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ERCOT BESS revenue 'roller coaster' is a feature, not a bug

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Ascend's ERCOT Market Report Release 5.3 describes ERCOT's revenues as a 'roller coaster', but highlights this as a feature, not a bug of its design.

In an upcoming conversation with Energy-Storage.news Premium, CEO of optimisation platform provider Ascend Analytics, Dr. Gary Dorris, PhD, discusses the 'roller coaster' revenues of the Electric Reliability Council of Texas (ERCOT) market.

In June, ESN Premium spoke with Ascend's managing director of markets and strategy, Dr. Brent Nelson, PhD, about the company's ERCOT Market Report Release 5.2. In addition to offering a full suite of software products for designing and optimising projects, Ascend Analytics also serves as a market intelligence consultant, including the publication of its quarterly ERCOT reports.

The 5.2 report anticipated that the market's load growth may not meet expectations due to practical limits on increasing supply. ERCOT is likely to face a delicate situation, a 'weather-dependent knife's edge,' as the conflict between rising demand and power supply intensifies in the late 2020s.

Ascend forecasts that this will lead to more electricity shortages and greater price volatility. Both conditions are beneficial for battery energy storage system (BESS) resources operating on the grid, creating substantial revenue opportunities.

Additionally, the recently implemented Real-Time Co-Optimisation Plus Batteries (RTC+B) market changes introduced to ERCOT have also brought major shifts in the market.

Ascend's newly issued ERCOT Market Report Release 5.3 describes ERCOT's revenues as a 'roller coaster', but highlights this as a feature, not a bug of its design.

Dorris says, "In our industry, there are a few truisms. Market expectations serve as the best estimates of future outcomes, and this generally holds true. Otherwise, you're essentially debating the market as a speculator. We are challenging this assumption by highlighting a unique market circumstance where the on-peak and off-peak forwards—these monthly energy blocks—differ."

He continues, "On-peak typically covers 16 hours a day, five days a week, while off-peak covers the remainder, roughly aligned with daylight hours during summer. We claim this usual principle doesn't apply here. In our experience, such an approach is extremely rare. Normally, risk management assumes the forward price matches the expected spot price overall. But now, we see an imbalance between buyers and sellers."

According to the report, since ERCOT does not have a capacity market or centralised planning, scarcity conditions are needed to encourage new entry, but are naturally unstable. Market participants should use hedging strategies to minimise volatility and support 2026, which Ascend anticipates will resemble 2024 more than what the forward market predicts.

Dorris notes, "It's a roller coaster because: do you have the weather to support it? Yes or no, depending on the summer. The reserve margin sometimes supports it. Sometimes you have tight conditions, sometimes it's very clear we're going to be fat for the next summer, probably two, and that will mean very limited scarcity."

"To make your payments traditionally, you need scarcity conditions. The roller coaster is when it doesn't happen. The lows last a year or two or three. In this case, it will likely be for summer '24, '25, '26, and possibly '27. It's a four-year low."