EIA Predicts Increased Electricity Consumption - Find Out What That Means for Oil, Natural Gas, Renewables and Coal

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Short-Term Energy Outlook Takeaways

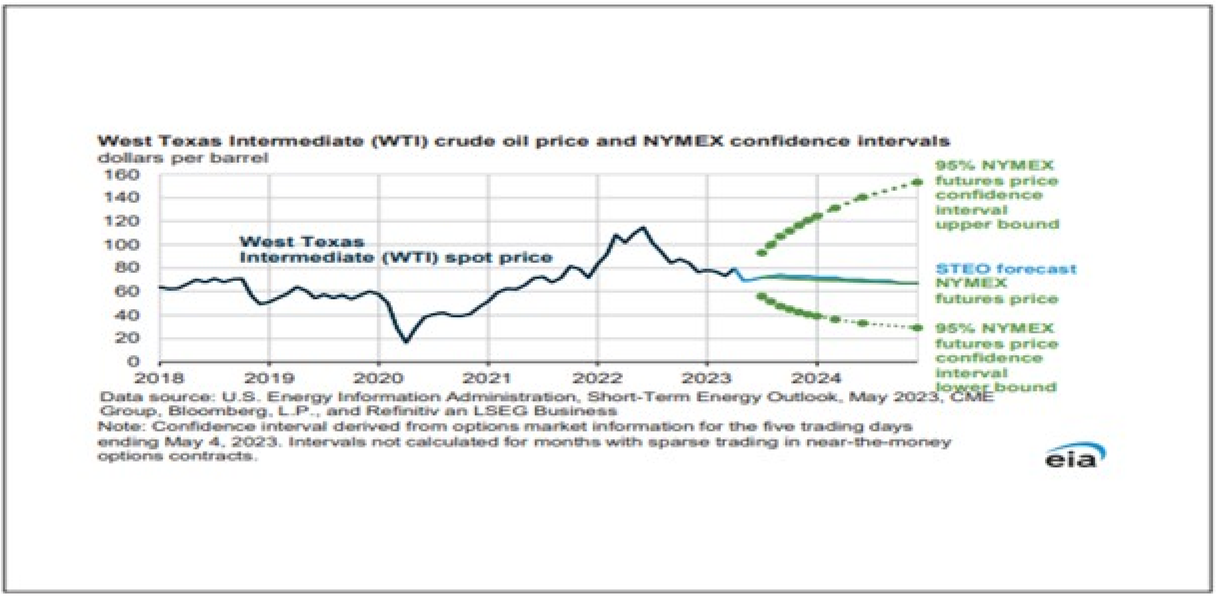
The latest Short-Term Energy Outlook was released by the Energy Information Administration (EIA) in early May. Several variables are mentioned in the report influencing the revised forecast. Among them, the OPEC+ April announcement to cut production through the end of the year, volatility in the banking sector, inflation, and a weakening global economy. Additionally, the EIA changed its weather forecasting methodology. Below are the take-aways:

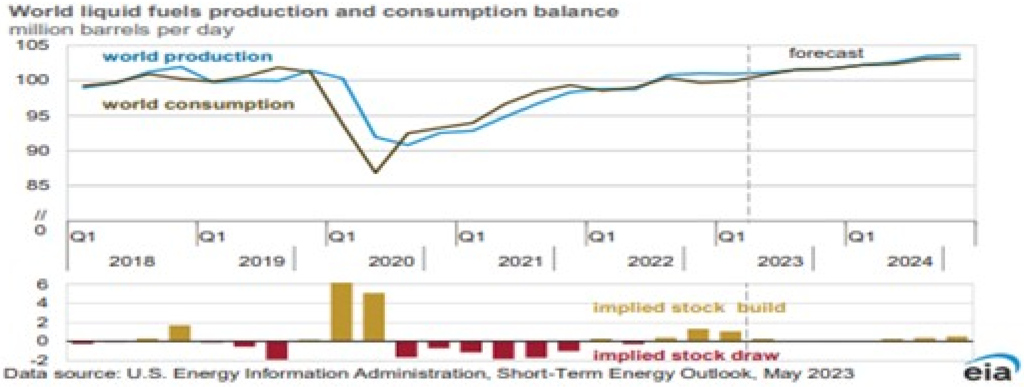
Notable forecast changes current forecast: May 9, 2023; previous forecast: April 11, 2023	2023	2024
Brent spot price average (dollars per barrel)	**$79**	**$74**
Previous forecast	$85	$81
Percentage change	-7.5%	-8.3%
U.S. retail diesel prices (dollars per gallon)	**$3.90**	**$3.62**
Previous forecast	$4.11	$3.87
Percentage change	-4.9%	-6.4%
U.S. electric power sector generation from natural gas (billion kilowatthours)	**1,604**	**1,558**
Previous forecast	1,568	1,514
Percentage change	2.3%	2.9%
U.S. electric power sector generation from coal (billion kilowatthours)	**694**	**673**
Previous forecast	687	704
Percentage change	0.9%	-4.3%
U.S. heating degree days	**3,965**	**4,007**
Previous forecast	4,024	4,194
Percentage change	-1.5%	-4.5%
U.S. cooling degree days	**1,552**	**1,566**
Previous forecast	1,433	1,393
Percentage change	8.3%	12.4%

Data source: U.S. Energy Information Administration, *Short-Term Energy Outlook, May* 2023

Global Oil Markets

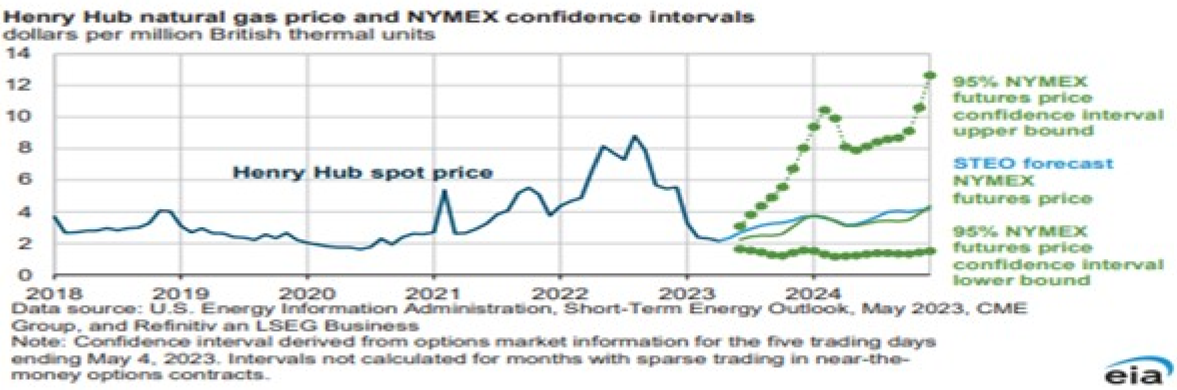
As of May 4th, Brent crude oil spot price closed at $73/b, a drop from from the average of $85/b in April. In early April OPEC+ announced it would be cutting oil production by 1.2 million barrels per day (b/d) through the end of 2023. Following the announcement, crude oil prices increased on expectations of oil supply tightening. However, other factors have outweighed the initial price bump, ultimately leading to lower prices. Those factors include the deteriorating global economy, uncertainty in the global banking sector, and sustained inflation. Although the downside risks are expected to persist through the end of 2024, seasonal consumption trends are expected as usual. The combination of expected seasonal consumption increase and OPEC+ cuts will prop up prices. The current forecast for global liquid fuels consumption increases by 1.6 million b/d in 2023 and by 1.7 million b/d in 2024. China, India, and Non-OECD (Organization for Economic Co-operation and Development) Asia are expected to drive the demand. The global oil market is expected to find balance between the third quarter 2023 and first quarter 2024. The EIA predicts Brent pricing will be $75/b to $80/b through the end of 2023.





Natural Gas

The summer of 2023 is expected to see another record year for United States natural gas consumption to generate electricity. The summer average is expected to be 38 billion cubic feet (Bcf/d), second only to the summer of 2022 which averaged 39 Bcf/d. Consumption for natural gas for electricity typically increases in summer primarily driven by air-conditioning use as a result of increased temperatures. The increase is attributable to a few factors including low natural gas prices, weather forecasting higher-than-normal temperatures, and declining coal-fired electricity. However, the EIA predicts natural gas consumption will decline by 2% by the summer of 2024. This decline is due to more renewable energy coming online throughout 2023 and 2024. The US Henry Hub spot prices are expected to average $2.35 per million British thermal units (MMBtu) in May and increase with peak demand in July and August to $3.00/MMBtu.



Coal

In 2023, coal consumption for electric power is expected to drop by 13%. This drop is due to several factors including coal plant retirements, low natural gas prices, and continued growth from renewable sources. However, since the EIA is predicting an overall increase in electric power demand, they have adjusted their forecast for a slight increase over what was forecasted in the April STEO.

Peoples Company remains committed to keeping our clients informed with the most up-to-date data in Energy Management. If you have questions, please contact Kayla Rown, Director of Energy Management or Blake Singleton, Oil & Gas Manager.