

Exclusive

Consultant's warning of ERCOT blackout potential disputed

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A consultancy's analysis concluding that the Electric Reliability Council of Texas Inc. faces the risk of rolling blackouts without "immediate reforms" of the state's power markets has drawn skepticism from power industry observers.

PA Consulting Group, a global consultancy focusing on energy and utilities, announced Sept. 16 that it had completed a study indicating that "unless the Texas Public Utility Commission acts soon to introduce new reforms to the electricity market's structure, Texans could be subject to rolling blackouts and high electricity prices in the near future."

"One of the fundamental principles of any competitive market is that producers should have a reasonable opportunity to recover their costs and make a fair market return, otherwise existing producers could go bankrupt and new producers will not enter the market," PA consulting said in a Sept. 20 news release.

The independent analysis by PA Consulting energy and utility experts David Cherney, Ethan Paterno and Ryan Hardy, which was not commissioned by a client, stated the Operating Reserve Demand Curve, a price adder introduced in 2014 to reflect scarcity in high-demand conditions, is "not working."

"Over the past two summers, Texas has seen record highs in electricity demand, but 2015 and 2016 were among the least profitable years for power plants in recent memory," the consultants said in their analysis, published as commentary in The Monitor newspaper of McAllen, Texas. "If this continues, it's doubtful that new power plants will be built."

ORDC too new to judge efficacy: UT economist

But Gurcan Gulen, senior energy economist at the University of Texas Bureau of Economic Geology's Center for Energy Economics, said with only two years of ORDC performance history, it is "probably too early to say 'it's not working.'"

"Having said that, the higher price cap and ORDC have not been generating enough price signals probably because summers have been milder; weather-normalized load growth has not been as high as in the past; new capacity came online, including a lot of wind and some gas; wind generation increased; and natural gas [is] remaining very cheap," Gulen said in an email Sept. 18.

ERCOT is a summer peaking market, and its most recent "Report on the Capacity, Demand and Reserves in the ERCOT Region, 2017-2026," issued in May, shows reserve margins ranging above the system's target rate of 13.75% for the entire period.

But the PA Consulting analysts said ERCOT's "actual reserve margin" this past summer was below 11.5%, while other U.S. markets had reserve margins above 20%.

"During the next several years — as demand for electricity increases and potential power plants retire due to poor profitability — ERCOT's reserve margin will decline absent the development of new power plants," they said in the news release. "As a result, the 24 million customers that ERCOT provides power to could face sustained rolling blackouts and high electricity prices."

But Neil McAndrews, an Austin, Texas-based electricity market consultant, said ERCOT faces no serious risk of rolling blackouts without market changes.

"We have had very few problems with supply shortages," McAndrews said in an email Sept. 18. "Low power prices due to low natural gas prices have been the major worry, especially to higher-cost coal generation. This may lead to premature retirements of coal generation. Eventually, the glut of natural gas supply will decline and power prices should rise above these very low levels."

Asked why other stakeholders have not generally been calling for substantial reforms, PA Consulting's Paterno said, "As our analysis suggests, this is not necessarily a current problem, but one that needs to be addressed given the lead time to build new power plants."

Shifting the ORDC to the right so as "to yield higher prices at higher reserve levels ... is the best path forward at this time," Paterno said.

Weather, heavy winds limit scarcity prices: consultant

McAndrews said the existing ORDC has not generated much scarcity pricing revenue partly because "sudden large deviations in weather have been missing these last couple of years."

"This year, we saw a very windy summer, and that lessened the frequency of higher demand spikes and price adders even when temperatures were high," McAndrews said.

But that is the nub of ERCOT's "missing money" problem, according to Jeff Schroeter, managing director of Genova Power Advisors, a consultancy that focuses on generation development.

"I think looking at the PUCT and market design is looking in the wrong place," Schroeter said in an email Sept. 16. "Too much federally subsidized renewables and a flat economy are the causation elements. I do think ORDC actually works pretty well."

ERCOT's merchant market is "ultra-efficient and has too much renewable subsidy in the form of wind [production tax credit] hours," Schroeter said.

The 2015 value of a gas peaker with a heat rate of 10 MMBtu/MWh was just about \$300/kW, and the value of a natural gas combined-cycle plant with a 7 MMBtu/MWh heat rate was about \$450/kW, but the cost of a new-build peaker would be about \$450 to \$600/kW, and a new-build combined-cycle plant would cost about \$650 to \$900/kW, Schroeter said.

"We have too many hours per year when wind can bid below gas due to the ... \$25/MWh production tax credit — and it is going to get worse before it gets better with another ... 6,000 MW of wind still coming down the pipeline," Schroeter said.

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