

A Message from the CEO of Navarro County Electric Cooperative, Inc.

Facebook is full of negative comments about Navarro, the Board, and Brazos. Threats are being made which is non-productive and ridiculous. However, I understand the frustration of our members as I am also a member and pay the bill also.

We received many complaints from members who filed with the Public Utility Commission of Texas. The letter that the PUCT sends to each member tells the member that Electric Coops are not regulated by the PUCT, they are regulated by the Board of Directors and the Cooperative will answer their complaints. That's a fact but the Board also has only limited authority under the law and mortgage agreements. Rates for electric service are set after rate consultants are hired to provide "Cost of Service Studies" which determine the costs required to service debt and operate the Cooperative system of lines and provide administration. Navarro's last COSS was done in 2007. This is the last time the cost per kWh that Navarro receives from its members was changed. Navarro is required to meet certain requirements under its mortgages also, including two ratios known as TIER and DSC.

The wholesale cost of electric service is where you have seen the increases and fluctuations, whether you are a Coop member or an REP customer. All wholesale electricity sold goes through the ERCOT market. Coops and REPs may have some specific contracts with generators but they are generally not long term and have to be renewed periodically. The ERCOT market is the backstop when needed.

Because Navarro and the other Brazos member coops tried to keep the power on to their members during Winter Storm URI in January 2021, sometimes using ERCOT required rolling blackouts, we incurred tremendous costs for wholesale power. The February billing from Brazos to Navarro was almost \$81 million, compared to a normal winter cost of \$4 to \$5 million. We decided to only bill \$4.4 million and hoped we could get legislative relief during the 2021 legislative session. So at that point we still owed more than \$76 million. There were larger Coops that owed as much as \$475 million. So, the Brazos Board, after much negotiation, filed Chapter 11 Bankruptcy on March 1, 2021, to avoid a default with ERCOT. By Brazos filing, the 16 Brazos Coops were all spared having to file each on their own. That gave them a stay and allowed time to try and negotiate a settlement with ERCOT and the generators.

We got no financial relief from the legislature but they did pass SB 1580, the Securitization Bill, allowing Coops to sell securitization bonds and pay off their debt over a period of up to 30 years. At that point that option was one tool we had to work with, the other being borrowing the money from one of our lenders. Lenders didn't seem real interested in most cases and this option proved to be more expensive than bonds.

So, while Brazos was working on a bankruptcy settlement their Coops were working on bond deals and loans. For Navarro, the securitization was the least expensive option. Brazos' bankruptcy finally settled on December 14, 2022, 22 months after it started. They did receive some relief but not nearly as much as we'd hoped. Navarro's portion of the settlement was around \$15 million so Navarro still owed nearly \$61 million. The Board of Navarro had to make a decision in August 2022 whether to sell bonds or make a loan, even though we would not know the exact amount until December. We posted on the Navarro website on August 29,

2022 the Finance Order for the securitization along with the Notice, and other information for our members regarding the securitization.

The biggest issue for Navarro members has been the extremely high bills for December through February. These higher bills are a direct result of the higher wholesale prices from Brazos, the Coop's power supplier at that time. Each of these months had cold spells of 5 – 7 days which resulted in higher consumption. The higher consumption and higher wholesale price made for unusually high bills. Part of the bankruptcy settlement was that Brazos could no longer be a wholesale power provider in ERCOT as of March 1, 2023 and they would sell off all of their generating facilities as soon as possible. That process has begun already.

Effective March 1, 2023 Navarro has entered a contract with Constellation Energy for wholesale power. The contract will go through December 31, 2025. So, Navarro members will see extremely lower wholesale power costs on the March bills and through the term of the contract. Keep in mind that the Navarro kWh charge on your bill has not changed since 2007.

Now, for the SCRF Charge on your bill. As I said before the Board had to choose between filing bankruptcy, making a loan or selling bonds to pay off the final \$61 million in debt owed to Brazos/ERCOT. Bankruptcy would have cost millions more in legal and expert fees and most likely the Coop would have been sold off. The securitization was the least expensive option but requires us to make payments monthly to a trustee, who in turn makes bond payments twice a year, September and March. For the first 6 months the SCRF charge is \$.02563 per kWh but will go down after the first period. They are building a reserve fund on the first 6 month period.

This message won't make anyone happy but at least you have an honest answer to some of the questions we are getting. The Board's hands were tied and the Board and I made what we believe were the best decisions for the Coop members at the time. Most of you have my email bjones@navarroec.com and the Coop's phone number, although these days it is awfully busy, so you can contact me if you have questions. There's a lot of this info on our website www.navarroec.com