



Electricity Prices during the 2021 Winter Storm

Effect of high wholesale prices on residential customers

Because most residential electricity customers are on fixed-price contracts with their power providers, they are not exposed to changes in their rates due to scarcity-driven changes in the wholesale price of electricity. Residential electricity prices in Texas are set in one of three ways:

- 1) **Outside the ERCOT region**, regulated utilities charge fixed rates that are approved by the Public Utility Commission;
- 2) **Municipally-owned utility** and **electric cooperative** rates are also fixed and are approved by their respective city councils or governing boards;
- 3) In areas with retail competition, customers have a contract with a **retail electric provider** that they have chosen. There is not a mechanism where a retail electric provider can go back and change the price agreed to in the contract.

What are Retail Electric Providers?

Retail electric providers operate in the parts of Texas that are deregulated and open to customer choice. These providers buy power on the wholesale market and sell it to customers. Customers can choose from many retail electric providers, and each provider might have multiple plans to suit different customer preferences.

Retail Electric Providers purchase power in a number of different ways. They may have long-term contracts with power generators. They may also buy power in the real time market that works like a stock or commodities exchange with sellers and buyers of electricity agreeing on a price. Retail electric providers use sophisticated financial hedging to manage the risk of changes in the wholesale power market.

Wholesale Market Prices and the Offer Price Cap

The wholesale price of electricity is set in a market where **sellers** of electricity (power generators) and **buyers** of electricity (retail electric companies) agree to a price based on supply and demand. Wholesale electricity can be bought in long term contracts between buyers and sellers. If a power generator cannot generate enough of its own electricity to fulfill the contract, that power generator will have to buy power in the real-time market to make up the difference. The **real-time market** is another way that electricity is bought and sold.

There is an **offer cap** placed on the wholesale market price. The maximum wholesale market price for electricity is reserved for **extreme scarcity conditions** to encourage any and all generation able to come online. **These peak prices are paid by wholesale buyers that have failed to purchase power in advance to hedge risk exposure for their customers. They are also paid by generators who do not generate power that they have committed to provide. This acts as a penalty for generators who fail to show up when needed.**



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PUC Winter Weather Pricing Order on February 15, 2021

In an emergency open meeting on Monday, February 15, the Commission convened to **correct a problem in the midst of unprecedented strain on the ERCOT grid.**

ERCOT informed the Commission that a computer glitch was preventing that maximum price from being applied. Because this penalty was not being applied, **the power dispatch system was actually taking megawatts off of the grid.** The Commission ordered ERCOT to correct that problem manually.

The individual residential consumer is not exposed to wholesale market prices, unless they are among the very few seen recently in the news with extremely high electricity bills having chosen a contract that is indexed to those prices.

PUC Taking Actions to Protect Texas Electricity Customers

In an emergency open meeting on February 21, 2021, the Commission issued a series of orders intended to protect Texas electricity customers while the PUC works with the Governor, the Legislature and ERCOT on solutions for the financial aftershocks of the winter storm grid event. In the meeting deliberations, the Commission strongly urged retail electric providers to delay invoicing for residential and small commercial electricity customers, including invoices with estimated meter reads.

In their order, the Commissioners ordered:

- An immediate suspension of disconnections for non-payment until further notice, including ordering utilities not to process disconnections.
- Continuation of the COVID-19 measure under which REPs are required to offer deferred payment plans to customers when requested.

[NOTE: The orders are applicable to customers of investor owned-utilities (IOUs) across the state that fall under the PUC's jurisdiction (namely Oncor, AEP, CenterPoint and TNMP). They do not apply to municipally-owned utilities or electric cooperatives that reside outside the PUC's jurisdiction in this area, but they don't preclude them from taking similar steps.)