



MESSAGE
FROM
PRESIDENT/
CEO

**DARRYL
SCHRIVER**

Update: Winter Storm Grid Crisis and Brazos Bankruptcy

IT IS NOW MAY and we are still sorting through the aftereffects of Winter Storm Uri, which brought record-low temperatures across the state for multiple days in February and wreaked havoc on the Texas electric grid. I have reported to you over the past couple of months that your Tri-County Electric Cooperative Board of Directors and management team are conducting a thorough investigation of the impacts of the storm and why Brazos Electric Power Cooperative (Brazos), our generation and transmission cooperative and power supplier, made a hurried decision to file for Chapter 11 bankruptcy. Tri-County Electric Co-op has hired an excellent team of outside consultants and legal counsel to advise us, and we are making progress with our investigation.

Prior to, during and after the storm, I have been open and transparent with you, our member-owners. In my 20 plus years in this industry, sorting through this predicament has been one of the biggest and most complex challenges of my career. Throughout this entire process, I have pressed for answers and accountability from Brazos. We have unfortunately learned that Brazos's generation fleet did not operate as expected during the winter storm, which caused excessive costs to be incurred. These generation units are designed to act as a hedge and produce electricity to protect all Brazos's member-cooperatives, including Tri-County Electric Co-op, from the volatility of the ERCOT market. It has become painfully obvious that this did not happen in February. 800873045

Ultimately, Brazos incurred approximately \$2.1 billion in bills from ERCOT, which was three times its cost of power for the entire 2020 year. Although Brazos disputes this debt and issued a notice of force majeure to ERCOT, and disputes \$1.8 billion of the charges from ERCOT, Brazos hurriedly filed for bankruptcy. Brazos released a statement declaring the filing was to protect its member-cooperatives and to preserve its ability to conduct transactions in the ERCOT market. However, what is puzzling is that immediately prior to Brazos's filing, Brazos allocated to each member-cooperative their assumed initial share of the disputed ERCOT charges and then provided a "temporary affordability adjustment" to the member-cooperatives to offset some of these charges.

As of this writing, we have yet to obtain requested backup data to validate Tri-County Electric Co-op's allocation of initial costs. As you may recall in February, Brazos also announced it would charge member-cooperatives an additional two cents per kilowatt-hour for February electric use. Brazos then removed the adder on its next bill. Furthermore, due to the bankruptcy filing and its associated asset performance during the winter storm, Brazos's credit rating was downgraded to a "D" placing additional operational strains on Brazos. Because of the downgraded rating, Brazos is not able to transact business in the ERCOT market as efficiently as before.

In addition to our investigation, the Texas legislature has conducted a series of hearings to understand what happened to the state's electric grid that provides power to 90% of Texans. They are moving slow with the legislative process and we are preparing for other options in case the legislature fails to pass legislation that will prevent the downward spiral of high electric costs being pushed onto our members. Tri-County Electric Co-op's management has been active in the legislative process with our elected legislative delegation and those in leadership positions to explain necessary changes needed to prevent this from ever happening to us again.

This debacle is far from over and it is an extremely fluid situation. This Brazos situation was not of Tri-County Electric Co-op's making and, as proactive as we have been, there is only so much we can affect and control in relation to the problems of Brazos. Brazos has many problems but it remains unclear to what degree this will ultimately affect Tri-County Electric Co-op. One thing I can say for certain is I am doing all that I can to hold Brazos accountable and protect the member-owners of Tri-County Electric Co-op. We are in this together. ■