



From: Mark Chesney, KPP CEO/General Manager

To: All KPP Members

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Re: To Pool or Not to Pool

No one in our industry needs to be told that February 2021 brought a very unexpected and expensive weather event. It is terribly understated to merely say “expensive”. In less than 2 weeks, utilities incurred energy costs around 12 - 13 times what they might have expected to see in February. Sleeplessness overcame many and imposed other health and emotional challenges to those who would steadily and skillfully help propel their institutions to the other side of the event.

Credit analysts tell us that financial outlooks, of necessity, would be dimmed. There were even some credit downgrades. They tell us also that many institutions had to incur extremely long term borrowing just to stay alive – a further impact to their credit profile. In contrast, some who had saved for a rainy day spent all their cash just to survive. And even those wise stewards received negative outlooks from the analysts. A few, they say, embarked on doubts of future viability. And yet others, they tell us, attained positive net revenue margins despite the debilitating costs faced by neighbors all around them – utilities, businesses and private individuals. These revenues came also from institutions and people in society least able to part with their money.

Financially, the damage had been done quickly. But the process of repairing it would take much longer. Which is to say, the pain would endure. It can be seen that, for some, unless a rabbit is pulled from the hat, the duration of the pain will extend beyond the retirement date of some people who are just now entering the workforce for the first time in their lives. Is that astonishing?

Consider this: In Texas there is a regional transmission operator (RTO) called the Electric Reliability Council of Texas (ERCOT). ERCOT, like the Southwest Power Pool (SPP), has no balance sheet beyond the ownership of stuff like computers and real estate. They have no cash and it isn’t intended that they do or would. If there is a failure in anyone’s ability to pay the bill for energy, ERCOT (or SPP) must simply socialize that deficiency among everyone. The deficiency in ERCOT from February was about \$3 billion. That was due to a couple of large G&Ts and a few smaller players being completely and simply unable to pay the bill. This, while yet others were making a profit. Most interestingly, by law, ERCOT is not able to resettle dollar amounts greater than \$30 million per year. And what does that mean? It means that all market participants will be enduring the socialized cost (pain) of the deficiency for upwards of 100 years. Will ERCOT or Texas do something to accelerate that? You would think so. Like I said, a rabbit must be pulled from the hat. It would be interesting to know if some in Texas question

whether the pool concept of an RTO is wisdom. Well, RTOs cover most of the country with the creation of others in slow process.

Here is a different way to ask the question: knowing it is sometimes painful and knowing some people might be deprived of a financial windfall, would it be preferable altogether to have no such thing as an ERCOT (or an SPP, for that matter) so as to do away with a pool concept by which to share a burden while also achieving synergies, economies of scale and greater ease, stability and reliability for our march into the future? Actually, but speaking of KPP's own pool – and not ERCOT or SPP – various members have already expressed their answer to that question in formal communications to their governing bodies. Gratifying, this is validating not only of their decision to join KPP, but also to the guard rails or parameters by which the Pool operates.

In the movie *Groundhog Day*, as he steered his car onto the railroad tracks, Bill Murray's character, Phil Connors, spoke to the two passengers in the car and said in a very bumpy and shaky voice, "sometimes I think you just have to take the big chances." Personally, I think the bumpy and shaky voice presented a subtle metaphor. Seconds later, when a freight train was seen coming straight toward them, he uttered, "you make choices and you live with them."

We are all hard pressed to find anyone who would dispute the truthfulness of those two remarks. In what is now a classic movie, *Groundhog Day* taught universal principles albeit in a laughable and improbable setting. Included in the movie was the claim that strength together can arise from what was previously only self-interest. There is even a sappy, but undeniable, declaration that one dark and bleak winter, in truth, is merely "another step in the cycle of life." Like I said, it's sappy; but it's undeniable.