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Summer 2018 ERCOT forwards surge as grid operator halves reserve margin

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The Electric Reliability Council of Texas' latest Capacity, Demand and Reserves Report, released Monday morning, cut the summer 2018 planning reserve margin in half compared with the May CDR, and summer forwards across the grid operator's footprint jumped by about 10% shortly thereafter.

The planning reserve margin is the percentage by which resources are expected to exceed forecast peakload. The latest CDR indicates a summer 2018 reserve margin of 9.3%, compared with 18.9% in the May CDR.

The Texas Public Utility Commission has set a reserve margin target of 13.75%, designed to ensure that ERCOT has a capacity-related blackout no more often than once every 10 years.

The latest CDR shows 77,218 MW of resources, including planned resources and imports, will be available to meet forecast peakload of 70,674 MW in the summer of 2018.

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The May CDR showed 84,420 MW of capacity would be available to meet forecast load of 71,012 MW.

"The [reserve margin] decrease is primarily due to the retirement of the following units: Monticello 1-3, Sandow 4-5, Big Brown 1-2, Pearsall 1-3 -- totaling 4,334 MW (summer rating)," according to the grid operator.

"Other major resource changes include 1,143 MW of operational capacity being placed on extended outage or mothballed status, and delays in planned resources. The in-service dates for three planned gas-fired resources, totaling 1,193 MW [of capacity], were delayed beyond summer 2018," it said.

Adding: "Several planned renewable generation projects were delayed as well, with a total summer peak average capacity contribution of 881 MW. The total installed capacity of the delayed renewable projects is 3,488 MW. One wind project, with an installed capacity of 500 MW, was canceled."

ERCOT provided details of the latest CDR shortly after 9 am CST (1500 GMT) Monday. By about 9:30 am CST, the ERCOT North Hub July-August 2018 on-peak forward package had climbed $7 to the high $70s/MWh on the Intercontinental Exchange.

An ERCOT market participant who asked to remain anonymous said the CDR's results were "very bullish" for power prices, but the results were not surprising because "if you did the math with the retirements, you got pretty close to sub-10%" for a planning reserve margin.

Jeff Schroeter, managing director of Genova Power Advisors, a Dallas-based power market consultancy and developer, said he expects spot power prices in the summer of 2018 to perform "pretty much as expected by the forward curve."

"I don't see any massive course change, as the forward gas strip is pretty stable," Schroeter said in an email.

But the latest CDR did provide extra information, according to Chen-Hao Tsai, senior economist at the University of Texas Bureau of Economic Geology's Center for Energy Economics.

"[The] biggest surprise is the significant drop of planned capacity addition for all resource type (thermal, non-coastal wind, coastal-wind, and solar), which is the root cause of [a] below 10% reserve margin in 2018," Tsai said in an email.

"Nonetheless, these planned capacities are with signed [interconnection agreement]. Hence it is possible that developers are: (i) waiting to get more clarity on the tax reform bill; or (ii) waiting to see how [the] market may perform after 4 GW-plus [of] coal shuts down in January 2018. I expect in the May 2018 CDR, the planned capacities may bounce back," he said.

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