



BRAZOS ELECTRIC POWER COOPERATIVE, INC.
P.O. Box 2585, Waco, Texas 76702-2585
7616 Bagby Ave., Waco, Texas 76712
(254) 750-6500

TO: All Members
FROM: Brazos Electric Power Cooperative
DATE: February 22, 2021
RE: Financial Impacts of Last Week's Weather Crisis

As you well know, last week Texas experienced severe winter weather with ice, snow and below freezing temperatures that stressed the Texas power grid, resulting in power outages for millions of customers and an unprecedented spike in prices for natural gas and other resources to generate electricity. Between February 13 and 19, Brazos Electric incurred significant charges to provide wholesale power to our Member cooperatives. Many other ERCOT market participants as well as entities outside of ERCOT experienced similar challenges with extraordinarily high prices for acquiring natural gas to generate power.

We are continuing to evaluate ways to mitigate the impact of the weather-related energy pricing on our Member cooperatives and their retail members. Brazos Electric will make decisions based on our ongoing mission to provide reliable and affordable power to our Members. In the meantime, your retail members can be assured that (Coop Name) and Brazos Electric remain focused on, and committed to, providing consistent, ongoing electric service to the homes and businesses we serve.

About Brazos: Brazos Electric Power Cooperative ("Brazos Electric") is a generation and transmission cooperative that provides wholesale power supply to its sixteen (16) member-owner distribution cooperatives whose service territory extends across 68 Texas counties. Brazos Electric was organized in 1941 and was the first cooperative formed in the Lone Star state for the purpose of generating and supplying electric power to member-owner cooperatives including (Coop Name).



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NEWS RELEASE

Brazos Electric Power Cooperative, Inc. Files for Chapter 11 Financial Restructuring

Brazos Electric acts to protect its Member cooperatives and their retail members from unaffordable electric bills

WACO, TEXAS, MARCH 1, 2021 – Brazos Electric Power Cooperative, Inc. ("Brazos Electric" or "the Company"), a leading, and Texas' oldest and largest, generation and transmission power cooperative serving 16 distribution Member cooperatives that serve more than 1.5 million Texans, announced today that it 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.

Brazos Electric initiated this financial restructuring to maintain the stability and integrity of its entire electric cooperative system. Before the severe cold weather that blanketed Texas with sub-freezing temperatures February 13-19, Brazos Electric was in all respects a financially robust, stable company with a clear vision for its future and a strong "A" to "A+" credit rating. As a result of the catastrophic failures due to the storm, Brazos Electric was presented with excessively high invoices by ERCOT for collateral and for purported cost of electric service, payment of which was required within days. As a cooperative whose costs are passed through to its members, and which are ultimately borne by Texas retail consumers served by its Member cooperatives, Brazos Electric determined that it cannot and will not foist this catastrophic financial event on its members and those consumers.

Throughout the forthcoming financial restructuring process, Brazos Electric will remain committed to the following:

- Delivering affordable and reliable electric service to its Member cooperatives and their retail members;
- Assisting our Member cooperatives, their retail members and their communities impacted by the historic extreme cold weather event of February 13-19, 2021 in the rebuilding effort;
- Supporting the orderly, fair and expeditious treatment and satisfaction of its liabilities resulting from the extreme cold weather event that severely impacted the state of Texas from February 13-19, 2021.

"Let me emphasize that this action by Brazos Electric was necessary to protect its Member cooperatives and their more than 1.5 million retail members from unaffordable electric bills as we continue to provide electric service throughout the court-supervised process," said Clifton Karnei, Executive Vice President and General Manager of Brazos Electric. "We will prioritize what matters most to our Member cooperatives and their retail members as we, and they, work to return to normalcy. We expect this court-supervised process will provide us with the protections and mechanism to protect and preserve our assets and operations, and satisfy obligations to our creditors."

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The filing also includes several “first day” customary operational motions Brazos Electric filed with the court in support of its financial restructuring including requests of authorizations to continue paying employee wages and benefits and certain critical vendors. Brazos Electric will pay all obligations under normal terms of business for goods and services provided on the filing date of March 1, 2021 and thereafter.

For additional information about Brazos Electric’s reorganization, including access to court filings and other documents related to the court-supervised process, please visit <https://cases.stretto.com/Brazos> or call 855.529.1663 (Toll-Free) or 949.771.2210 (International) or email Brazoselectricinquiries@stretto.com.

Norton Rose Fulbright is serving as lead restructuring counsel, and Berkeley Research Group is serving as financial advisor to Brazos Electric.

About Brazos Electric Power Cooperative

Brazos Electric Power Cooperative, Inc. (“Brazos Electric”) is a generation and transmission cooperative that provides wholesale power supply to its sixteen (16) Member-owner distribution cooperatives whose service territory extends across 68 Texas counties from the Texas Panhandle to Houston. Brazos Electric was organized in 1941 and was the first cooperative formed in the Lone Star State for the purpose of generating and supplying electric power to Member-owner cooperatives including Bartlett Electric Cooperative, Comanche Electric Cooperative Association, PenTex Energy, CoServ Electric, Fort Belknap Electric Cooperative, Hamilton County Electric Cooperative Association, Heart of Texas Electric Cooperative, HILCO Electric Cooperative, J-A-C Electric Cooperative, Mid-South Electric Cooperative, Navarro County Electric Cooperative, Navasota Valley Electric Cooperative, South Plains Electric Cooperative, Tri-County Electric Co-Op, United Cooperative Services and Wise Electric Cooperative. For more information, visit www.brazoselectric.com.

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FACT SHEET

As of March 1, 2021, at 5:30 p.m. CT

Key Excerpts From Declaration Of Clifton Karnei In Support Of Brazos Electric's Chapter 11 Bankruptcy Filing

About Brazos Electric's Track Record of Performance

- Brazos Electric has been a model of financial stability for 80 years. By aggregating the distribution needs of its electric cooperative members to obtain best-in-class generation and transmission facilities through low-cost financing, Brazos Electric has maintained an "A+" and "A" issuer credit ratings from Fitch and S&P, respectively. [para 5]
- As the month of February 2021 began, the notion that a financially stable cooperative such as Brazos Electric would end the month preparing for bankruptcy was unfathomable. [para 6]
- Brazos Electric's generation and transmission revenues were \$1.038 billion and \$1.041 billion in 2019 and 2020, respectively. [para 46]

The "Black Swan" Winter Storm

- Beginning on February 13, 2021, the state of Texas experienced an unprecedented and catastrophic energy crisis when a powerful winter storm moved over and blanketed the entire state, resulting in temperatures well below 20°F in a state where many homes (which are not sufficiently insulated for extreme cold weather) and businesses rely on electricity for heating. Texas's generating plants, pipelines, and wind turbines are constructed to operate in extreme summer temperatures and are not winterized in the manner and to the degree that is common in more traditionally cold-weather states. [para 49]
- Price shocks in Texas were felt as early as February 12 when natural-gas prices jumped from \$3 to over \$150/MMBtu in anticipation of short gas supply. Beginning on February 13 and throughout the day on February 14, customer demand for power grew, pushing Texas's power grid to a new winter peak demand record, topping 69 gigawatts between 6:00 p.m. and 7:00 p.m., **more than 3,200 megawatts higher than the previous winter peak** set in January 2018. At the same time, demand for gas for heating grew. Brazos Electric's instantaneous power demand rose to 4,250 megawatts, **exceeding its previous all-time record of 3,914 megawatts (an increase of 8.6%).** [para 50]
- As natural gas prices spiked in response to falling supply as lines froze up, **the cost to produce electricity from gas-fueled power plants increased dramatically.** On February 16, after noting that, "[i]f customer load is being shed, scarcity is at its maximum, and the market price to serve that load should also be at its highest," PUCT directed ERCOT to adjust prices "to ensure that firm load that is being shed in [Energy Emergency Alert 3] is accounted for in ERCOT's scarcity pricing signals." Based on this order, ERCOT set prices at the System Wide Offer Cap **(\$9,000 per MWh)** for the duration of the time load was being shed. ERCOT continued this practice until 9:00 a.m. on February 19. By way of comparison, ERCOT's monthly round-the-clock prices for wholesale electricity during the three months of

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November and December 2020, and January 2021 were in the range of **\$21 to \$29 per MWh**. In August 2020, during a Texas heat wave, monthly round-the-clock prices for wholesale electricity peaked at **\$128.88 per MWh**. [para 53]

- The Black Swan Winter Event caused ERCOT wholesale market to incur charges of **\$55 billion over a seven-day period, an amount equal to what it ordinarily incurs over four years.** Notwithstanding Brazos Electric's efforts to leverage low prices available in ERCOT through various markets, including real-time energy market and the Day-Ahead Market, **Brazos' share of those charges are estimated at \$2.1 billion for the seven-day Black Swan Winter Event,** whereas Brazos Electric's total power cost to its Co-Op Members in 2020 was **\$774 million.** [para 59]

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“To be crystal clear, the primary reason Brazos Electric filed for bankruptcy was to prevent these exorbitant bills from being sent out to more than 1.5 million Texans this month. The electric cooperative model is unique; cooperatives are private, non-profit organizations that are member owned and operated, so the bills we and our 16 Member Cooperatives incur as we buy electricity are passed through and paid by the end users, the retail customers. If political leaders in Texas fail to develop a solution to address this extraordinary problem, the people of Texas will be literally stuck with bills that in many cases add up to the equivalent of several years of electric bills in one month. Our bankruptcy filing hopefully will provide state leaders with the time needed to act to address this urgent problem and be part of our solution.”

Clifton Karnei
Executive Vice President and General Manager
Brazos Electric Cooperative

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