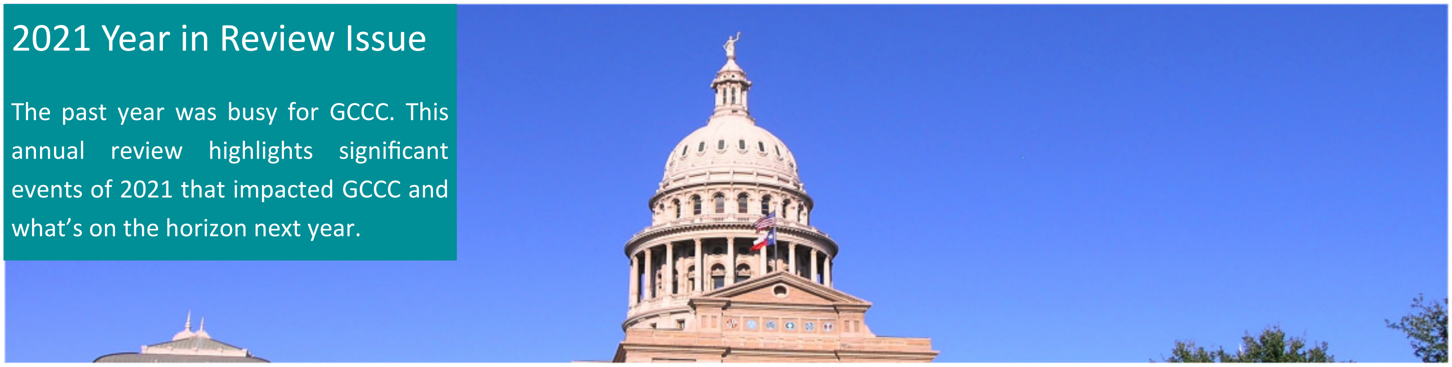
Gulf Coast Coalition of Cities

NEWSLETTER 2021 Year in Review

2021 Year in Review Issue

The past year was busy for GCCC. This annual review highlights significant events of 2021 that impacted GCCC and what's on the horizon next year.



This past year was another active one for the Gulf Coast Coalition of Cities. Our coalition and its member cities have been involved in proceedings before the Public Utility Commission (PUC), the Texas Railroad Commission (RRC), and the Texas Legislature. Many of these proceedings related to the year's most significant energy-related event: the February statewide outages. This Year-In-Review edition of the GCCC newsletter highlights some of the fallout from that storm and other significant 2021 events.

The February Winter Emergency

The story of the year was Winter Storm Uri, the brutal cold-weather emergency that knocked out much of the state's power grid and resulted in more than 200 deaths.

No other single event in living memory has more undermined the public confidence in the state's ability to reliably deliver power to its citizens. The resulting political and public outcry not only changed the course of the 2021 legislative session, but also led to the resignations of several key policymakers and set the stage for sweeping regulatory changes. It also will have a bearing on the 2022 gubernatorial election.

WINTER STORM URI

The storm itself caused an unprecedented loss of generation—as much as 40% of grid capacity, according to estimates. The losses began February 19 but continued accelerating and eventually led to prolonged outages for 4 million Texans. The Electric Reliability Council of Texas (ERCOT), the organization that operates the state's primary power grid, reported that it avoided only by minutes a cataclysmic "black start" event that would have resulted in a total statewide power loss over an indefinite period.

Electric prices in a key wholesale market administered by ERCOT shot up to $9,000 per megawatt-hour—200 times more than typical prices. Those prices remained at that extreme level for days. Other "ancillary services" energy prices within the ERCOT market shot past the $9,000 mark. The resulting economic fallout was substantial—from $80 billion to $130 billion according to official estimates. This led to the bankruptcies of several major market participants, including of one of the state's largest electric cooperatives.

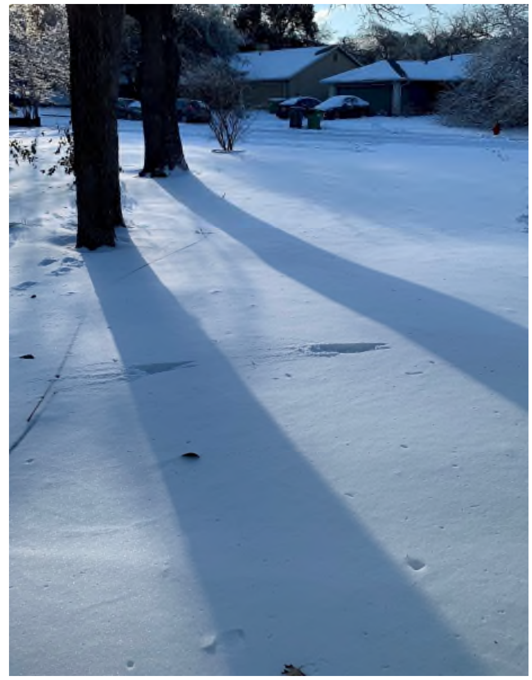
LEGISLATIVE RESPONSE

In response to the storm, state lawmakers gathering in Austin for the 87th Regular Session filed hundreds of energy-related bills. Although most failed to win approval, some legislation that made it to the governor's desk will have a substantial impact on market oversight and operations. For instance, Senate Bill 3, an omnibus bill, establishes new weatherization requirements for electricity generating facilities and some natural gas facilities, establishes a new "Electricity Supply Chain Mapping Committee," establishes an emergency alert system, and mandates various other changes. Sen. Charles Schwertner authored that bill as well as Senate Bill 2154, which transforms the PUC from a three-member panel to one with five members. Meanwhile. Senate Bill 2 by Sen. Kelly

Hancock changes the size and selection process for the ERCOT board. Other bills allow for a bond financing mechanism known as "securitization" for the recovery of financial losses arising from the storm.

Resignations and Replacements

The storm likewise led to the resignation of all three PUC commissioners, including chair Donna Nelson. Gov. Greg Abbott replaced the outgoing members with chair Peter Lake and new appointees Lori Cobos, Will McAdams, and Jimmy Glotfelty. The fifth commission seat (allowed under SB 2154 as noted above) remains vacant. Political pressure also led to mass resignations among ERCOT board members and of ERCOT CEO Bill Magness. Mr. Magness was replaced by acting CEO Brad Jones. New incoming ERCOT board members include former U.S. Congressman Bill Flores, entrepreneurs Elaine Mendoza, Zin Smati and Carlos Aguilar, and former University of Texas System Board of Regents chair Paul Foster. On December 28, ERCOT announced it had filed the last two seats on the 11-person board. The final appointees are Julie England, a former director of the Federal Reserve Bank of Dallas; and Peggy Heeg, a board director of a privately held natural gas infrastructure company.



87th Legislative Session: An Overview

State lawmakers gathering for the 87th Texas Legislature during 2021 considered approximately 400 bills relating to energy and utility issues, and they adopted more than a dozen of particular significance. Among bills that won passage were those intended to address grid and market failures that occurred during Winter Storm Uri.

Some bills of significance include:

- **Senate Bill 2**, by Sen. Kelly Hancock, reduces the number of ERCOT board members from 16 to 11. SB 2 also requires all board members to reside in Texas.
- **Senate Bill 3**, by Sen. Charles Schwertner, is an omnibus bill that requires electric power generators to comply with emergency preparedness standards determined by the PUC. (Natural gas facilities deemed as critical must take similar steps.) In addition, SB 3 requires regulators to create an emergency alert system, tasks various state regulators and electric utilities with determining how rolling blackouts should occur during energy emergencies, and limits to 12 hours the amount of time that the price of wholesale power can be set at the maximum level of $9,000 per megawatt-hour (MWh). (More typically, wholesale power sells for less than $50 per MWh.)
- **House Bill 3648,** by Rep. Charlie Geren, requires that the PUC work with the RRC to adopt rules to designate certain gas facilities as critical during an energy emergency.
- **House Bill 4492** and **House Bill 1520**, both by Rep. Chris Paddie, authorize the use of a debt-financing process known as "securitization" to recover certain extraordinary energy-related costs relating to Winter Storm Uri.
- **Senate Bill 2154**, by Sen. Schwertner, expands the PUC from a three-member panel to one with five members. SB 2154 also requires PUC commissioners to reside within Texas.
- **Senate Bill 415**, by Sen. Hancock, stipulates that a transmission and distribution utility (TDU), with prior PUC approval, may contract with a power generation company to provide electricity from an electric energy storage facility for the provision of electricity to distribution customers. Further, SB 415 stipulates that a TDU may not own a storage facility.

ELECTRICITY NEWS

In First Step, Public Utility Commission Approves Weather Preparation Rules

On October 21, the PUC adopted weather preparation rules and standards for electric generators and transmission and distribution utilities, and set quick implementation deadlines. The new rules and standards were included in a 100-plus page document prepared by PUC staff under Docket No. 51840.

The basic elements of these Docket No. 51840 standards include mandatory implementation of weather readiness recommendations from a 2011 federal regulatory report, a requirement that ERCOT conduct on-site readiness inspections of generation and transmission service providers, and a requirement that entities that have experienced major weather-related service interruptions hire an outside professional engineer to assess their weatherization measures. The new standards also include very tight compliance deadlines for generation units to implement weather emergency preparation measures, install various weatherization devices, and conduct weather preparation training.

However, the PUC's decision to adopt the new rules in Docket No. 51840 represents only a first step in an ongoing effort now underway at the agency. The PUC will now develop performance standards based on a weather study that ERCOT released on December 15 in consultation with the state climatologist. The PUC has filed information relating to this weather study in Project No. 52691.

Texas PUC Adopts Phase I Reforms, Continues Consideration of Phase II Options

On December 1, the PUC adopted a number of "Phase I" regulatory changes to protect the grid against future weather emergencies. The agency also will continue considering a number of other "Phase II" changes during 2022.

The "Phase 1" changes the PUC adopted include the following:

- A decrease in the High System-Wide Offer Cap (HCAP) from $9,000 per MWh to $5,000. The HCAP is the top price for which electric companies can offer to sell their power in a key ERCOT-administered wholesale market.
- Changes to the Operating Reserve Demand Curve, which is an ERCOT-administered system that automatically creates price adders to wholesale energy offers.
- Allowances for the earlier deployment of Emergency Response Service (ERS), which is a service through which power consumers are paid to be willing to curtail load. Under the new rules, ERCOT can deploy ERS before an emergency alert is declared.
- Various changes to "Ancillary Services," which ERCOT deploys to maintain system reliability on an hour-by-hour basis.

The PUC also has signaled that it will continue investigating a number of "Phase II" options during 2022. These options include:

- A "Load-Side Reliability Mechanism" through which retail electric providers, cooperatives, and municipal utilities would be obligated to procure commitments for sufficient capacity to serve forecasted peak-load.
- A "Dispatchable Energy Credits" program through which load-serving entities would be required to obtain sufficient dispatchable capacity to meet net peak-load (peak-load minus renewables) during a future period.
- A "Backstop Reliability Service," which would be a new Ancillary Service.
- Hybrid Models, which could include combinations of all other proposed Phase II mechanisms.

CenterPoint Holds Investors Day, Outlines Future Capital Spending Plans

On September 23, CenterPoint Energy executives conducted an "Analyst Day" in which they updated the company's financial forecasts and provided new details of its long--term business strategy.

Among the meeting highlights: the Houston-based energy company expects to make $18 billion in capital expenditures over the next five years, which is approximately $2 billion more than its previously announced plans. CenterPoint also announced a $40 billion 10-year capital investment plan. That 10-year plan includes $3.5 billion in capital investments in 2021, $3.8 billion in 2022, $4.7 billion in 2023, $3.7 billion in 2024, $3.2 billion in 2025, and $22 billion from 2026 through 2030.

Of its multibillion-dollar capital spending plans, CenterPoint Vice President for Regulatory Services Jason Ryan said, "the vast majority [of it] we're putting into rates within a year of those projects serving customers. This supports the timely recovery for shareholders, reduces regulatory lag, and reduces rate volatility. Our team works closely with regulators and with our legislators to achieve constructive solutions."

The company also announced a net-zero carbon target by 2035—a timeline it said was ahead of its corporate peer average by 15 years. If successful, CenterPoint will become the nation's first utility with generation that achieves a net-zero carbon target, according to Vice President Jason Wells. The company said it would meet its net-zero carbon commitment by retiring several Illinois coal plants, modernizing its natural gas pipeline system, deploying its leak technology network, employing carbon offsets, and purchasing.

CenterPoint, the only investor-owned electric and gas utility based in Texas, owns electric transmission and distribution assets, power generation, and natural gas distribution operations. The company serves more than 7 million metered customers in Arkansas, Indiana, Louisiana, Minnesota, Mississippi, Ohio, and Oklahoma. However, its largest service territory is Texas, where it has 2.5 million metered electric customers and 1.1 million natural gas customers in the Houston area. As of June 30, 2021, the company owned approximately $36 billion in assets and employed close to 9,500 people.

Electric Rate Cases

CenterPoint, TNMP settle EECRFs

On June 1, CenterPoint Energy Houston Electric filed its 2022 energy efficiency cost recovery factor (EECRF) application with the PUC to reflect changes in program costs and bonuses, and to minimize any over- or under-collection of energy efficiency costs resulting from the use of the EECRF. CenterPoint initially sought to adjust its EECRF to collect $63,367,922 in 2022. Parties unanimously reached an agreement in principle on all issues, including an $115,000 reduction to CenterPoint's EECRF revenue requirement and the removal of $200,000 in historical administrative expenses, for a total reduction of $315,000 to CenterPoint's total EECRF tariff revenue requirement. Pursuant to the agreement, CenterPoint's revenue requirement will total $63,052,922 in 2022. The agreement was approved by the PUC on November 2. CenterPoint's EECRF filing can be found on the PUC website under Docket No. 52194.

On May 27, Texas-New Mexico Power Company (TNMP) filed its 2022 EECRF application with the PUC to reflect changes in program costs and bonuses, and to minimize any over- or under-collection of energy efficiency costs resulting from the use of the EECRF. In it, TNMP initially sought to adjust its EECRF to collect $7,225,543.49 in 2022. Parties to the case unanimously agreed to a reduction of the adjustment by $49,187. Pursuant to the agreement—which the PUC authorized on October 12—TNMP will collect $7,176,355.99 in 2022. TNMP's EECRF filing can be found on the PUC website under Docket No. 52153.

TNMP DCRF Settles

On April 5, TNMP filed its application with the PUC to adjust its distribution cost recovery factor (DCRF) to recover new investment in distribution equipment and requesed an increase in its total distribution revenue requirement by $28,247,681, adjusting for load growth. The request represented an incremental increase of approximately $13,959,505 to TNMP's DCRF revenue requirement. TNMP subsequently reached an agreement with all intervening parties to reduce its requested DCRF revenue requirement by $440,000. All intervening parties—including the Alliance for Texas-New Mexico Power Municipalities, Cities Served by Texas-New Mexico Power Company, and Texas Industrial Energy Consumers—agreed to a settlement or did not oppose it. The PUC adopted the DCRF order on September 29. More information can be found in PUC Docket No. 51959.

GAS NEWS

Railroad Commission Approves Securitizing $3.4 Billion in Gas Costs

On November 10, the Texas Railroad Commission authorized the use of securitization to finance $3.4 billion in long-term debt to pay for excessive natural gas costs arising from Winter Storm Uri. The regulatory decision means that ratepayers will end up paying over many years—potentially up to 30—for fuel consumed during a single month.

The Texas Legislature authorized the debt-financing arrangement this year with the adoption of House Bill 1520 (see separate story).

CenterPoint, Texas Gas Service (TGS), Atmos Energy and eight additional gas utilities applied for financial recovery under the debt-financing deal. Under ordinary circumstances, the cost of natural gas consumed by utility customers would have flowed directly into monthly bills. However, during Winter Storm Uri, gas prices spiked to intolerable levels, so gas utilities instead set aside those costs as "regulatory assets" to deal with later. The bond financing approved on November 10 will allow the utilities to receive reimbursements for those expenses.

UTILITIES PARTICIPATING IN PROGRAM

Under the agency decision, CenterPoint can receive reimbursements for approximately $1.1 billion in fuel costs, TGS can receive $197.3 million, and Atmos Energy can receive approximately $2 billion. Other utilities to receive recovery include Bluebonnet, Corix, EPCOR, SiEnergy, UniGas, TGS West Texas Service Area, and CoServ. However, under a settlement agreement, CenterPoint will reduce its regulatory asset by $39.7 million. Similarly, under a settlement agreement, Atmos will reduce its regulatory asset by more than $9 million.

UTILITY	STIPULATED MAXIMUM REGULATORY ASSET AMOUNT
Atmos	$2,021,888,534
Bluebonnet	$1,962,731
CenterPoint	$1,099,929,626
Corix	$294,407
EPCOR	$11,296,221
SiEnergy	$18,795,497
TGS	$197,342,375
UniGas	$32,431,370
TGS WTSA	$59,663,320
CoServ	$67,224,791

Gas Rate Cases

CenterPoint Texas Coast GRIP

On June 8, the Texas Railroad Commission approved a revised application filed by CenterPoint for the unincorporated areas of its Texas Coast Division to increase its revenue requirement by $3,718,642, of which $1,359,300 is attributable to customers subject to the order. The interim rate adjustment will increase the residential customer charge by 85 cents per month, bringing the total charge to $18.62. The interim rate adjustment (which also applies to cities that have ceded their jurisdiction to the RRC) is the fourth since CenterPoint's most recent base rate case (GUD Docket No. 10567) approved by the RRC in 2017.

CenterPoint Houston Division GRIP

On June 8, the Texas Railroad Commission approved a revised application filed by CenterPoint for the unincorporated areas of its Houston Division under the Gas Reliability Infrastructure Program (GRIP) to increase its revenue requirement by $13,844,809, of which $7,059,193 is attributable to customers subject to the order. The interim rate adjustment will increase the residential customer charge by 99 cents per month, bringing the total charge to $18.38. The interim rate adjustment (which also applies to cities that have ceded their jurisdiction to the RRC) is the fourth since CenterPoint's most recent base rate case (GUD Docket No. 10567) approved by the RRC in 2017.

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