

17TH ANNUAL
RENEWABLE
ENERGY LAW
INSTITUTE

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Legislative & Regulatory Update

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Background

- Texas Legislature Meets 140 Days Every Odd-Numbered Year (PLUS Special Sessions)
- 181 Legislators – 150 House of Representatives; 31 Senate
- 2020 Election Results
 - House: 83 R; 67 D
 - Senate: 18 R; 13 D
- New Speaker – Rep. Dade Phelan (R- Beaumont)

Remember
when...

- Covid-19 - Long Pauses; No Visitors
- Budget
- Chapter 313
- PUC Legislative Recommendations (Electric)
 - Charges for Certain Filings
 - Clarify Electric Vehicle Charging Issue

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But then...



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What Happened: Overview of Texas Polar Vortex Event

- On Saturday, February 13th, a polar vortex swept across Texas causing severe winter storms and record-setting low temperatures throughout the week that led to record electric demand, natural gas supply constraints, and generator equipment failures
- Power and natural gas prices were severely impacted during the polar vortex event
 - System-wide power prices averaged over \$6,500/MWh⁽¹⁾, compared ~\$18/MWh in February 2020
 - Real-time prices hit \$9,000/MWh cap for 31 hours
 - Natural gas prices reached over \$300/MMBtu, with reports as high as \$500+/MMBtu (if gas could even be sourced)
- On Monday 2/15 ERCOT implemented rotating outages of up to 20 GW to address emergency supply/demand imbalance and prevent a prolonged statewide blackout
 - Estimated peak load (without load shed) was 76.8 GW for Tuesday 2/16, higher than ERCOT's all-time summer peak
 - In response to the electric crisis, the PUCT has issued several orders to ERCOT and the Texas electric utilities⁽²⁾ (see lower left), and the Railroad Commission of Texas issued an order to prioritize gas deliveries to electric generators over industrial demand

Key PUCT Orders

- Direct ERCOT to adjust prices such that shed load is accounted for in prices (i.e. raise to \$9,000/MWh cap)
- Suspension of "alternative" price cap that would have taken effect after the peaker net margin threshold was achieved on 2/16^{(3),(6)}
- Grant ERCOT authority to use its sole discretion to resolve financial obligations of market participants (i.e. authority to change timing/deadlines, utilize CRR funds, relax credit requirements, etc.)
- Suspension of customer disconnection for non-payment and extension of required offers for deferred payment plans

Sources: ERCOT, SNL Energy and industry publications
DA = Day-Ahead; RT = Real-Time; PUCT = Public Utility Commission of Texas;
(1) Average DA and RT pricing for "ERCOT Hub Average" price point from 2/14 to 2/19
(2) PUCT jurisdiction does not extend to municipal utilities or electric cooperatives
(3) Offline capacity high point occurred on Tue. 2/16 and total installed capacity equal to 107.5 GW
(4) Equal ~31 GW of total thermal capacity offline less ~9 GW attributable to gas-fired derates
(5) Alternative cap (the "LCAP") is equal to the greater of \$2,000/MWh or 50 x natural gas price index
(6) Peaker net margin ("PNM") threshold set at \$315,000/kW-year

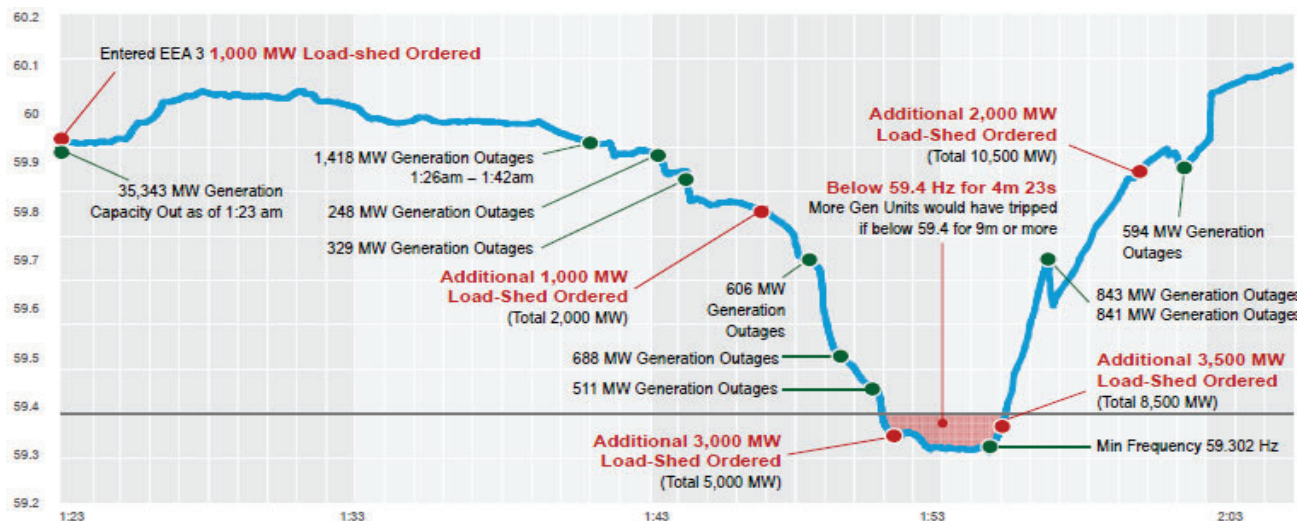
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Unprecedented Energy Supply / Demand Dynamics

Record Winter Peak	69.2 GW
Record NG Demand for Power	2.3 Bcf/d
Max Capacity Forced Outage	52.3 GW or 48.6% total MWs ⁽³⁾
Gas-Fired Capacity Derates	~9 GW
Frozen Wind / Solar	~20 GW
Frozen Thermal	~22 GW ⁽⁴⁾
Grid Frequency Instability Event	Potentially tripped 10-20 GW
Natural Gas Supply Disruption	<ul style="list-style-type: none">Delivery priority for home/business heating under emergency ordersLow pipeline pressure from frozen equipment and compressor outages due to rolling black outs>50% decline in Texas natural gas production due to freeze-offs

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Rapid Decrease in Generation Causes Frequency Drop



Source: ERCOT presentation dated February 25, 2021

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