

MARKET ALERT

ENERGY PROCUREMENT SOLUTIONS

SUMMER 2018

CBRE PERSPECTIVE – CAISO

Electricity – **Bullish**

Summer available **capacity is a major concern** in CA. With natural gas concerns, unpredictable renewable power and low hydro conditions; **market prices are at elevated levels.**

- Last year's warm Summer weather has the market bullish for this Summer
- Current **price quotes are above average** – near \$38 for the next 12 months (compared to \$32)
- Potential **Summer** heat and generation issues may bring **price spikes** however if weather is normal or below, prices will decrease
- Prices at this level **require thoughtful strategy** – call and we can discuss pricing and product options

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CA-ISO NP15 Price Distribution



FIGURE A: Historic Price Distribution – Value Price in Green and Risk in Orange

WEATHER

Summer – weather will be a significant factor to monitor as it will drive both electricity and natural gas prices.

- **Hot weather will provide price volatility** based on the current reserve capacity position
- NOAA forecast is projecting a higher probability for **warmer than normal Summer** – adds to the bullishness of current market prices
- NOAA forecasted a higher probability of a warmer 17/18 winter which ended up being colder than normal for much the country which emphasizes **the need to be prepared** for all reasonable probabilistic scenarios

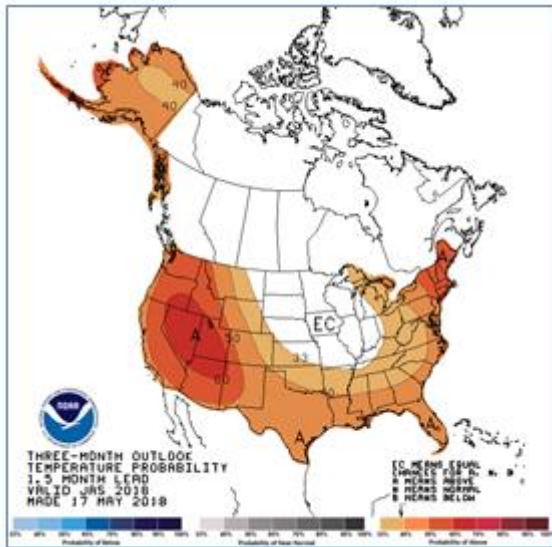


FIGURE B: Weather graph – deviation from normal

ELECTRIC PRICE

Historic monthly average price has equaled or exceeded current 12 month price only 1 time in past 4 years

- Rolling 12 month average shows the strong mean reversion – **price spikes are short lived** – will the tight capacity reserve margin break that trend?
- Current price quotes are well above the rolling average and **elevated** from a historic perspective

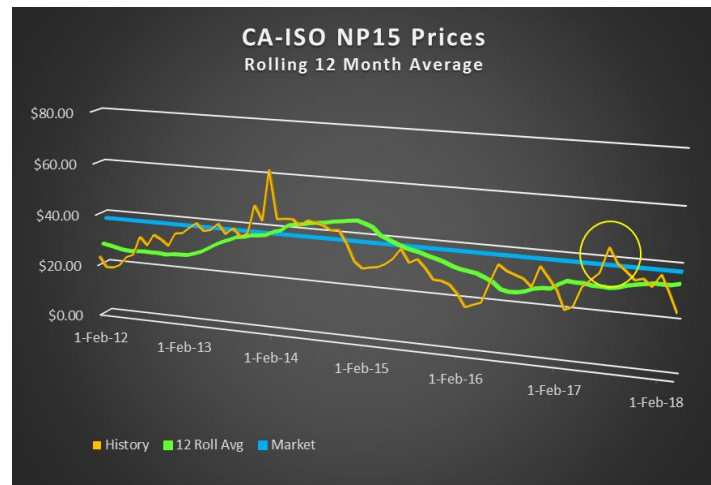


FIGURE D: Price History and Quote – comparison of monthly average, 12 month average and current quote