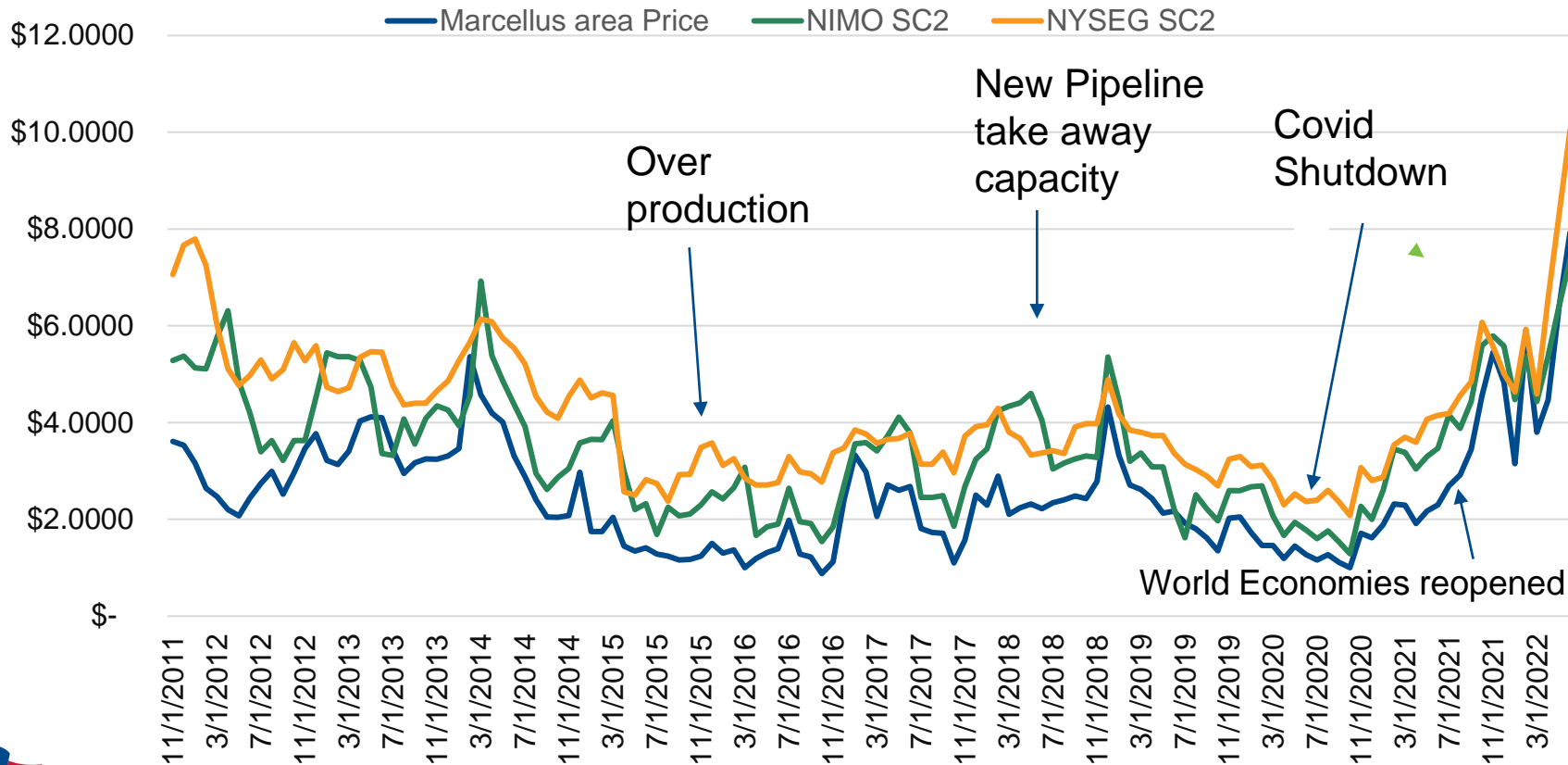




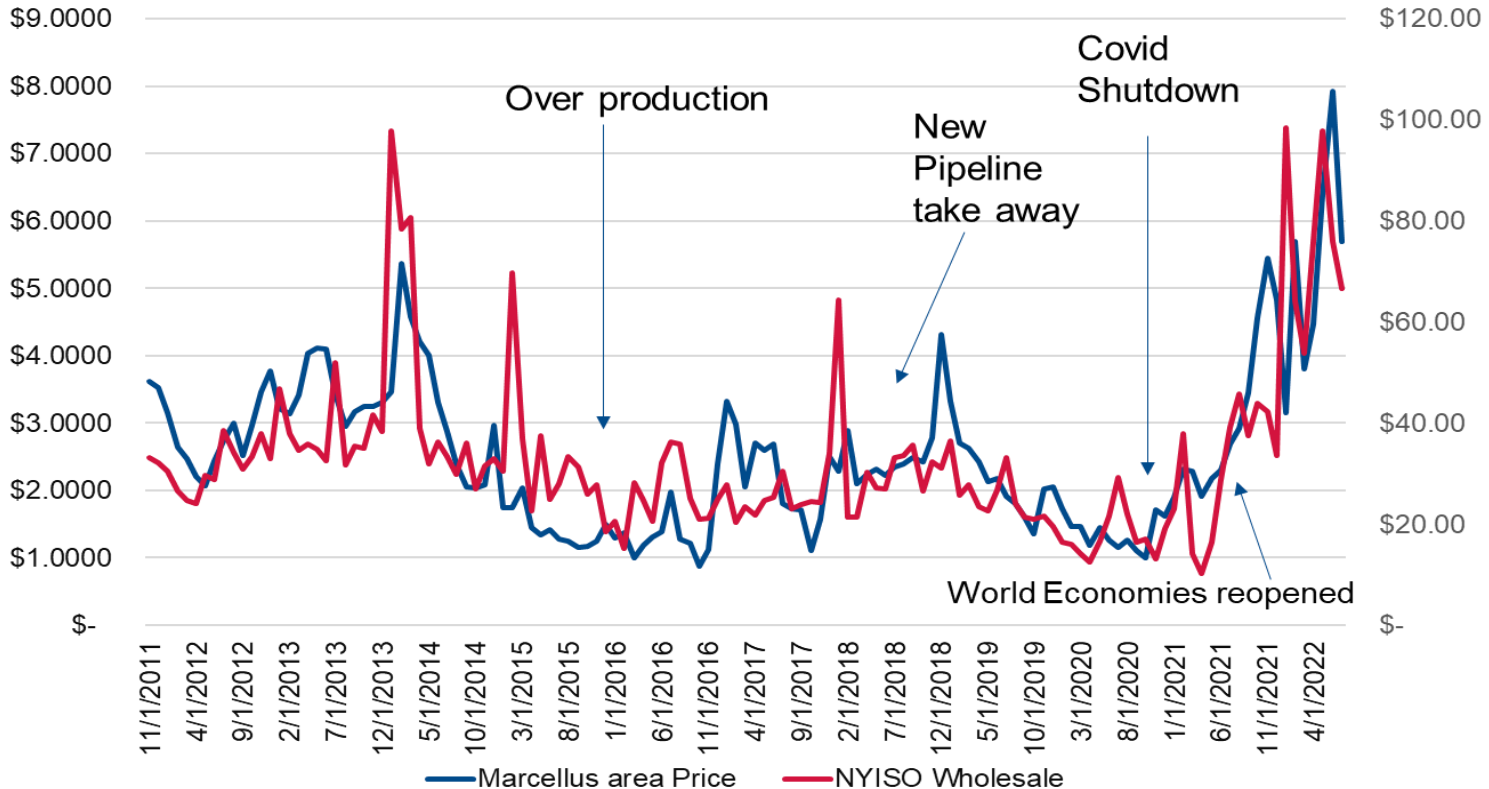
# Marcellus Area Natural Gas Historical Pricing



# NYSEG & Nimo SC2 Historical Pricing



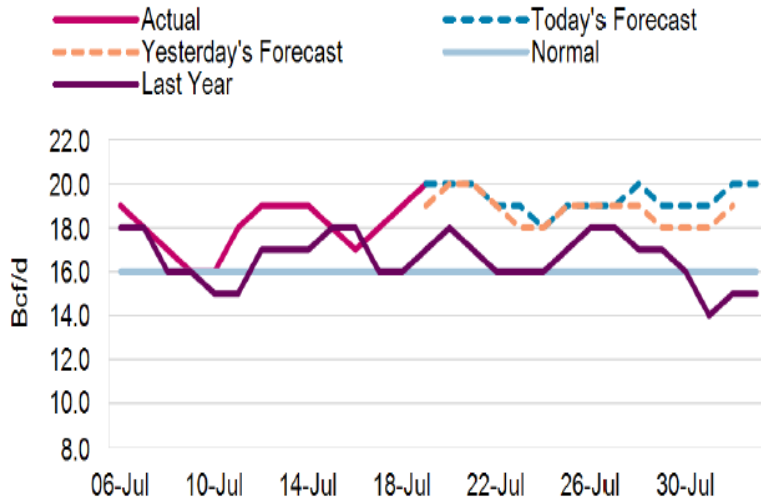
# Historical NYISO Wholesale Power Pricing



# Why Is Natural Gas Going Up In Price?

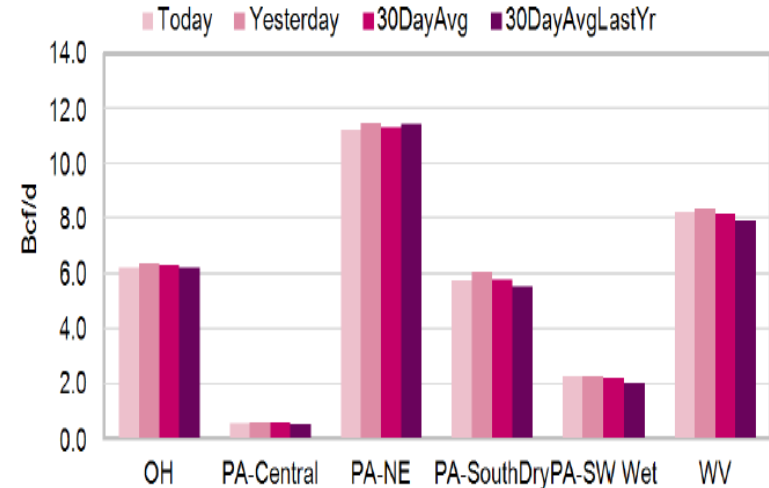
## Demand is up

### NORTHEAST DEMAND



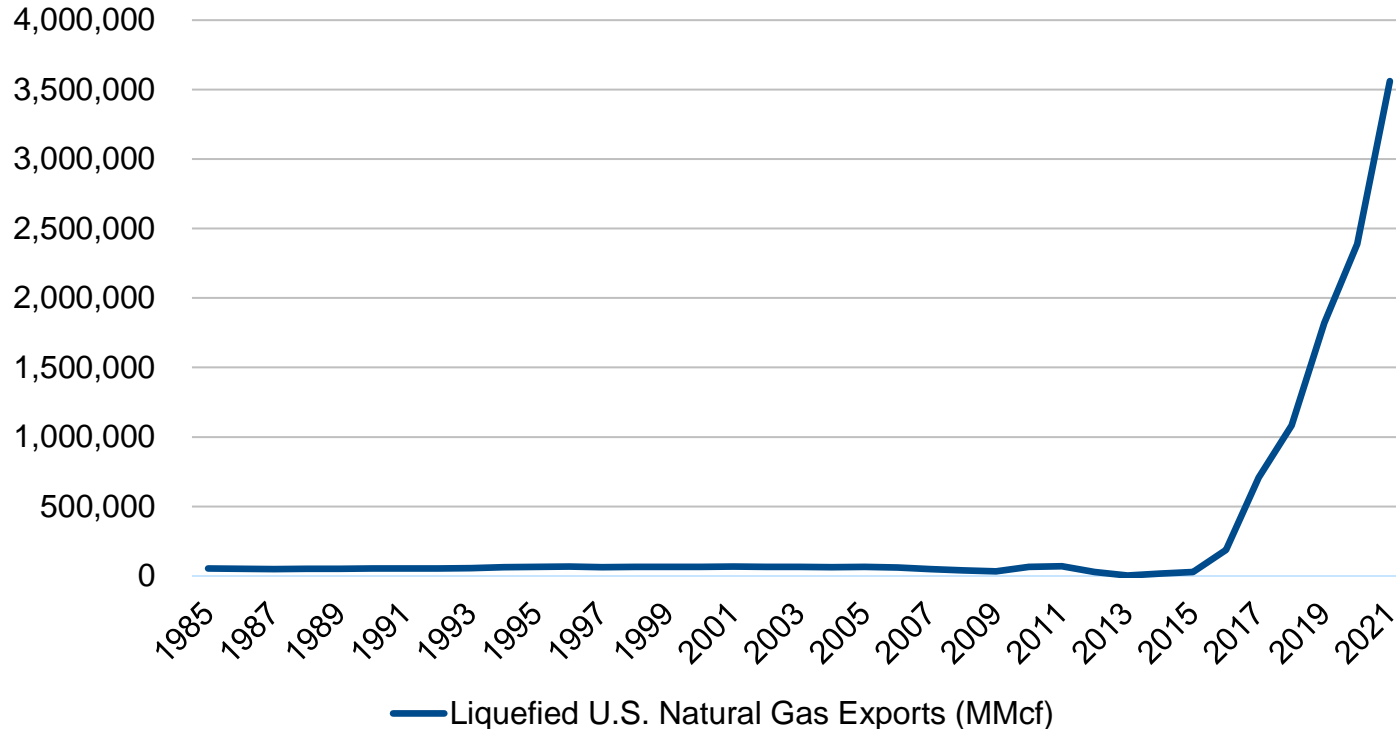
## Supply is flat

### NORTHEAST PRODUCTION BY BASIN

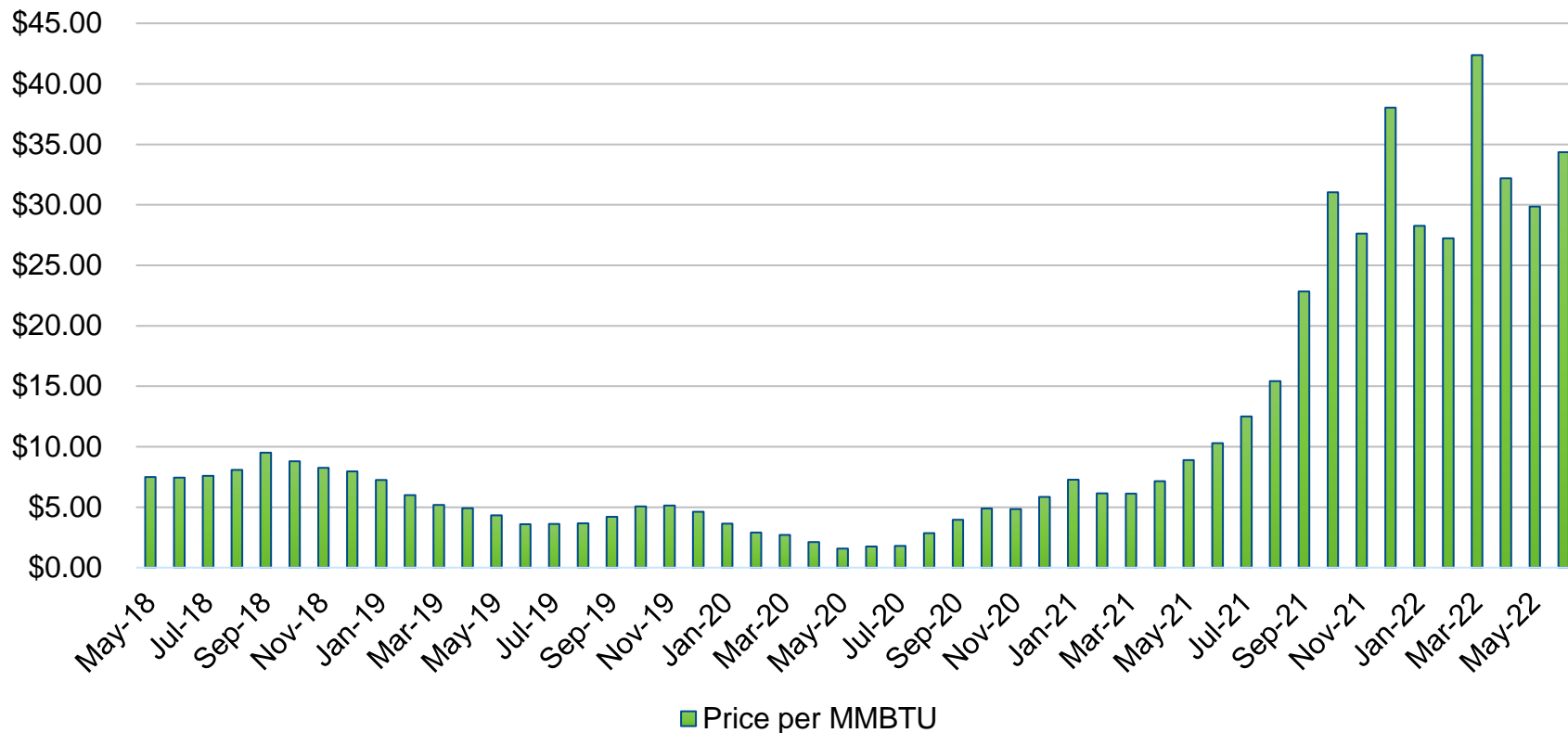


# The U.S. Is Now A Major Exporter of Natural Gas

## Liquefied U.S. Natural Gas Exports (MMcf)



# European Market Price for Natural Gas





**It's summer, time to  
wrap this up.**

# Recap of Today's Webinar

- Communicate to NYSHTA members the importance of taking control of your energy costs
- Explain how utilities buy and source energy for their customers
  - Variable rates move closely with the underlying monthly price of natural gas.
  - Forward natural gas and power prices are unknown
  - Your budget is at the mercy of the market
- Energy prices are coming off historic lows
- There are forces pushing prices higher
  - Regulatory mandates
  - Global & domestic demand
- There is a need to be proactive in your energy procurement, not reactive. It's not too late.
  - It is not a good idea to make buying decisions based on the rear-view mirror
  - This NYSHTA program is designed to help you
  - It costs nothing to have the conversation with us.







# Our Energy Makes the Difference®

## **NYSHTA Program**

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