

SUBJECT: Prohibiting wholesale indexed products for residential electric customers

COMMITTEE: State Affairs — committee substitute recommended

VOTE: 11 ayes — Paddie, Hernandez, Deshotel, Harless, Howard, Hunter, P. King, Lucio, Metcalf, Raymond, Slawson

1 nay — Shaheen

1 absent — Smithee

WITNESSES: For — JP Urban, AECT; Michele Richmond, Texas Competitive Power Advocates (TCPA); (*Registered, but did not testify*: Kathy Green, AARP; Jason Ryan, CenterPoint Energy; Tristan Castañeda, Exelon; Cyrus Reed, Lone Star Chapter Sierra Club; Tom Oney, Lower Colorado River Authority (LCRA); Shera Eichler, Oncor Cities Steering Committee and Texas Coalition for Affordable Power; Danielle Delgadillo, South Texas Electric Cooperative (STEC); Jeffrey Jacoby, Texas Campaign for the Environment; Joshua Houston, Texas Impact; Mance Zachary, Vistra Corporation)

Against — None

On — Michael Jewell, Octopus Energy; (*Registered, but did not testify*: Connie Corona, Public Utility Commission of Texas; Thomas Parkinson)

DIGEST: CSHB 16 would prohibit a retail electric provider from offering a wholesale indexed product to a residential customer.

The bill would define “wholesale indexed product” to mean a retail electric product in which the price a customer paid for electricity included a direct pass-through of real-time settlement point prices determined by the independent organization certified by the Public Utility Commission (PUC) for the ERCOT power region (ERCOT organization).

The PUC would have to adopt rules necessary to implement the bill by

December 1, 2021.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2021.

**SUPPORTERS
SAY:**

CSHB 16 would protect consumers by banning the sale of wholesale indexed products by retail electric providers to residential customers. Rates for these types of plans are directly tied to the spot price of electricity on the Texas grid, which can leave consumers vulnerable to extreme fluctuations in electricity prices.

After Winter Storm Uri, during which the wholesale price of electricity in Texas reached, and for days remained at, the \$9000-per-megawatt-hour offer cap, some customers of wholesale indexed products were left with thousands of dollars of electricity bills. These customers then had to choose between supporting their families and paying their electricity bills, illustrating that such full-blown exposure to the wholesale price of electricity is detrimental to residential customers.

Some recently have raised concerns about consumers being misguided about the risk associated with extreme fluctuations in electricity prices with wholesale indexed products. Others say these plans discourage retail electric providers from hedging against unforeseen risk by relying on customers to shoulder the responsibility and financial burden of high electricity spot prices. As evidenced by the aftermath of the winter storm, residential customers do not have the expertise to weather the fluctuation of electricity rates. CSHB 16 would ensure that any future pricing volatility seen in Texas' electricity market during extreme weather events and other disasters was not passed on directly to the consumer through high electricity bills as a result of a wholesale indexed product.

The bill would not ban wholesale indexed products from the electricity market completely. These plans still would be available to industrial and commercial electricity customers, as they are more sophisticated consumers and have business incentives to inform themselves of the

complexity of market variability and both the benefits and the potential consequences of exposure to the wholesale market price of electricity.

CRITICS
SAY:

CSHB 16 would inappropriately eliminate a product from Texas' competitive electricity market, which should be treated the same as other markets that carry significant risk, such as the stock or real estate markets. The Legislature should allow companies to continue to offer wholesale indexed products to all customers with certain consumer protection mechanisms in place. Rather than banning wholesale indexed products, the bill should mandate better disclosures from companies and should require plans to cap a customer's exposure to wholesale electricity prices, protecting customers from high electricity bills that result from prolonged high wholesale rates.