

Aug 29, 2017

Harvey to suppress power prices, hurt IPPs

Outlet

Platts Energy Trader

ANALYSIS The western Gulf Coast's low power demand resulting from Hurricane Harvey and its aftermath are likely to persist, thereby suppressing power prices, industry observers said Tuesday, which could have implications for independent power producers already hurting from low prices. Barbara Clemenhagen, the Austin, Texas-based vice president for market intelligence Customized Energy Solutions consultancy, suggested a comparison with Hurricane Ike, which hit the upper Texas coast in mid-September, 2008 resulting in 113 deaths, 16 people missing and about \$29.5 billion in damage. The 2008 State of the Market Report for the Electric Reliability Council of Texas, prepared by Potomac Economics, ERCOT's independent market monitor, cited Ike as causing significant, widespread and prolonged outages in the Houston area, Clemenhagen said. Platts day-ahead on-peak power prices for the ERCOT North Hub, the independent system operator's most liquid hub, showed an average of \$58.49/MWh in September 2008, compared with an average of \$62.30/MWh for the previous five years, according to S&P Global Platts data. September 2008 day-ahead on-peak prices were at a premium of almost 20% compared with the previous five-year average on September 11 before the storm made landfall at Galveston. Once the storm hit land September 13, prices moved to a discount to the previous five-year average of 27.6%. ERCOT North day-ahead on-peak prices remained at significant discount until the typical autumn shoulder season low prices over the previous five years fell to the storm-suppressed price levels. "This suppressed demand and in turn resulted in a significant reduction in the implied heat rate in September 2008," Clemenhagen said in an email Monday. "Similar results should be expected for 2017; however, I would expect this event will be more significant and the impacts could be longer given the urban impacts in Houston." "Should see a repeat" of Ike's pricing: economist Gurcan Gulen, senior energy economist at the University of Texas Bureau of Economic Geology's Center for Energy Economics, said "we should see a repeat" of the power price pattern from Hurricane Ike. "Demand will remain suppressed for days if not weeks, not only because of lost load but also due to lower temps," Gulen said in an email Tuesday. "[I] can't help but think of the implications on generators who were already suffering from low revenues. The longer these conditions last, the larger the impact on their bottom line and valuations. Utilities such as Centerpoint are also vulnerable since they lost load and have expenses associated with repairs." Neil McAndrews, an Austin-based electricity market consultant, said that "storm damage will force out of service large segments of industrial production as well as causing massive residential and commercial load destruction." Loads are also likely to remain suppressed as the evaporation from the thoroughly Saturated Gulf Coast soil cools temperatures, McAndrews said in an email Tuesday. "Power prices will reflect lower demand," McAndrews said. Worker housing likely to be a problem Eric Smith, Tulane Energy Institute associate director, tied the resumption of industrial load to the living arrangements of the Gulf Coast's workforce. "One big issue will be the return of the workforce which will be hampered by lack of adequate local housing," Smith said in an email Monday. "If the Texas plants follow the pattern seen in Katrina, they will quickly establish temporary housing for their critical workforce. ... I would think that the majority of the power plants, refineries and petrochemical complex will be back on stream within a month or six weeks. My assumption is that the main problems result of flooding in the vicinity and that once the water subsides, and access to the plants is restored, production can be renewed." Timothy McClive, director of market intelligence for Navigant's energy consulting practice, said, "A lot of houses are just going to be uninhabitable, but whether that is going to have a noticeable impact coming into the shoulder season really depends on how many." McClive said he does not expect a load decrease to be long-lasting. "There may be some price suppression for a few weeks, but as refineries come back on line and the basements get pumped dry, I don't see it as a long-

lasting situation," McClive said Tuesday. Louisiana's reliance on the utility model and lighter reliance on merchant generators ought to result in relatively stable power prices, Tulane's Smith said, "although there may be some slight increases due to increasing prices for natural gas. As far as gas exports, there has thus far been no damage to the LNG infrastructure." Experts differ over long-term impact Power sector observers were divided over whether the devastating storm — described by some as causing a once-in-500-year flood — could have longer term effects on the Gulf Coast economy. "I think that regional insurance costs will be forever changed because of this storm," McAndrews said. "We won't really know the damage done for weeks and perhaps months." In contrast, Navigant's McClive said concerns that such an event might happen again might be offset by expectations that such an unusual event may not occur again for a long time. "Houston is still a major commercial and economic hub with unique access to the Gulf and access to resources," McClive said. "I would think that the occurrence of the storm is not going to take the wind out of the [energy] industry's sails." Tulane's Smith offered a similar viewpoint. "I don't expect to see investors reacting adversely to investments on the Gulf Coast due to this or any other storm," Smith said. "Half of the investors will view this as a rare occurrence, say once every 10 or 20 years, while the other half really don't think far enough ahead to even recognize the risk. The advantages of a Gulf Coast location, ranging from proximity of fuel and raw material supply, to political stability, to trained work force, to navigable water for exports, outweigh the occasional disruptions ... by hurricanes." However, another industry observer and Houston resident who asked to remain unidentified said Houston's future development might benefit from lessons learned in the storm. "Houston needs to re-think its model of development," the observer said in an email. "Pouring concrete over large areas to support growth has played a huge role in this catastrophe. Houston gets flooding regularly when it rains heavy in short periods of time (no need for hurricanes). I cannot imagine this issue not becoming a more significant part of the decision-making process for businesses considering investments. Individuals may think twice before moving to Houston. If businesses cannot get highly qualified people to live in Houston, they have a competitiveness problem. But, human memory is prone to forget: [hurricanes] Allison, Rita, Ike, etc. We shall see." Mark Watson

less