

Railroad Commission of Texas Regulatory and Legislative Update – UTCLE Gas and Power Institute

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October 14, 2021

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Winter Storm Uri Dominates the Agenda

- The deadly loss of power throughout Texas caused legislators and regulators to focus on an issue that, surprisingly, is not well understood in Texas – the natural gas delivery “system,” and its role in electric generation.
- While not regulated like electricity, gas supply is an integral part of the ERCOT market, where gas-fired electric generation is the dominant generation resource.
- But the gas market and the electric market are regulated separately, in dramatically different ways, by two agencies that historically don’t collaborate – at all.
- Now, they’ll have to collaborate.

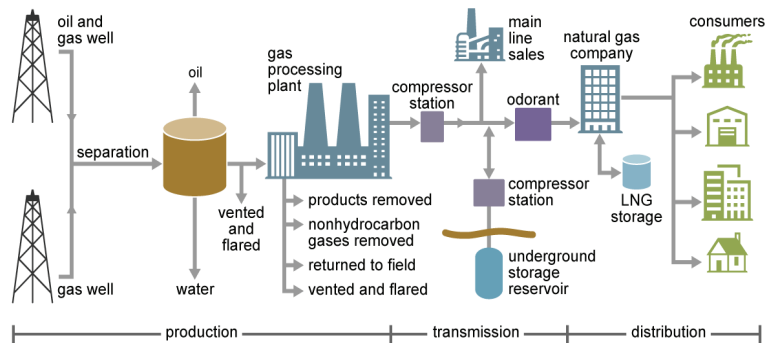
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Gas Production, Processing, Transportation, Storage, and Distribution “System” in Texas

Natural gas production and delivery



Source: U.S. Energy Information Administration

Critical Facilities in the Gas Delivery “System” in Texas

- **Gas Producer** → full well stream, including liquids.
- **Produced Water** → pipeline system or trucks for takeaway and disposal/recycling.
- **Processing** → separates liquids from gas creating two products: dry gas and natural gas liquids (fractionated into propane, ethane, pentane, etc.).
- **Transportation** → Intra- and Interstate Pipelines to deliver to LDCs, storage facilities, and certain end-use customers.
- **Storage** → For variable use by LDCs and for trading.
- **Local Distribution Companies** → Your local “gas utility.” The only economically regulated part of the “system.” But not centrally coordinated.

Governor Abbott's Gas Transport and Delivery Emergency Order – Winter Storm Uri

- What happens when the government does not understand how the disparate pieces work to transport and deliver gas?
- Emergency Order:
 - [T]o "ensure[] that any natural gas currently in Texas is not sent outside of Texas, **I hereby mandate that all sourced natural gas be made available for sale to local power generation opportunities before leaving the state of Texas**, effective through February 21, 2021."
 - What is "sourced natural gas"? Permian includes NM. Haynesville includes LA.
- Order was given with no notice to the RRC.
- In response, RRC took two steps:
 - **First step:** Amended its standing emergency Order No. 489 for gas transport curtailment priorities by gas utilities in order to ensure that deliveries of gas to electric generation facilities in Texas received priority.

Governor Abbott's Gas Transport and Delivery Emergency Order – Winter Storm Uri: RRC Order No. 489 – Revised

Until such time as the Commission has specifically approved a utilities curtailment program, the following priorities in descending order shall be observed:

A. Deliveries of gas by natural gas utilities to ~~for~~ residences, hospitals, schools, churches and other human needs customers, and deliveries to Local Distribution Companies which serve human needs customers.

B. Deliveries of gas to electric generation facilities which serve human needs customers.

~~B-C.~~ Deliveries of gas to small industrials and regular commercial loads (defined as those customers using less than 3,000 MCF per day) and delivery of gas for use as pilot lights or in accessory or auxiliary equipment essential to avoid serious damage to industrial plants.

C. ~~D.~~ Large users of gas for fuel or as a raw material where an alternate cannot be used and operation and plant production would be curtailed or shut down completely when gas is curtailed.

~~D. E.~~ Large users of gas for boiler fuel or other fuel users where alternate fuels can be used. This category is not to be determined by whether or not a user has actually installed alternate fuel facilities, but whether or not an alternate fuel "could" be used.

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First appeared as part of the conference materials for the 2021 Gas and Power Institute session

"State Regulatory and Legislative Update"