STATE OF THE ENERGY MARKET – Late 2017 - Early 2018

The story at this point in late 2017 is summed up with the word “stabilization”.

After the failure of the Saudi strategy in 2014 to “preserve market share” by continuing oil production in the face of low demand growth the situation was stabilized by an agreement between the OPEC and non-OPEC members to cut production by 1.8M bpd in late 2016. The success of this agreement is due to the grudging understanding by the broad membership (especially Iran and Iraq) that cheating will only lead to the ruin of them all.

Recently, OPEC and partners have agreed to extend the production cuts until the end of the first quarter of 2018. This is welcome news for producers as the continuation of the agreement has resulted in a pause in the growth of stockpiles globally and the stabilization of crude prices in the $55 - $60/barrel range.

Notably not participating in this curtailment of production is the United States because, unlike the OPEC nations that have large national oil companies, the US production is made up of thousands of producers, of all sizes, that are free to produce (or not) as much as the market will bear. In fact, production in the US has been rising and the exports of US energy products are beginning to re-make the global energy map.

The US is now the largest exporter of refined products and it exports oil at a rate of 2M bpd since rulings allowing for crude export were promulgated in early 2017. While the US is still a net importer of Natural Gas that will soon change. Cheniere’s Sabine Pass LNG facility began production in 2016 and 4 other facilities (Cove Point, MD, Cheniere’s Corpus Christie Terminal, Sempra’s Cameron LNG terminal in LA and Freeport LNG’s terminal in TX) will all be coming on line by 2020 with capacities that total to 10.6 bcf/d.

These increases in productively from recent technological innovations, forced on the industry due to low energy prices over the last few years, mean that with US producers, willing and able to respond with more production in the face of rising prices, will act as a cap on market prices. This should remain true in the short to medium term and prevent prices from getting back to the levels that existed prior to the Fall of 2014.

Bankruptcies of upstream producers and midstream aggregators have declined and the survivors seem to have stabilized their financial situations.

Price shocks from hurricanes (Houston and the Gulf), political upheavals (Venezuela and Nigeria) and other risks continue to occur but the relative stability of global demand keeps bringing the price back to the $55 - $60/barrel range.

There are still many issues that must be addressed, most notably the need for the expansion of pipeline capacity to bring natural gas, crude and NGLs to market. There is also an expectation that when the

wave of new ethane plants come on line in the next few years the demand for NGL feedstocks will outstrip the supply. This is primarily due to the focus on oil rather than natural gas production (oil is low in NGLs) and will likely result in a strong price rise and a concurrent rise in the price of Ethane.

RESULT:

The price of crude oil and natural gas will stay stable for the foreseeable future *(through 2018)* and M&A activities will continue as companies seek to lower costs and create greater efficiencies. Upstream and mid-stream companies will be focused on lowering costs and creating new efficiencies so people with experience in finance and M&A will continue to be needed. Trading, marketing and origination roles are always available for individuals with a history of strong profitability, as are opportunities for successful business development people but the continued consolidation in the power, oil and gas sectors means that there is a general reduction in the number of seats at the table.