



Power, Policy, and Price

Understanding Houston's Electricity Exposure

BUDGET/FISCAL AFFAIRS COMMITTEE

March 3, 2026

Presented by:

William Jones – Deputy City Controller

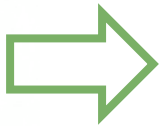
OFFICE OF CITY CONTROLLER CHRIS HOLLINS

This review focuses on the impact of electricity costs on the City of Houston

As electricity costs rise for households across our community, the financial impact is also being felt at the City level. This presentation will focus on:

- **Texas market:** overview of how Texas's unique electricity market structure influences pricing, risk allocation, and cost volatility
- **Contract details:** high-level review of the City's electricity agreement
- **Budget impact:** examination of how market changes and contract provisions are affecting the City's electricity expenditures and financial outlook
- **Key takeaways:** recap of the key drivers behind rising electricity costs and how they collectively impact the City's overall financial outlook

Texas operates one of the most unique electricity markets in the country



ERCOT grid: "Energy Island"

Rest of the U.S.

- Federal grid oversight (FERC)
- Capacity market (pay for potential)
- Default rates

Texas

- State-only oversight (PUCT)
- Energy-only market (pay for production)
- Competitive rates

- **Grid independence:** ERCOT operates separately from the rest of the U.S., avoiding Federal Energy Regulatory Council (FERC) oversight but limiting the ability to import power during emergencies.
- **Energy-only market:** Texas pays generators only for power produced, not standby capacity, keeping costs lower in normal times but allowing for price spikes during shortages
- **Mandatory consumer choice:** no regulated default rate; customers must choose a retail plan, which encourages competition but shifts price risk to consumers

New state laws are driving higher electricity costs for customers

Laws were passed after Winter Storm Uri to stabilize the market and improve grid reliability, but the **costs are passed directly through to customers**, increasing electricity bills for the City and Houston residents.

New fee/service	Description	Cost passed on to customer?
Default Securitization	Created to repay bonds issued to cover unpaid electricity costs from Winter Storm Uri defaults	✓
Uplift Securitization	Established to finance extraordinary market uplift costs incurred during Winter Storm Uri	✓
Firm Fuel Supply Service	Implemented to ensure generators maintain firm natural gas supply arrangements to improve grid reliability	✓
Increased Ancillary Services	New and expanded reliability services created after Winter Storm Uri to maintain grid stability and reserves (procured from generators)	✓

The City's current electricity supply contract has a value of \$640M for up to seven years

City of Houston's current electricity supply contract

Category	Summary
Retail electric provider (REP)	Reliant Energy Services, LLC
Original term	Five years with two one-year options: Effective July 1, 2020 – June 30, 2025
Renewal status	Currently in 1 st one-year option through June 30, 2026
Total authorized value	\$640M (\$110M remaining value)

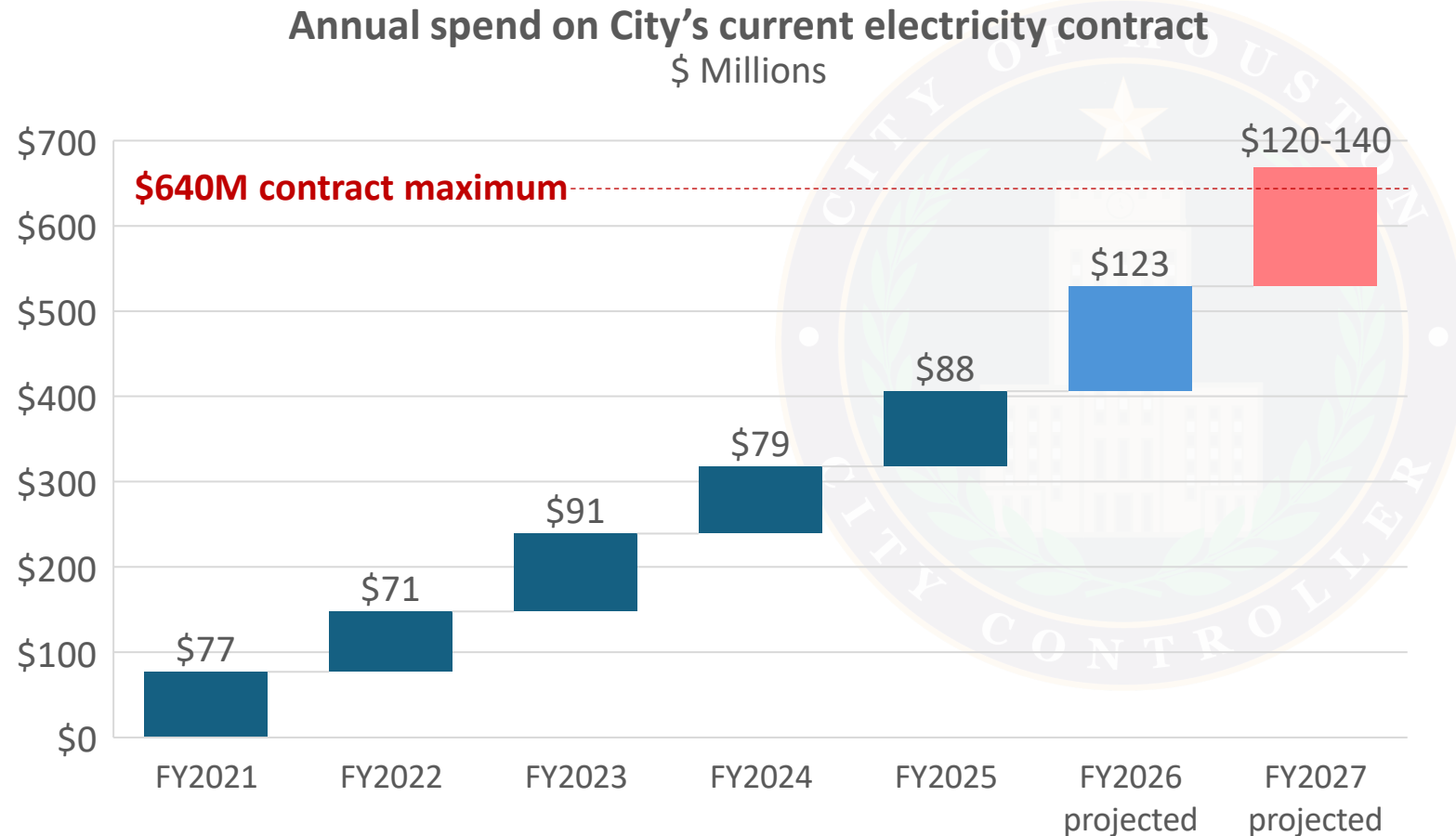


- **Five-year electricity agreement** began July 1, 2020, with **two one-year extension** options
- Currently in first extension through **June 30, 2026**; second option would extend to **June 30, 2027**
- Total authorized value approximately **\$640 million over seven years**
- Provides **100 percent renewable energy supply**

Terms have been modified several times over the course of the contract

	2021 – Demand Response Participation (Amendment 1):
	Allowed the City to voluntarily reduce electricity use during peak demand periods in exchange for potential bill credits, helping manage costs during high-price events
	2022 – Fixed Streetlight Pricing (Amendment 2):
	Established a fixed electricity rate for streetlights to provide greater budget stability for one of the City's largest electricity expenses. During Winter Storm Uri in February 2021, day-ahead electricity prices surged to extreme levels, dramatically increasing streetlight energy costs for the City of Houston
	2023 – Post-Winter Storm Uri Market Changes (Amendment 3):
	Updated the contract to allow new ERCOT reliability and securitization charges to be passed through to the City and settled prior-year back-billed costs resulting from statewide market changes
	2025 – Renewal Option 1 (Addendum No 1):
	Extended the term to June 30, 2026, combined pricing schedules, and increased the fixed MWh rate by ~90%
	2025 – Renewal Option 2 (Addendum No 2):
	Extended the contract through June 30, 2027

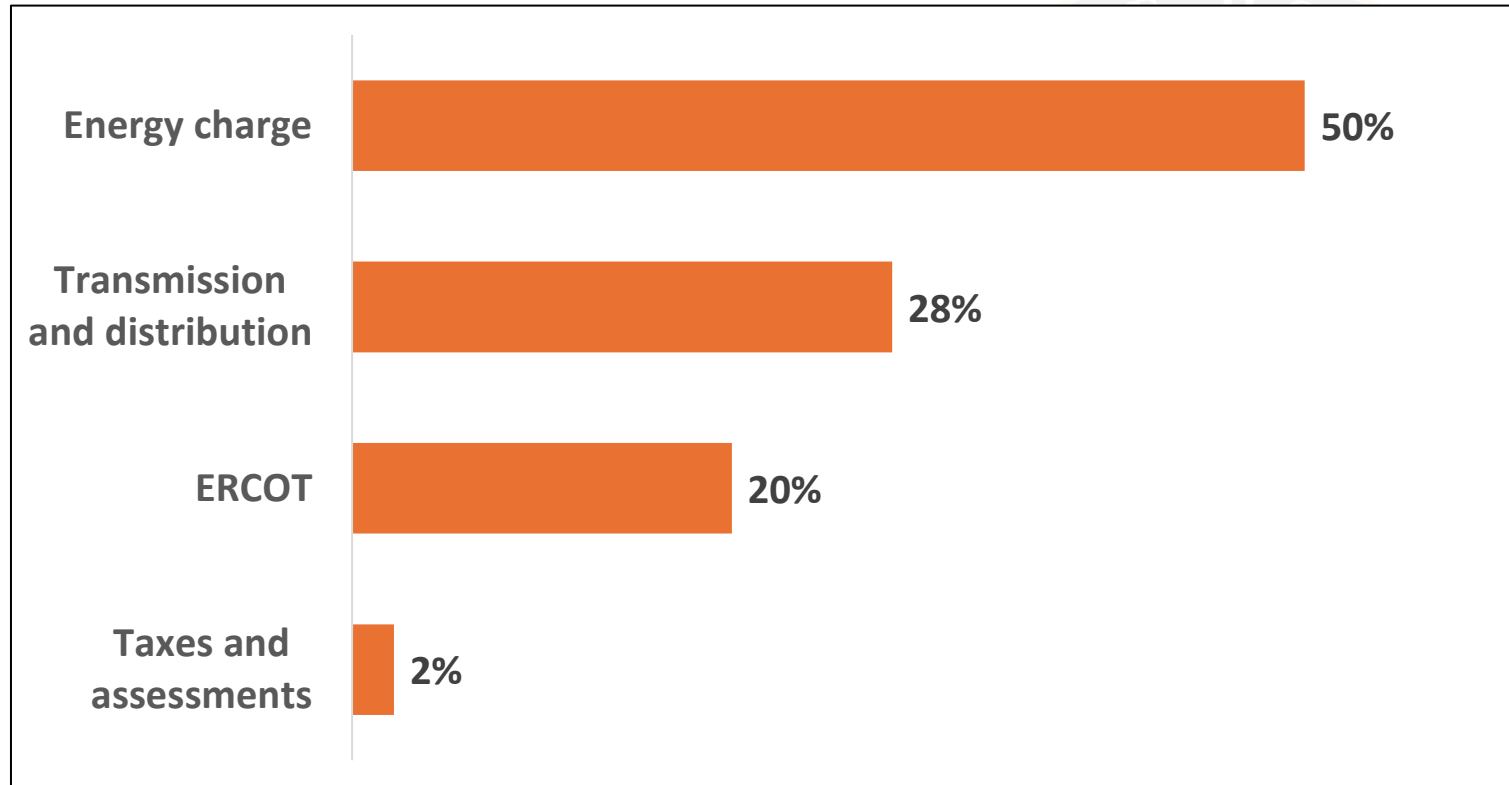
With \$530M spent or encumbered, 84% of contract capacity has been utilized



- Of the **\$640M maximum** contract spend authority, **approximately \$110M remains**
- FY2026 encumbrances increased **40 percent** over the prior year, primarily due to the **90 percent rate increase** under the first renewal
- If FY2027 spending mirrors FY2026 levels, remaining contract capacity **will not cover a full fiscal year**

Roughly half of electricity costs are outside of operational control

Estimated share of electricity cost by component



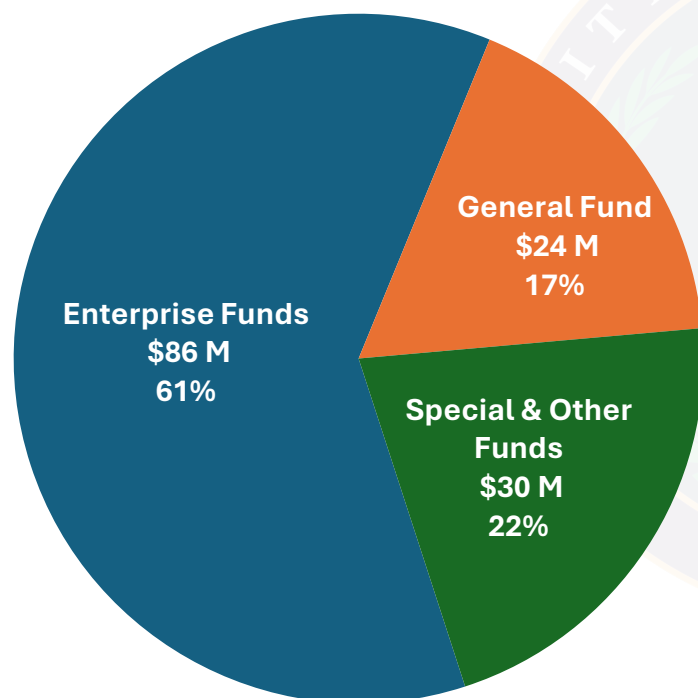
- **Energy charge** - cost of the electricity commodity itself, based on total kilowatt-hours consumed and the contracted energy rate.
- **Transmission and distribution** – regulated delivery charges paid to CenterPoint for transporting electricity over poles and wires to City facilities
- **ERCOT charges** – market-driven charges assessed by ERCOT, including reliability services, uplift charges, and securitization costs
- **Taxes and assessments** – taxes and fees

Note: Percent allocation is based on the average spend in FY2024 and FY2025. Beginning in FY2026, the renewal fixed price includes Default and Uplift Securitization Charges, Firm Fuel Supply Service charges, and higher Ancillary Services charges, including ECRS, resulting from legislative changes enacted in 2021 and 2022.

Annual electricity budget totals \$140 million, with over 61% coming from Enterprise and Special Funds

FY2026 electricity spend (budgeted) by fund type

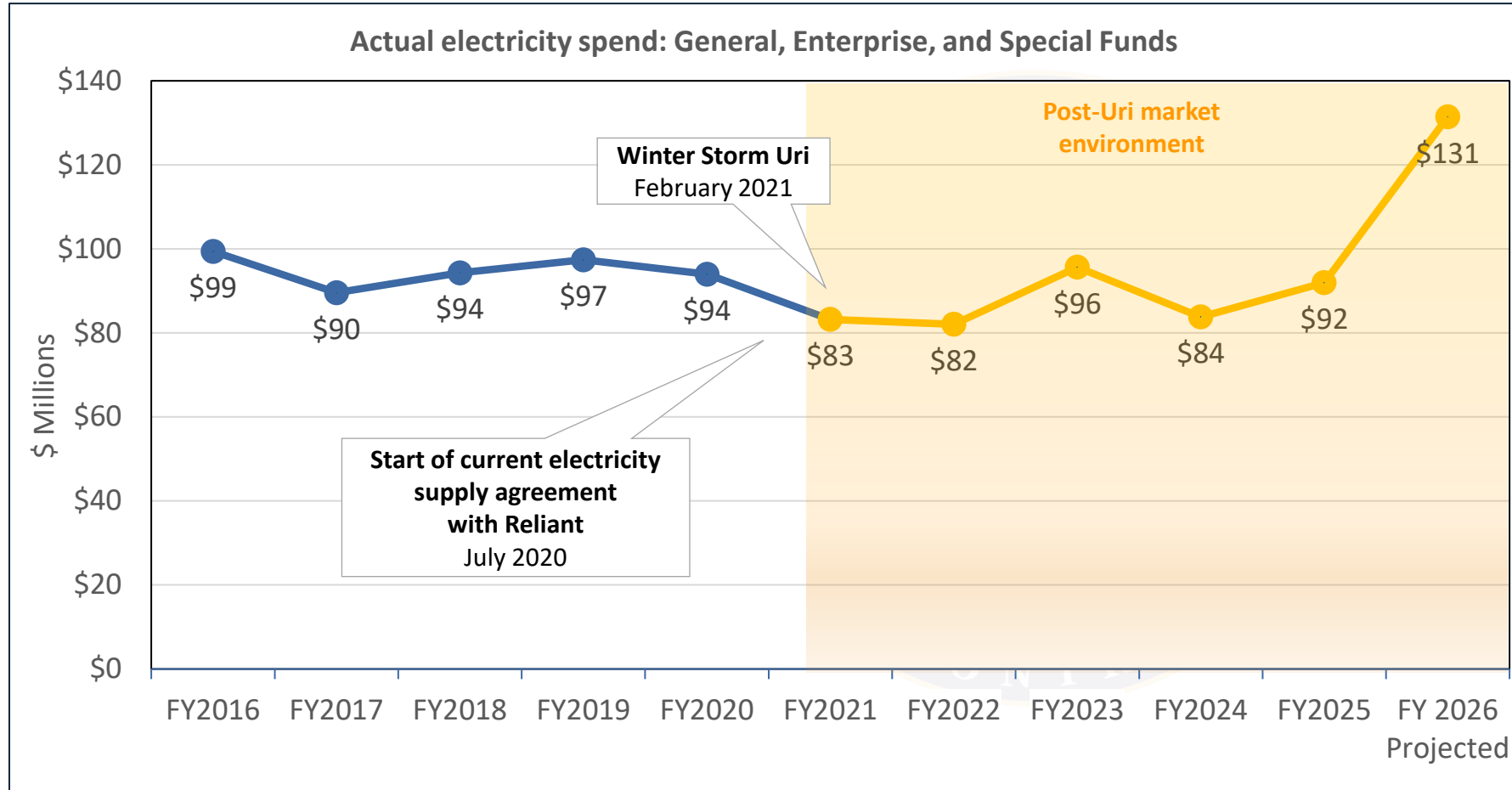
100% = \$140 M



- Total FY2026 electricity budget is approximately **\$140 million across all funds**
- Enterprise operations drive most of the City's electricity demand and cost exposure
- General Fund represents **17% (\$24 million)** of total electricity spending
- Special & Other Funds make up the remaining **22% (\$30M)**

Note: General Fund electricity budget includes \$6.5 million in contingency.

Electricity spending increased by over 40% in FY2026

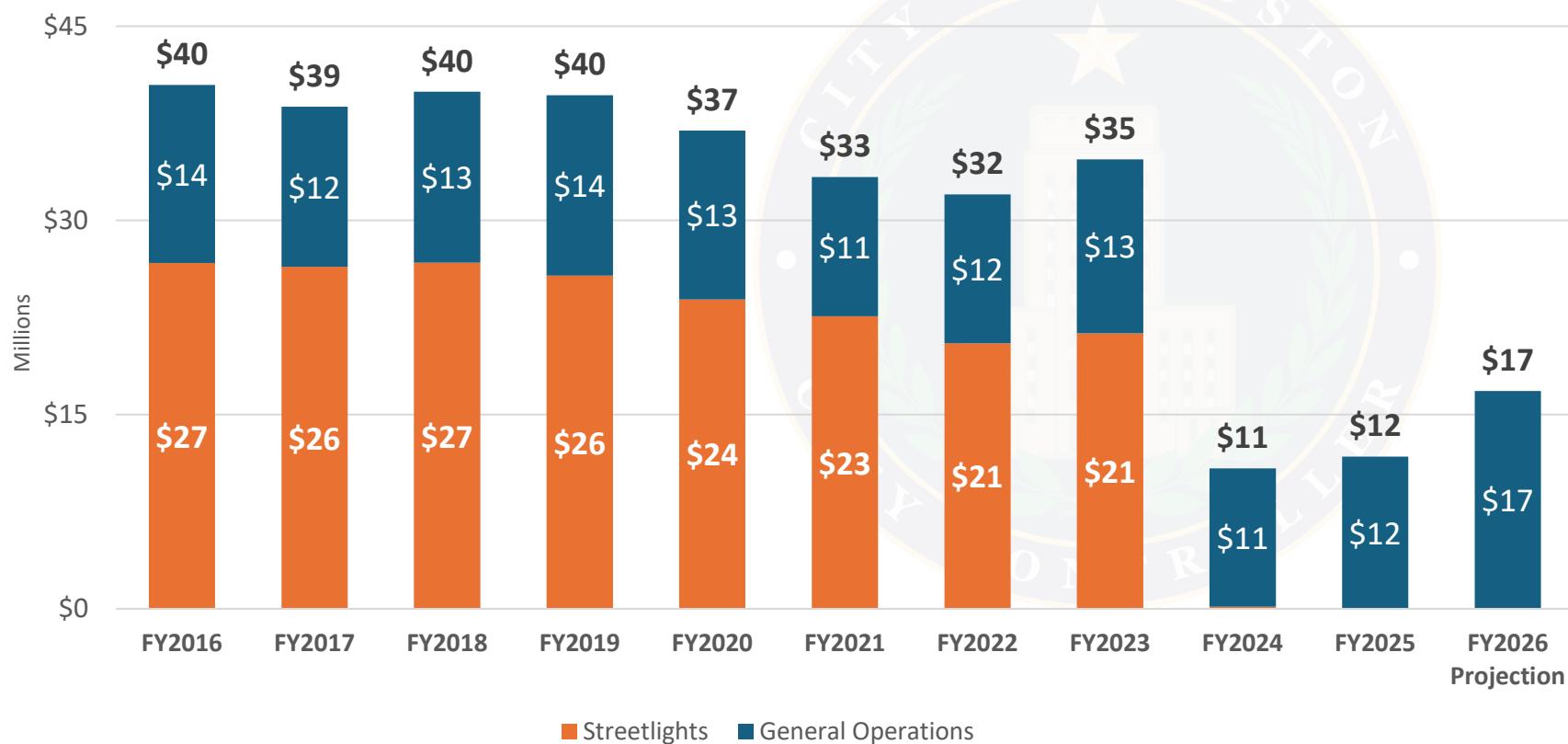


- The 2020 agreement was designed to produce long-term savings, but Winter Storm Uri fundamentally changed the cost structure of the market
- Post-Uri market changes have driven sustained cost increases
- FY2026 projected at \$131M, reaching an all-time high

Note: The FY2026 forecast is calculated by combining year-to-date actual expenditures with remaining encumbrances for all electricity cost.

In FY2024, streetlight costs shifted from the General Fund to the DDSRF Metro Fund

Electricity costs within the General Fund, FY2016-2026



- Streetlight costs were reallocated to the DDSRF Metro Fund beginning in FY2024
- Streetlight costs previously represented **65% of the General Funds electricity cost**
- While overall electricity cost has increased recently, less is paid by General Fund than in previous years

The Texas electricity market has fundamentally changed, resulting in sustained cost increases

- **Immediate budget impact**
 - Under the recent two-year renewal, the fixed MWh rate increased by ~90 percent
 - Remaining contract capacity may be insufficient to fully cover FY2027 costs
- **Beyond the current contract (FY2027+)**
 - A new supply agreement will be required after FY2027
 - State law does not require competitive bidding for electricity, but the City has historically used a competitive process to secure the best value¹
 - If the City uses competitive bidding in the future, the procurement process would require at least 12 months of lead time
- **Long-term financial considerations**
 - Elevated ERCOT market costs are expected to persist in the foreseeable future
 - The City faces \$30+ million in potential annual exposure if streetlight costs ever return to the General Fund

1. Tx. Local Gov't Code §252.022(a)(15)



THANK YOU!

For additional information contact:

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