



MESSAGE FROM GENERAL MANAGER/CEO

THOMAS CHEEK

An Update on February's Deep Freeze

THE PAST YEAR and a half has had many challenges, not the least of which was February's historic storm. The freeze has proved to be not only a catastrophic weather event but also a catastrophic financial event.

What Happened?

The severe cold weather from February 14–19 caused an extreme surge in demand for electricity. Gas shortages and power generation issues resulted in rolling outages mandated by the Electric Reliability Council of Texas. In an attempt to add more generation capacity onto the electric grid during the weather event, ERCOT increased power supply market prices to the cap of \$9 per kilowatt-hour. That extreme pricing, along with the duration of the event, required Brazos Electric Power Cooperative, HILCO Electric Cooperative's wholesale power supplier, to purchase power at unforeseen prices, amounting to about \$2.3 billion in costs.

Before the severe weather event, Brazos Electric was a financially robust and stable cooperative with an A to A+ credit rating from Fitch Ratings.



TRI-COUNTY EC

However, on March 1, Brazos Electric filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of Texas. The Chapter 11 filing is a protective measure that will allow the generation and transmission co-op to continue to provide service to its member cooperatives while going through the bankruptcy process.

Since the bankruptcy filing in March, Brazos Electric has continued to seek relief from the ERCOT claim. One attempt was during the recent 87th Texas legislative session. Brazos Electric and

its member cooperatives spent months contacting state representatives through meetings, emails and calls.

By the end of the legislative session, our requests had all been ignored. There was no relief from the state regarding ERCOT's market pricing that lasted the entire weather event and for an additional 32 hours past the event. Those additional 32 hours were debated because the pricing remained at the \$9-per-kWh cap well after the rolling outages ended.

At the end of the legislative session, the state's view of ERCOT's management of the market was that it performed as intended. Discussion continues at the state level reviewing what changes the market may need, so that this does not happen again.

Where Are We Now?

To date, the most significant question remains what must Brazos Electric pay of the \$2.3 billion claim from ERCOT. The court continues to hold hearings on the co-op's bankruptcy, and the mitigation of the ERCOT claim continues. In parallel with the litigation, Brazos Electric continues to contemplate various other bankruptcy exit options and scenarios.

The situation is very fluid, and we still lack definitive answers about how much Brazos Electric must pay to exit bankruptcy. Until the court rules on the ERCOT claim, Brazos Electric won't be able to determine a bankruptcy exit plan, possibly not until late February 2022.

Of course, Brazos Electric and its member cooperatives were not the only electric utilities affected by this unprecedented event. The financial impact of the February freeze will affect consumers throughout Texas. Unless there is future legislative intervention, the cost of power during that time ultimately must be paid. 4706549300

It's said that hindsight is 20/20. Looking back at the winter storm, our commitment to provide our members safe, reliable energy at the lowest possible cost was tested at every level. As we continue to seek relief from the charges, the HILCO EC Board of Directors and staff will work relentlessly to navigate the fallout of this extreme weather event.

For 84 years, HILCO EC has been committed to our members. This challenge does not change that commitment, and we remain focused on minimizing the financial impact experienced by our members. We're in this together. ■