Gulf Coast Coalition of Cities

NEWSLETTER 2022 Year in Review

2022 Year in Review Issue

The past year was busy for GCCC. This annual review highlights significant events of 2022 that impacted GCCC and what's on the horizon for 2023.

ELECTRIC NEWS

Policymakers Consider Post Winter Storm Uri Market Reforms

In response to the statewide power outages from the previous year, the Public Utility Commission during 2022 continued its consideration of potentially far-reaching reforms for the ERCOT market.

Broadly referred to a "Phase II" reforms, the market modifications — if authorized — could lead to generation capacity additions but likewise add to consumer costs. Consideration of these Phase II changes followed the adoption of so-called "Phase I" changes in 2021. These previous changes included new weatherization requirements for power plants and modifications to existing operational rules at ERCOT.

On Nov. 10, the Public Utility Commission released an independent study from the San Francisco-based E3 consulting firm that outlined several Phase II reform options. These included a "Performance Credits Mechanism" model favored by PUC chair Peter Lake, and a separate "Forward Reliability Market" favored by the E3 consultants themselves.

However, both proposals as well as others in the E3 report drew pushback from key lawmakers during 2022. Some representatives of influential ERCOT stakeholder groups and the state's independent monitor of the ERCOT market also panned the E3 analysis during Nov. 17 and Dec. 5 legislative hearings.

Reform Options

The Forward Reliability Market (recommended by the E3 consultants) and the Performance Credits Mechanism (favored by PUC Chair Lake) share various operational similarities and would impact consumers in similar ways. For example, both would add approximately $460 million per year to energy costs, according to the E3 report. Both also appear very similar to "capacity market" concepts historically rejected in Texas.

More specifically, the Forward Reliability Market ("FRM") design recommended by the E3 consultants would establish a reliability standard within ERCOT — that is, a level of targeted capacity reserves based on calculated outage risks — and then a corresponding quantity of reliability credits would be created to fulfill that standard. Market participants would acquire these reliability credits through a mandatory, centrally cleared forward market administered by ERCOT.

By contrast, PUC Chair Lake's favored Performance Credits Mechanism ("PCM") design would establish a reliability standard along with a corresponding quantity of performance credits. The performance credits would be purchased by load-serving entities, and the value of the credits would go to generation resources based on their availability during high-risk hours. The overall value of the credits would be determined by an administratively set demand curve. In addition, the PCM design allows for load-serving entities and generators to trade Performance Credits during the year, through a voluntary market.

Other market designs examined by E3 include the state's status quo Energy Only design, a Load Serving Entity Reliability Obligation design, a Backstop Reliability Service design, a Dispatchable Energy Credits design, and a hybrid of the Backstop Reliability Service and Dispatchable Energy Credits designs.

Legislative Concerns

These market reform efforts pursued by the PUC and the E3 report took center stage during a pair of legislative committee meetings — a Nov. 17 meeting of the Senate Business and Commerce Committee, and a Dec. 5 meeting of the House State Affairs committee. The E3 consultants themselves did not appear at either meeting — an absence described as "bad form" by one of the lawmakers.

Of the two committee meetings, it was that of Senate Business and Commerce in which lawmakers expressed the most skepticism about the report's findings. For instance, Sen. Charles Schwertner, chair of the Senate Business and Commerce Committee, questioned whether any of the plans would guarantee the construction of new thermal generation. In addition, all nine Senate committee members signed onto a critical Dec. 1 letter that was addressed to the PUC. The lawmakers wrote that none of the proposals so far under consideration adhered to the goals set forth in Senate Bill 3, which was omnibus energy reform legislation adopted in 2021. "It is not in the best interest of our constituents to support any proposal that further delays investments in new dispatchable generation, and the Commission should carefully consider the unintended consequences of any type of proposal that creates more uncertainty for market participants," the lawmakers wrote.

PUC Chair Lake defended the E3 report during both legislative hearings and said that three of the agency's five commissioners have expressed qualified support for the PCM option. According to Lake, the extra consumer costs associated with that option are worthwhile because of its reliability benefits. He said that if it turned out more reliability was unneeded, then the extra costs would be inconsequential. "Anything short of a comprehensive reliability standard and reliability service like the PCM is just a band-aid," Lake told members of the State Affairs Committee.

Lake said the PUC would adopt one of the planned options during the commissioners' January 12 meeting, but not authorize implementation until after they receive input from the Texas Legislature during the upcoming session that convenes on January 10.

CenterPoint Employs New Cost Rider for Mobile Generation

Under a 2022 Public Utility Commission order, CenterPoint has employed a never-before-employed tariff rider for its proposed recovery of nearly $200 million in mobile generation expenditures.

The new rider mechanism — a Temporary Emergency Electric Energy Facilities, or "TEEEF" rider — was created after the PUC voted in June to sever expenditures associated with the company's leases of mobile generation units from a separate 2022 rate proceeding.

The Background

CenterPoint initially had sought to use a Distribution Cost Recovery Factor, or "DCRF" filing, to increase rates on an interim basis by $345,247,240 to reflect increases in distribution expenditures during 2021. (The DCRF is the regular process that electric utilities employ to obtain recovery of distribution investments on an annual basis.) However, CenterPoint included in that recent DCRF filing $199,566,430 associated with the cost of leasing mobile generation units.

On June 16, the PUC voted unanimously to sever amounts associated with mobile generation from CenterPoint's regular DCRF filing and instead to handle those costs through a separate rate rider mechanism. In an August 4 preliminary order, the PUC named that new rider: the TEEEF. Under that August 4 interim order, the PUC directed interested parties to employ the TEEEF proceeding to consider CenterPoint's mobile generation leasing and operating costs, as well as CenterPoint's accounting treatment of those costs and other associated rate design questions.

This new twist in the ratemaking process is the result of a decision in 2021 by the Texas Legislature that allows transmission and distribution electric monopolies to begin operating leased mobile generation units for emergency purposes. The bill authorizing the change was House Bill 2842, by state Rep. Phil King.

PUC is expected to rule on the company's TEEEF request in 2023. The GCCC remains engaged in this proceeding.

DCRF Details

As noted above, CenterPoint Energy during 2022 filed an application to increase its rates on an interim basis under the Public Utility Commission's Distribution Cost Recovery Factor rules. The company sought to increase its revenue requirement by $345,247,240. This reflects $145,680,810 for recovery of $1,097,973,841 it invested in net distribution capital from January 1, 2019 through December 31, 2021, and $199,566,430 it invested in temporary emergency electric energy facilities, also as noted above. The total revenue requirement associated with allowed return, depreciation, income, and other taxes on net distribution invested capital since the company's last rate case (Docket No. 49421) is $138,518,172 and $59,903,845 for the mobile generation program, for a total of $198,422,017, according to the company. The company's DCRF request remains pending at the PUC. Find more information at the PUC website, under Docket No. 53442.

Energy Efficiency Cost Recovery Factor Update

On June 1 CenterPoint Houston filed with the PUC an Energy Efficiency Cost Recovery ("EECRF") request that — had it been approved without changes — would have allowed the utility to collect from customers $63,528,280 for 2023. However, under a settlement with GCCC and other intervening parties, CenterPoint will recover $63,028,280 — or $500,000 less than its initial request. For residential customers using 1,000 kWh per month, the updated EECRF charge will amount to approximately 96 cents on bills. The updated charge was approved by the PUC on Nov. 3 and will take effect on March 1, 2023.

The EECRF is a discrete PUC-approved charge to electric bills that funds efforts local utilities for their creating energy efficiency programs. The Texas Public Utility Commission updates EECRF charges on an annual basis. CenterPoint and other transmission and distribution utilities include these charges in rates along with other expenses associated with the wires portion of electric service.

More information about this EECRF can be found on the PUC website, under Docket No. 53677.

GAS NEWS

Railroad Commission Oks Securitization Financing Order

On February 8, the Texas Railroad Commission approved a $3.4 billion financing order to pay natural gas costs from Winter Storm Uri..

Under the regulatory action, ratepayers will end up paying potentially for decades for fuel they consumed during the weeklong storm. The Railroad Commission had given its initial OK in November 2021, and the February action pushed the process forward by directing a separate agency known as the Texas Public Finance Authority to issue the bonds.

Atmos, CenterPoint, Texas Gas Service and 8 other gas utilities applied for financial recovery under the debt financing deal, which utilities promote as a method to help their customers avoid rate shock. Under ordinary circumstances, the cost of natural gas con-sumed by utility customers would have flowed directly into monthly bills. During last year's Winter Storm Uri, however, gas prices spiked to intolerable

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

levels and so gas utilities instead set aside those fuel costs as "regulatory assets" to deal with later. The new bond financing allows utilities to receive reimbursements for these expenses. The downside for ratepayers, however, is that they will have to pay off the bonds over many years—up to 30—and with interest. The size of the resulting bill charges remains unclear.

Utilities Participating in the Program

Under the financing order, Atmos Energy can receive reimbursements under the bond financing arrangement for approximately $2 billion in fuel costs, CenterPoint can receive approximately $1.1 billion and TGS can receive $197.3 million. Other utilities to receive recovery include Bluebonnet, Corix, EPCOR, SiEnergy, UniGas, TGS West Texas Service Area and CoServ.

The bond financing process (known as "securitization") received authorization in 2021 by the Texas Legislature, under House Bill 1520. By law, gas distribution utilities such as Atmos, CenterPoint and TGS cannot profit from the sale of the gas commodity, but instead must pass those costs directly to end users without markups.

Gas Reliability Infrastructure Program Round-Up

In early March, CenterPoint Gas submitted multiple filings at the Railroad Commission to increase rates on an interim basis, through the Gas Reliability Infrastructure Program. Under the GRIP statute, gas utilities can obtain rate increases with no significant contemporaneous review by the regulators. Some of the details of those filings are as follows:

- For the unincorporated areas of its Houston Division and the cities in that division that ceded their original jurisdiction authority, CenterPoint sought and received recovery for $19,320,894 in new invested capital. The filing resulted in an increase to the monthly customer charge for residential customers of $1.36 per month — or from $18.38 to $19.74. (In 2021, the increase was $.99 per month.) The Texas Railroad Commission adopted the change on June 7, 2022. More information can be found on the Texas Railroad Commission website, under Case No. 00008827.
- For unincorporated areas of its Texas Coast Division and the cities in that division that ceded their original jurisdiction authority, CenterPoint sought and received an incremental rate change in the revenue requirement of $5,982,606, of which $2,456,483 would be recovered from customers subject to the order. The resulting increase to the monthly customer change for residential customers is $1.32, bringing it to $19.94 per month. (In 2021, the increase was $.85 per month.) More information can be found at the Texas Railroad Commission website, under Case No. 00008828.
- CenterPoint Gas on March 3 sought a GRIP adjustment for the unincorporated areas of its South Texas Division and cities in that division that had ceded their original jurisdiction authority. The incremental rate change in the revenue requirement from the adjustment is $4,259,931, of which $1,478,548 would be recovered from customers subject to the order. The change resulted in an increase to the customer charge of $2.11 per month, for a total of $27.03. (The 2021 increase was $2.33). The Railroad Commission approved the change on June 7. More information can be found at the Texas Railroad Commission website, under Case No. 00008829.
- CenterPoint Gas on March 3 made a GRIP filing for the unincorporated areas of its Beaumont / East Texas division and cities in that division that had ceded their original jurisdiction authority. The filing resulted in an increase to the customer charge for residential customers of $1.57 per month, or from $20.38 to $21.95 per month. (In 2021, the increase was $2.38). The new increase was adopted by the Railroad Commission on June 7. More information can be found on the Texas Railroad Commission website, under Case No. 00008830.

LEGISLATIVE NEWS

Lawmakers File Energy-Related Bills in Preparation for 88th Regular Session

During the most recent Regular Session of the Texas Legislature — the 87th in 2021 — lawmakers filed approximately 400 energy-related bills, which is far more than the typical number of such bills. This aggressive filing of energy-related bills largely can be attributed to public outcry over the 2021 winter storm power outages. Given that Texas so far has not suffered a repeat grid crisis, don't expect the number of such bills filed during the 88th session to match those of the 87th session. However, both ERCOT and the Public Utility Commission will be subject to the Sunset Review process during the upcoming session and so legislative interest in both organizations will be keen. The 88th session convenes on Jan. 10.

Bills of interest

This year's bill filing deadline is on March 10. Some of the energy-related bills we've seen so far relate to wind and solar power, electric vehicles, energy efficiency and the use of natural gas appliances. Here's a sample:

- House Bill 564, by Rep. Ron Reynolds, would require the Texas Facilities Commission, in collaboration with the Department of Information Resources, to conduct a study on the potential use by state agencies of energy efficient and energy-saving information technology.
- HB 763, by Rep. Christina Morales, requires the PUC to study the impact of additional interconnections between the ERCOT grid, Mexico and other jurisdictions. This is refiled legislation from 2021.
- HB 795, by Rep. Ed Thompson, would require nursing homes to maintain an emergency generator or comparable power source that can operate for at least 72 hours during a power outage.
- HB 820, by Rep. Ken King, would impose an additional registration fee of $200 for electric vehicles and $100 for hybrid vehicles. Most proceeds would go to State Highway Fund, but 10 percent would go an "electric battery disposal account" to reimburse costs incurred by the state or its political subdivisions for disposing of electric car batteries.
- Senate Bill 330, by Bob Hall, would create the Texas Electric Grid Security Commission that would be charged with evaluating the vulnerabilities to the grid and critical infrastructure and developing standards that will mitigate these threats.
- Senate Bill 114, by Jose Menendez, stipulates that electric customers are entitled to participate in demand response programs through their retail electric providers and must receive notice when ERCOT issues an emergency energy alert about low operating reserves to generators, planned outages, and the length of time the outages are expected to last.
- SB 258, by Sen. Sarah Eckhardt, would enhance energy efficiency goals for electric utilities.
- HB 697, by Rep. Justin Holland, would require home sellers to reveal the sort of gas piping installed at their residence and particularly whether black iron pipes, corrugated, copper or stainless steel. The disclosure holds importance for customer safety given that older black iron pipes have been associated with various fatal accidents.
- House Bill 743, by Rep. Jay Dean, prohibits cities from adopting ordinances that restrict the use of gas appliances in residential or commercial buildings. The issue has been pressed in recent years by gas utilities, who have seen a move away from the use of gas appliances nationwide for environmental reasons.

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