

MARKET ALERT

ENERGY PROCUREMENT SOLUTIONS

SUMMER 2018

CBRE PERSPECTIVE – ERCOT

Electricity – **Bullish**

Summer available **capacity** is a major concern in Texas. With coal plant closures and unpredictable renewable power, **market prices are at historic levels.**

- Mild weather forecasts for Spring and low natural gas prices have current prices in the \$30's
- Current **price quotes are well above average** – near \$50 for the next 12 months
- Potential **Summer** heat and plant closures may bring **price spikes** however if weather is normal or below, prices have a long way to drop
- Prices at this level **require thoughtful strategy** – don't fix historic high prices and regret it later (2015) – call and we can discuss pricing and product options

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ERCOT North 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

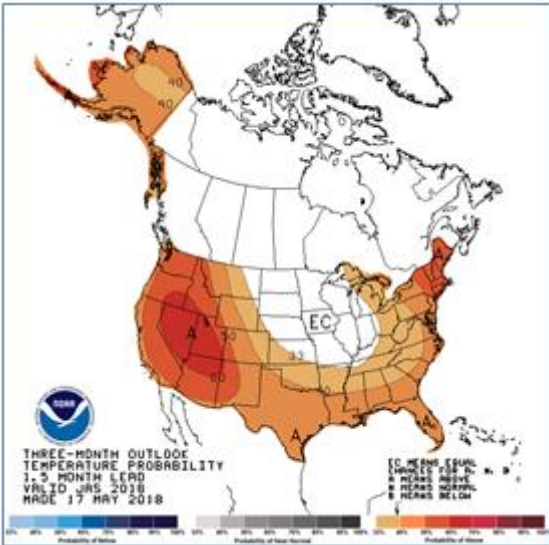


FIGURE B: Weather graph – deviation from normal

ELECTRIC PRICE

Historic monthly average price has equaled or exceeded current 12 month price only 3 times in past 7 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 **extreme** from a historic perspective

ERCOT North Hub Prices Rolling 12 Month Average

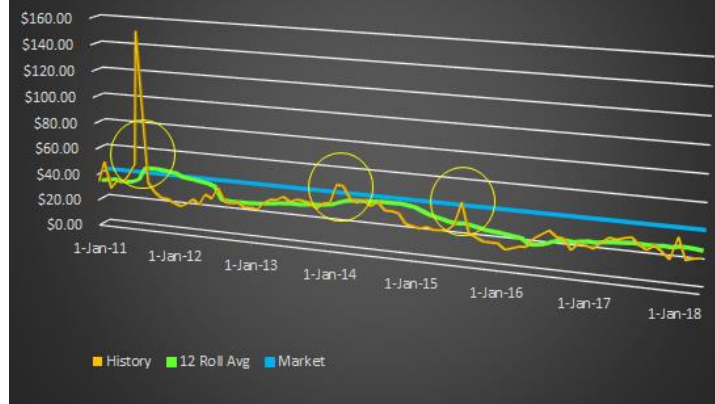


FIGURE D: Price History and Quote – comparison of monthly average, 12 month average and current quote