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S&P: Despite ERCOT's Price Spikes, Texas Public Power Utilities Remain Resilient

Table of Content

- ERCOT's Price Spikes And Low Reserve Margins
- Exposure To Increased Power Costs
- Common Strategies To Mitigate Market Price Spike Exposure

In mid-August, S&P Global Ratings observed price spikes in the Electric Reliability Council of Texas Inc. (ERCOT) market, which exposes utilities short on energy to increased power costs. Because the ERCOT market does not compensate generation owners with capacity prices that might provide incentives to encourage new market entrants, regulators use scarcity-pricing signals and energy conservation measures to ensure system reliability of the electric grid. Despite the recent price spikes and ERCOT's recent energy emergency alerts (EEA1) on Aug. 13 and 15, 2019, ERCOT has not had to implement systemwide rotating outages this summer. Although ERCOT's market dynamics present cost-recovery challenges to utilities for a period when reserve margins are thin and energy demand peaks, we observe public power and electric cooperatives in Texas sufficiently managing power supply needs and using power cost recovery mechanisms to recover increased power costs. We also observe that these spikes tend to be short-lived. Utilities with surplus capacity to sell might benefit during these spikes, but at other times, they face cost-recovery challenges because prices are generally low in the ERCOT market due to an abundance of renewable generation and natural gas relative to pipeline capacity. We're following the ERCOT market price spikes to better understand utilities' power supply strategies and the extent to which they are exposed to cost recovery challenges.

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