The Washington Post
Democracy Dies in Darkness

As Texans went without heat, light or water, some companies scored a big payday

Windfall profits are likely to total billions of dollars

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Feb. 27, 2021 at 5:00 a.m. PST

As millions of Texans went days without heat, light or water, as store shelves were emptied, as deaths blamed on the cold began to add up, Texas' frenzied and deregulated electricity market opened the door for some companies to reap windfalls that may mount into the billions of dollars.

The nation's most deregulated energy economy was supposed to be a win for consumers and for energy companies nimble enough to do business in a bustling, cacophonous market. But the cold snap — rare but by no means unprecedented — shattered it last week, plunging consumers into misery and leaving a badly prepared and dislocated energy sector in pieces.

"This is the classic definition of market failure," said Aneesh Prabhu, an analyst with S&P Global.

Wholesale prices for electricity spiked 300-fold, and for natural gas almost as much, and when supplies dwindled firms that had some of either commodity to sell were in line for tremendous short-term profits. But other companies are looking at stupendous losses.

Nearly $50 billion in electricity sales were carried out last week through the Texas organization that acts as a clearinghouse — as much as the three previous years combined — and now await a sorting out of who owes what to whom, which will determine the winners and losers.

The frigid temperatures dammed much of the flow of natural gas, and caused 356 electric power generators across the state to fail at some point last week. Blackouts spread until they covered 4 million households.

And even as millions of Texans are still without water because of the power failures, several thousand residential customers have already been socked with towering bills for a week's worth of electricity.

"Texas has paid the price," said Robert McCullough, an energy analyst based in Oregon whose firm calculated the $50 billion figure. "Well, some people in Texas are paying a very high price. And some are making out very well."

An Australia-based company, Macquarie Group, which moves gas across pipelines in the United States, announced last week its profit for 2021 was likely to be up by 5 to 10 percent over 2020 because of the freeze in Texas. That would amount to $213 million extra for the bottom line, based on last year's after-tax earnings, but analysts say the windfall could be twice that or more.

Comstock Resources, a company controlled by Dallas Cowboys owner Jerry Jones, also took advantage of the spike in natural gas. “We were able to get super premium prices,” Chief Financial Officer Roland Burns said in a Feb. 17 call with investors.

Comstock pushed sales in the energy market, he said, and “that’s going to pay off handsomely.” The cold snap that devastated Texas was “like hitting the jackpot.”

That remark caused a stir, and on Friday a company spokesperson relayed a message from Burns in which he apologized and said “the description was inappropriate and insensitive.”

Almost two weeks after the storm walloped the state, Texas consumers and the general public still don’t know which companies profited during the storm or which companies failed to adequately prepare their equipment, with a few exceptions. That’s because much of the data will remain confidential, if held by private companies, and Texas officials have not made other data public.

And where there are winners, he said, there must also be losers.

Exelon Corp., which has a small presence in Texas with three power plants, said Wednesday that when those plants went offline last week, it cost the company between $750 million and $950 million. The output of those plants represents about 3 percent of the state’s capacity. Christopher Crane, Exelon’s chief executive officer, said the company resorted to the high-priced spot market to meet its contractual obligations.

“This loss is not acceptable to us,” he said in a call to investors.

The company may consider pulling out of Texas, he added, unless its market is reformed.

Vistra, a major producer of electricity, announced Friday that it will suffer costs estimated at between $900 million and $1.3 billion because of the freeze.

“There were winterization issues at gas processing plants,” Curt Morgan, the company’s CEO, said at a state legislative hearing Thursday. "We’ve got 70,000 megawatts of dispatchable resources. We had 30,000 of that out, a huge amount.”

Subsidiaries of American Electric Power in Texas and Oklahoma, which was also hit by the cold, had to pay more than $1 billion for natural gas last week, roughly as much as was budgeted for all of 2021, Julie Sloat, the chief financial officer, said Thursday in an earnings call.

Part of the problem in Texas is the disjointed structure of the business, with different companies handling different tasks, said the company's chief executive officer, Nicholas Akins. That makes it much harder to act decisively in an emergency, he said.

And he blamed the Electric Reliability Council of Texas (ERCOT), the organization that manages the statewide grid and is already under fire for poor public messaging, for also doing a poor job of communicating with all the power sector participants during the crisis.

NRG, one of the three largest generating companies in Texas, lost power at one unit of its South Texas Nuclear Power Station. Prabhu, with S&P Global, believes that may have cost the company $250 million, based on the amount of electricity it was unable to produce while the unit was down. An NRG spokesman declined to comment.

President Biden visited Texas Friday to meet with local leaders to discuss relief efforts and "progress toward recovery," White House press spokeswoman Jen Psaki said.

ERCOT has taken most of the criticism for the widespread blackouts, from the public and politicians alike. Six of its 15 sitting board members, and one alternate, resigned Tuesday, under fire because they live out of state.

Texas Gov. Greg Abbott (R) has poured blame onto ERCOT, a nonprofit coalition of electricity customers, utilities and power companies that has no regulatory power over its individual members. But Abbott has said little about the role played last week by the companies whose power plants failed, or about the Public Utility Commission, which has oversight over ERCOT and whose members he appoints.

"Many of you are angry. And you have a right to be. I'm angry, too," Abbott said in a statewide address Wednesday. "At a time when essential services were needed the most, the system broke.

"Before the storm hit, ERCOT repeatedly assured the state and the public that ERCOT was prepared. Those assurances turned out to be false," the governor said.

Abbott said the state is investigating "skyrocketing bills" to consumers from a few companies, as well as ERCOT itself. And he called on the legislature to enact reforms "to add more power to the grid and to ensure that we never run out of power again."

Abbott said the state must require power providers to "winterize" their equipment — a move that members of his own party have resisted for years, instead favoring further deregulation of the state's power prices.

At a hearing in the Texas House of Representatives Thursday, Morgan, the head of Vistra, apologized: "Somehow we could not solve the riddle of a winter storm. For that I'm very sorry, and I think there's accountability to be shared by many in this, including my company."

But he reserved the real blame for natural gas companies.

"I can tell you that the gas business made a lot of money," he said. "Maybe that's okay. I don't know. But I don't think the big missing money is sitting with us. I can tell you it's not sitting with our company."

Few companies have disclosed their gains or losses from last week, in part because the accounting isn't done. "This financial stress continues because this week is when folks actually get billed and pay for what happened last week," Kenan Ögelman, ERCOT's vice president of commercial operations, said Wednesday.

On Monday, the Federal Energy Regulatory Commission announced it is launching an investigation into the parallel price spikes in electricity and natural gas markets last week. Of particular interest, the agency said, is the possibility that some firms were manipulating the markets — presumably by withholding power or gas to drive up the price.

In an unregulated but inelastic market such as in Texas, where customers can't respond to price signals because they need electricity or gas, McCullough said, "the incentives for misbehavior are so enormous that otherwise reasonable people can be tempted."

Under pointed questioning at the state legislative hearing Thursday, Morgan said, "There's an insinuation that we withheld power" to jack up prices, "and that's just absolutely ridiculous."

John Gregg, general counsel to the American Public Gas Association, termed the high price a "catastrophe."

"But there does not appear to be a culprit like Enron in the California energy crisis some 20 years ago," he said in a note. "The culprit appears to be the free market at a time of a historic shortage of natural gas supply caused by sustained freakish weather that seems to be happening in one form or another with regularity now. There is no federal law against price gouging."

Deregulation's effects

Texas began deregulating its power sector in 1999 under then-Gov. George W. Bush (R), with support from both parties, and today dozens of companies generate, buy, sell and deliver electricity to customers. Banks, commodities traders and hedge funds have a financial stake in the sector, as well.

Customers are served by regulated utilities, which operate the neighborhood power lines. But Texans can choose which company, called a provider, to buy electricity from, channeled through the utility. The providers, in turn, contract to buy electricity from power plants and wind turbines and solar-panel farms. There is overlap in some cases, but not in all.

Deregulation was sold by Bush and state lawmakers as a way to lower electricity prices and improve customer service. And even as Texans resorted to pitching tents in their living rooms to stay warm last week, regulators and others said the enormous jump in the price of electricity showed the system working the way it was supposed to: Generators who prepared for the extreme weather were able to sell power for an extraordinary profit.

"It actually serves an incredibly important function in the market to motivate the response of the generators," Peter Cramton, another member of ERCOT's board who resigned, said during a Wednesday public meeting hosted by the nonprofit utility coalition. "Everybody's working as hard as they can to get online because they see that high price."

Critics, however, point out that the result was more than four days of blackouts and sky-high prices that will eventually hit consumers, one way or another.

In an open meeting Wednesday, ERCOT's president and chief executive, Bill Magness, defended the organization's decision to institute forced power outages across the state for four days last week. Without those actions, he said, the electric grid would have collapsed, with far more catastrophic consequences including weeks of blackouts.

The shutdowns happened for a variety of causes, all linked to the cold weather. Pumps and compressors froze. Moisture in gas pipelines froze. Instruments needed to run the plants froze. Wind turbine blades became iced over. Diesel generators wouldn't start.

As the extent of the problems became apparent the night of Feb. 14, just as demand for electricity to heat homes was spiking, ERCOT began ordering blackouts around the state to balance the demand for power with the available load. Otherwise there would have been a total failure.

Magness emphasized how much more extreme last week's freeze was compared with a 2011 cold snap that led to previous calls for reform. A decade ago, close to 200 generators were forced offline by the freeze; last week, that number was more than 350.

The cold spell that extended across so much of the state for such a long time was "like nothing we certainly have ever seen before at ERCOT," Magness said.

ERCOT's leaders acknowledged they need to improve communication — a problem also identified after the 2011 power outages. Even some utilities have complained that the organization did not warn them about how bad the storm could get, though ERCOT's staff was aware of the magnitude of the impending crisis.

"Residents were understandably scared, angry and wanting information and accountability," said Sally Talberg, one of the ERCOT board members who have resigned. "ERCOT may not own the power plants, wind farms, gas compressors ... but it manages the flow of power in the state."

Texas is one of several states that do not mandate a capacity-building factor in electric bills. In other words, there's no built-in incentive, as there is elsewhere, for companies that run power plants to provide for backup resources in the event of an emergency — or even to "harden" their plants against winter weather.

"Most of us in the industry consider this preposterous," said McCullough, the energy analyst.

And the lack of emergency capacity has stung customers of companies such as Griddy Energy. The retail power provider sells electricity at wholesale rates to residential customers without locking in a price in advance — leading to some residential energy bills as high as $10,000 for just a week of power use.

Griddy, which labeled itself the "Uber" of energy billing, did not respond to requests for comment. It has said that it passes on the cost of wholesale power to customers and that it tried to convince some to switch to a fixed-rate plan as the storm intensified — something that should theoretically be easy to do in Texas's deregulated energy market. But many were unable to switch in time and got socked with tremendous bills.

A vigorous debate over the payoffs and pitfalls of Griddy's approach has been playing out on the company's Facebook page, with some angry customers posting pictures of their astronomical electricity bills and others pointing out that the company encouraged them to switch providers.

The company this week owed power generators $1.5 million. It has since paid the bill in full — it has the financial backing of the Macquarie Group. But late on Friday, ERCOT ordered Griddy to suspend business to its remaining

10,000 customers, who will be assigned other power providers.

One of Griddy's competitors, Houston-based Octopus Energy US, installed a price protection cap for customers last week in the midst of the crisis. Such actions are voluntary in Texas, where the law includes very few protective measures for electricity consumers.

"We know that this is part of the process of being involved in the for-profit market. We take the wins with the losses," Michael Lee, CEO of Octopus, said in an interview. He said that the move cost Octopus millions but that the company can weather the loss.

Lee said the company has tens of thousands of customers in Texas whose electricity prices are pegged to the wholesale price of power. Some who switched to a fixed-price plan during last week's storm have already asked to switch back now that prices have stabilized — and those with solar panels are actually making money because they can sell power back to the grid, he said.

Lee said while last week's storms demonstrated the need for some changes in the preparedness of generators and natural gas suppliers, he supports the continuation of a deregulated energy market. He added that it would help encourage more customers to use renewable energy.

"Texas is actually the world's best energy market, in my view," he said. "We need to have millions of customers on these variable-rate products if we want to truly decarbonize the grid."

'Very, very large invoices'

ERCOT said it is normally prevented by its own regulations from identifying power generators that have experienced problems. Most of the loss in power — which at one point totaled 52,000 megawatts, or well more than half the state's generating capacity — came from plants that use natural gas, with a lesser amount from disabled wind turbines.

ERCOT has asked its member companies to agree to the release of more-detailed information about the power failures.

The known winners so far are gas companies, Macquarie and Comstock. But there was money to be made in electricity sales as well.

Generation companies typically hedge all or part of their output by arranging with a bank or a hedge fund in advance to sell their electricity at a set price. The idea is to have the financial institution share in the risks or benefits. But when a power plant goes dark, its owner must turn to the spot market to provide electricity it has contracted to sell — and when the cost of a megawatt hour goes from $30 to $9,000 as it did in Texas, such an arrangement can be ruinous.

A megawatt hour is 1 million watts of electricity, used continuously for a solid hour. A megawatt hour would be enough to supply 330 average American homes for 60 minutes.

The bank or hedge fund, in an event such as last week's, can pocket a huge profit.

Exelon's Crane alluded to hedging as a reason the company took such a big hit but did not elaborate. A wind power company based in Quebec, Innergex Renewable Energy, said it lost between $36 million and $49 million dollars at its four facilities in Texas because of hedging.

Calpine, a major electricity-producing company in Texas, most likely had a high level of hedging, S&P Global analysts said in a report Wednesday, and may have been hit for a loss. The company did not respond to requests for comment.

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“If you made a bet on the wrong side of this market, you’re going to pay,” McCullough said.

For the retailers, who act as middlemen, hedging can be an advantage in an event like this. But not all the Texas providers do so, and McCullough said that in past freezes and price spikes, a significant number of unhedged retailers were forced under.

“We’ve got a real risk of a cascade of bankruptcies coming out of this,” he said.

Patrick Woodson, who is head of a Texas power retailer called Green Energy Exchange, has asked the state’s Public Utilities Commission to retroactively roll back the price of last week’s electricity.

“Generators should not exorbitantly profit from a crisis they helped create,” he wrote in a letter to the commission. “Consumers and retailers should not be the only parties suffering from the failures of the market.”

Yet there’s a paradox, largely based on luck: If the area a retailer was serving was subject to an ERCOT-ordered blackout, it had the opportunity to sell off its excess electricity on the spot market, at the phenomenal level of $9,000 per megawatt hour. There could well be big winners in this sector, as well, McCullough said.

But a question every company will face is whether it will be able to collect what it is owed.

Industrial customers are also reeling.

“At the end of the day, industrial companies important to this state are getting very, very large invoices for energy that they did not consume,” said Sam Harper, energy director for Gerdau Steel. “So we need to find a solution there.”

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