

17<sup>TH</sup> ANNUAL  
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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<sup>(1)</sup>, 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<sup>(2)</sup> (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

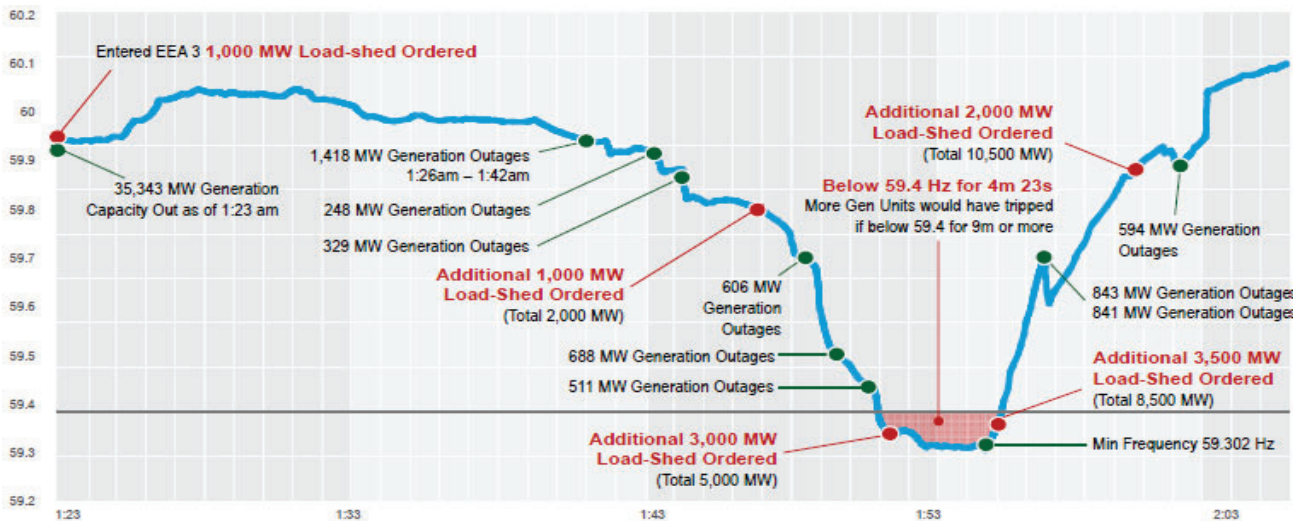
- Direct ERCOT to adjust prices such that shed load is accounted for in prices (i.e. raise to \$9,000/MWh cap)
- Suspension of "alternative" price cap that would have taken effect after the peaker net margin threshold was achieved on 2/16<sup>(5),(6)</sup>
- Grant ERCOT authority to use its sole discretion 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

## Unprecedented Energy Supply / Demand Dynamics

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

# Rapid Decrease in Generation Causes Frequency Drop



Source: ERCOT presentation dated February 25, 2021

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