Market Update
February 2025

RISE ENERGY SERVICES

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Trade Policies Reshaping Energy Markets

The recent wave of U.S. tariffs on energy imports from Canada and Mexico, and retaliatory tariffs from China, are set to introduce volatility into global energy markets. The effects of these tariffs will be felt across natural gas, electricity, oil, and refined products, potentially driving up costs for consumers.

U.S. Tariffs on Canada and Mexico

The Trump administration recently announced a 10% tariff on energy imports from Canada, and a 25% tariff on all imports from Mexico, also including energy. These tariffs, initially set to take effect on February 4, 2025, have been delayed by one month while Canada and Mexico negotiate policy changes.

The most impactful supply disruptions may occur in the following areas:

Natural Gas: Canada supplies nearly 89% of natural gas to the Pacific Northwest, with surplus gas flowing into Northern California.
Electricity: Canada remains a net exporter of electricity to the U.S., with New York being the largest importer in 2024.
Oil & Refined Products: Canada and Mexico are both major crude suppliers to the U.S. Gulf Coast. Mexico alone supplied 453,000 b/d of crude in November 2024, while Canada supplied 625,000 b/d of refined products.

Trade Policies Reshaping Energy Markets, Continued..

In response to U.S. tariffs on Chinese goods, Beijing imposed a 15% tariff on U.S. LNG, effective February 10, 2025. This move has forced Chinese buyers to optimize LNG cargo flows, swapping U.S.-origin LNG for alternative sources, including Australia, Indonesia, and Qatar.

Key consequences of these tariffs include:

Shifts in LNG trade routes: U.S. LNG cargoes originally bound for China are now being redirected to Europe, where demand is stronger. This shift has led to an increase in LNG prices in Europe while limiting supply in Asia.
U.S. natural gas price volatility: As LNG exports pivot away from China, U.S. natural gas inventories may remain elevated, which could lead to lower Henry Hub prices in the short term.
Long-term trade diversification: China is expected to reduce its reliance on U.S. LNG over time, increasing long-term contracts with alternative suppliers.

Overall market outlook for U.S. consumers:

Tariffs on energy trade are set to introduce greater uncertainty and inflationary pressure into U.S. energy markets. While some short-term benefits may emerge, such as stable or lower natural gas prices due to redirected LNG exports, the long-term risks outweigh the immediate relief. Higher import costs, shifting trade routes, and retaliatory measures could lead to higher energy prices for consumers in 2025 and beyond. Electricity, natural gas, and oil markets may all experience increased volatility, making energy costs less predictable for businesses.

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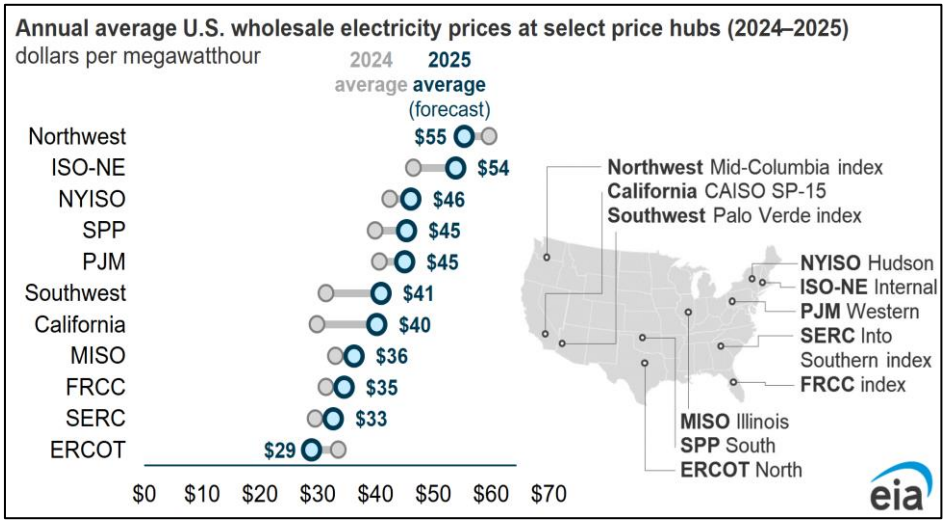
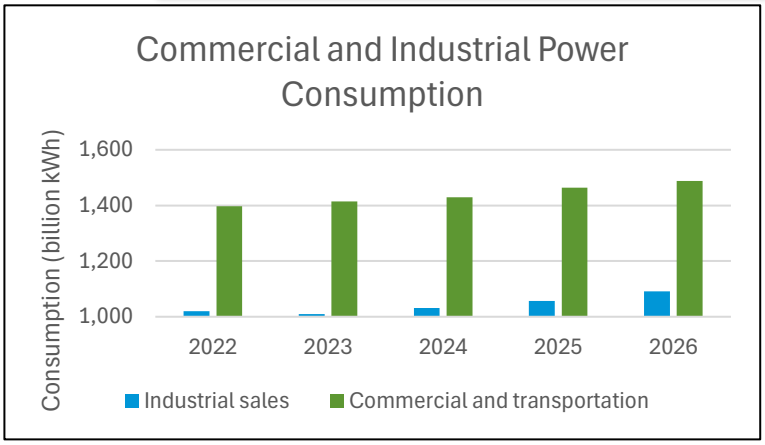
The EIA has projected an average wholesale power price of $40/MWh for the year, marking a 7% increase from 2024. This rise is attributed to heightened electricity demand from AI data centers, expanded domestic manufacturing, and the electrification of various sectors. Additionally, natural gas prices, a primary fuel for power generation, are expected to climb by 24% to $3.37/MMBtu.



Industry executives have expressed concerns that recent restrictions on renewable energy could exacerbate electricity supply challenges and elevate costs for consumers. These measures are feared to lead to energy shortages and higher prices.

Overall, the U.S. is facing upward pressure on electricity prices due to increasing demand and rising fuel costs. Regional variations will depend on factors such as the adoption of renewable energy sources and local supply conditions.



	Consumption (billion kilowatthours)						Consumption Growth (billion kWh)			
	2022	2023	2024	2025	2026		2023	2024	2025	2026
Industrial sales	1,020	1,009	1,031	1,056	1,091		-11	22	25	34
Commercial and transportation	1,397	1,415	1,429	1,464	1,488		18	14	34	24

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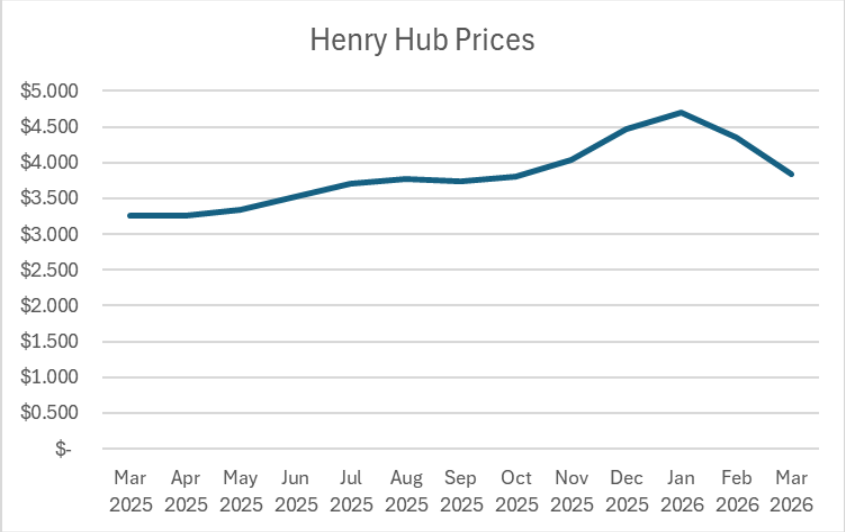
The Henry Hub forward curve indicates a steady increase in natural gas prices through 2025. Prices begin at $3.253/MMBtu in March 2025 and gradually climb, surpassing $4.00/MMBtu in November 2025.



Term	*Henry Hub*	
Mar 2025	$	3.253
Apr 2025	$	3.265
May 2025	$	3.347
Jun 2025	$	3.529
Jul 2025	$	3.710
Aug 2025	$	3.768
Sep 2025	$	3.744
Oct 2025	$	3.805
Nov 2025	$	4.039
Dec 2025	$	4.462
Jan 2026	$	4.697
Feb 2026	$	4.353
Mar 2026	$	3.834

There is also a projected moderate increase in production from 2024 to 2025, with total production rising from 111.99 Bcf/day in 2024 to 113.53 Bcf/day in 2025—an increase of 1.534 Bcf/day

	Production (billion cubic feet per day)					Production Growth (bcf per day)			
	2022	2023	2024	2025	2026	2023	2024	2025	2026
Federal Gulf of Mexico	2.111	2.019	1.800	1.736	1.642	-0.092	-0.219	-0.064	-0.094
U.S. excluding Gulf of Mexico	104.619	109.822	110.200	111.797	115.036	5.203	0.377	1.597	3.239
total production	106.730	111.841	111.999	113.533	116.678	5.1	0.2	1.5	3.1

Key takeaways:

The rise in natural gas prices through 2025 and into early 2026 is driven by a combination of supply-demand fundamentals, seasonal patterns, geopolitical influences, and evolving market dynamics. While production is increasing, it is not growing fast enough to outpace rising demand, export growth, and supply chain constraints, leading to higher price expectations.