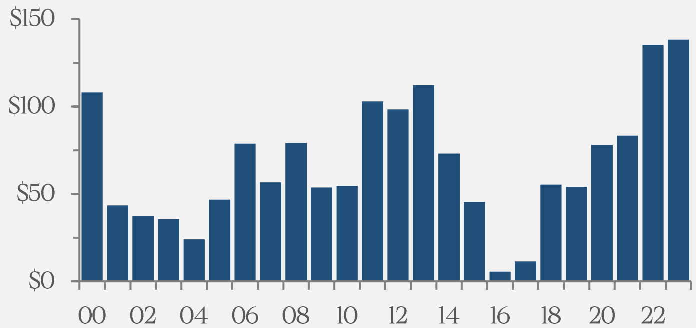
Daily Thought

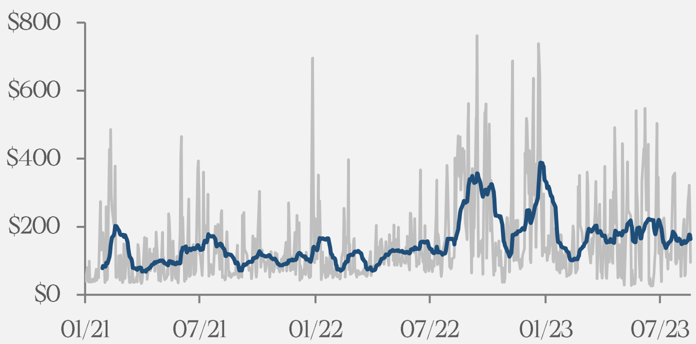
Money and Power – August 22nd, 2023

With Peyto giving some insight into their Cascade pricing deal with their second quarter earnings release, it's worth a quick note about the price of power – and where it's going. Notably, what does the addition of Cascade (the power plant Peyto is selling into) do to the price of power in the province. The short answer – probably not that much, besides numb the peaks and valleys. While Cascade will add 900MW of generation capacity, power demand is expected to grow 600MW-ish through 2025. What Cascade will be good for removing some of the price volatility the province has seen the past few years. While the ICE NGX forward strip has AESO trading down to as low as \$60/MWh in 2024 (and you can see the impacts of Cascade pushing the strip from ~\$140/MWh in December 2023 to ~\$80/MWh in December 2024) – the AESO forward pricing has been notoriously wrong in the past. For Peyto, who still has a considerable amount of debt (and a refinancing that will need to happen soon) we view any volatility windfall as an opportunity to delever (and certainly do not see a dividend increase soon), though can't help but point out the irony in selling gas into a power project that will in-turn heal the price of power in the province. Heavy oil operators like Cardinal and Gear, should also enjoy the tailwinds of lower power prices. At \$120/MWh and \$3/GJ AECO, Peyto sees their average 3 year forward realized price at \$3.88/GJ. That's a great price to run a gas

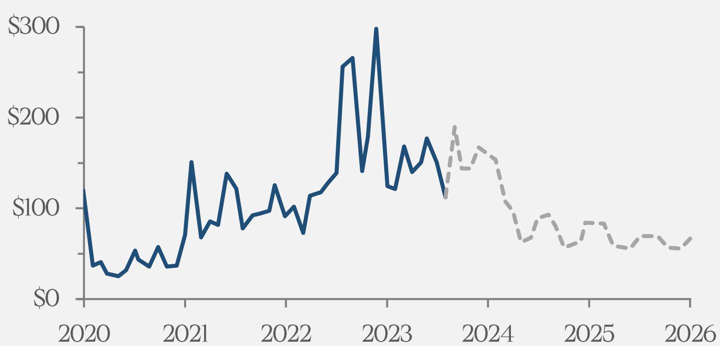
(Fig. 1) AESO Standard Deviation (\$/MWh)



(Fig. 2) AESO Rolling 30 Day Price (\$/MWh)



(Fig. 3) AESO Forward Prices (\$/MWh)



Source: Bloomberg, ICE NGX, HTM Analysis

Daily Pricing & Week on Week Benchmark Chg.

CAD Priced Liquids

Condy | **\$105.35** (-1.2%)
Bonny Light | **\$117.17** (-3.3%)
Synthetic | **\$112.72** (-2.2%)
WCS | **\$84.31** (-6.2%)

USD Priced Liquids

LLS | **\$83.72** (-1.7%)
MEH | **\$82.22** (-2.3%)
NYMEX | **\$80.72** (-2.2%)
WTI FOB | **\$82.50** (flat)

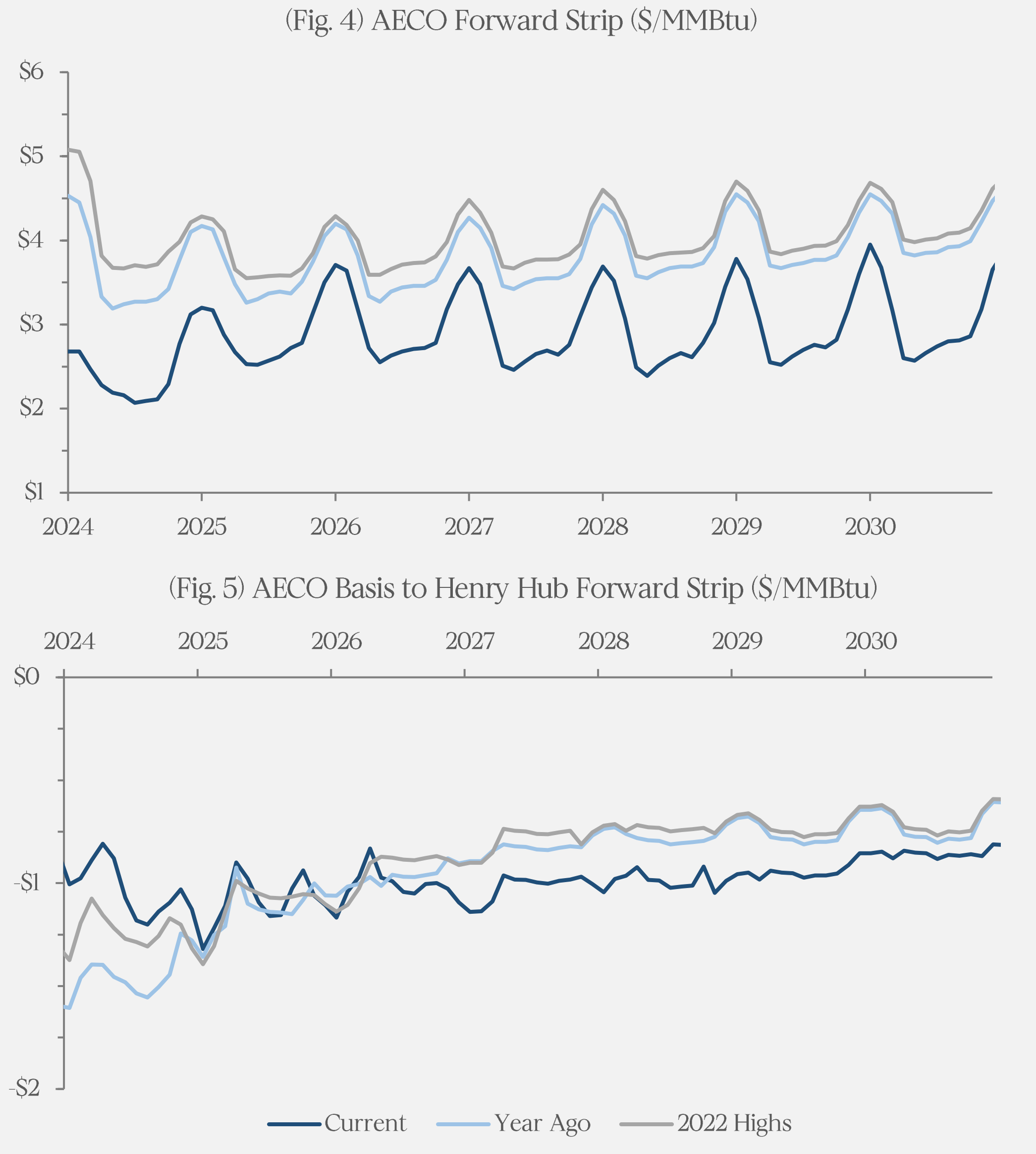
CAD Priced Gas

AECO | **\$2.55** (-13.6%)
Alliance | **\$2.39** (+9.4%)
Empress | **\$2.53** (-11.3%)
Station 2 | **\$2.60** (+37.6%)

USD Priced Gas

Dawn | **\$2.24** (-7.1%)
Houston | **\$2.36** (-5.2%)
Malin | **\$3.21** (-24.1%)
PG&E | **\$4.78** (-12.1%)
SoCal | **\$3.48** (-27.1%)
Waha | **\$1.98** (-17.9%)

business at, but, also, where forward AECO is. You can hedge for significantly less than it costs to build the infrastructure needed to transport their gas into Cascade, so we wonder how much they will truly benefit from AESO exposure (given they can't hedge the actual power price). Likely less than expected. Would the capital have been better allocated to the balance sheet (vs. pipeline) in the first place when you consider refinancing rates – we will have to see what AESO does next winter. Either way, we see sale point diversification as an incremental positive, with returns on the endeavor to be seen. Leverage is more of an issue in our minds (and not really much of an issue anymore), than ROIIC, which will likely be competitive with their other infrastructure projects, but we believe not as exciting as many have contemplated.



Source: Bloomberg, ICE NGX, HTM Analysis
Note: Strip gas prices shown in USD

Peyto's debt to post-dividend free cashflow, we model at ~8x for the current year, and while high, given Peyto's clarity on sale price (compared to other operators), they can bear a higher debt load. At <4x, we see it as really a non issue (on the surface, they'll be <1x net debt to 2024E cashflow next year, which will be positive for those screening on that basis, even if entirely commodity price driven). Which, leaves the story part of the business. Peyto, we think, needs to significantly improve their marketing (to investors, not product) – the story as it stands is not clear, or inspiring. The execution is good, boring, but good, and the returns are more secular than cyclical at this point, and a fine pick for gas exposure (we view it as closer to a Topaz, than a Birchcliff) in a risk adverse, income oriented portfolio. They aren't as sexy as a Montney producer (and never will be), but somewhere, the story has fallen apart, to a point where it's not even often discussed.

Finally, while AECO cash is off significantly from 2022 highs, forwards today see winter prices within reasonable distance of the forward strip at 2022 highs (note that the pricing is in USD). The summer months are still significantly lower, while basis has settled decisively around -$1/MMBtu. Flat $3/MMBtu AECO is a great price to have.