

EDITORS' PICK | Mar 29, 2021, 12:07pm EDT | 5,493 views

Protests Arise As Warren Buffet Seeks To Profit From Recent Texas Power Blackouts



David Blackmon Senior Contributor ⓘ

Energy

Follow



Listen to this article now

05:52



Powered by **Trinity Audio**



Warren Buffett (C), CEO of Berkshire Hathaway, is surrounded by press and fans as he arrives at the ... [+] AFP VIA GETTY IMAGES

As Texas political leaders continue to cast about for the right solutions to the flaws in the state's power grid and its management that led to

catastrophic blackouts during the mid-February arctic freeze event, [Warren Buffett's Berkshire Hathaway](#) BRK.B +0.7% entered the debate late last week with a novel proposal. As [reported by the *Houston Chronicle*](#), the plan would be for Berkshire Hathaway to finance the building of 10,000 megawatts of new, natural gas-fired generating capacity at a total cost of \$8 billion that would serve as reserve capacity to be activated during weather emergency events like the one that killed more than 100 Texans during the week of February 14-20.

The plan would involve the construction of 10 new natural gas-fired power plants strategically located around the state. The plants would be winterized to withstand the kinds of deep freezing temperatures that lingered across the state for four days, and they would maintain enough storage capacity to house 7 days of natural gas supply on-site. These two features, not currently present in the state's existing power plants, would alleviate the issues that arose when both plants and pipelines froze up in some areas, often because the state's grid managers at the Electric Reliability Council of Texas (ERCOT) cut off electricity to them as part of its rolling blackouts.

The catch in the plan? Berkshire Hathaway, being a company in business to generate profits to investors, proposes to make a profit from this enterprise as well. Its proposal would be for electricity consumers to reimburse it for the cost of building and operating the plants under a formula that would guarantee it would generate a seemingly reasonable 9.3 percent rate of return on the investment.

Judging from the reaction by the state's power generators, you would think that profiting in the Texas electricity sector was some sort of novel concept. "The \$8.3 billion in costs to consumers is absolutely raising the cost for Texas consumers but it isn't raising the reliability for them," said

Michele Richmond, executive director of Texas Competitive Power Advocates, a trade association representing power generators and wholesale electricity marketers.



LUBBOCK, TEXAS - DECEMBER 27: Snow blankets Marsha Sharp Freeway on U.S. Highway 82 on December 27, ... [+] GETTY IMAGES

MORE FOR YOU

Biden's 'Infrastructure' Bill Signals A Death Sentence For Natural Gas

Here's Why Gasoline Prices Are High And Going Higher

The Next U.S. Oil And Gas Boom Suddenly Looms On The Horizon

Of course, the reality is that Texas power consumers have a stark choice facing them: They are either ultimately going to foot the bill for fixing the grid that failed them so miserably during February one way or another, or they are going to remain vulnerable to similar freeze events in the future. Historically, such events have hit the state about once every decade.

This year's event - the second in the past 11 years - exposed several fundamental weaknesses in the Texas power grid that are simply undeniable:

- **Chronic shortage of baseload reserve capacity** - Despite protests from renewables advocates, the state's market-based grid system simply has not provided the necessary incentives for the construction of new baseload capacity for well over a decade now, a role that wind and solar are incapable of filling. The amount of new reserve capacity proposed by Berkshire Hathaway - 10,000 megawatts - is **five times the amount** of new baseload that has been built in the state since 2010. Given the ongoing rapid rate of population and business growth in Texas, this is an untenable situation.
- **Lack of winterization of existing facilities** - The same power generators who today protest the Berkshire Hathaway proposal to add new baseload reserve capacity to the system made a conscious decision to do nothing to solve this obvious flaw after it raised its head during the blackouts of 2011, even after regulators advised them to make the upgrades. Why? Because doing so will cost billions of dollars that will end up being passed along to ratepayers one way or another. The talking points being used by the power generators' trade associations today appear to imply they'd prefer to do nothing yet again, unless forced to do so by regulators or the legislature.
- **Lack of proper planning at ERCOT** - the fact that so many plants went offline due to the fact that they had had their own power cut off by the state's grid managers clearly demonstrates that both ERCOT and its supervisors at the state's Public Utility

Commission were asleep at the wheel in properly planning for this kind of periodic winter weather event.

“Why would anybody put their own investment and development money into our existing plants or into building new plants when the state of Texas just paid somebody to build?” Richmond argues on behalf of power generators. “That will reduce investor confidence in the market. And that is not the signal that we want to send.”

But the market hasn't sent the right signals for more than a decade, which is why there is a lack of adequate baseload reserve capacity today. Power companies had ten years following the 2011 disaster and failed to voluntarily make the needed investments in winterization and additional reserve capacity despite full knowledge that it could and surely would happen all over again sooner or later. At least Berkshire Hathaway is proposing to make the real investments needed to directly address the flaws in the system at a time when others appear to be simply trying to once again avoid doing so.



Regardless of whatever other reforms come out of this latest grid disaster, Texas needs more baseload capacity, something its market-based system has failed to create, and natural gas plants like those proposed by Berkshire Hathaway are the only viable option for getting that done.

During the [depths of the freeze event](#) from February 8 through 16, the Energy Information Administration (EIA) reports that fully 93% of the state's wind generation fell offline. At the same time, coal-fired generation rose by 47% and natural gas generation increased by a whopping 450%, at times supplying as much 70% of all the power being generated on the grid.

Most of the freeze-up issues related to natural gas pipelines and plants are solvable simply by ensuring ERCOT has the right compression, pipeline and generating facilities designated as critical facilities and thus exempt from being caught up in its rolling blackouts, although others would require expensive winterization upgrades. But the reality that the aftermath of the 2011 event should have taught us is that none of these things are going to happen unless the legislature and regulators find the political will to force them.

Berkshire Hathaway's proposal may or may not be the right plan for Texas at this point in time, but at the very least it places pressure on the current set of actors in the state's power grid to come up with something better instead of just continuing to devise ways to justify doing nothing one more time.

Follow me on [Twitter](#) or [LinkedIn](#). Check out my [website](#) or some of my other work [here](#).



David Blackmon

Follow

David Blackmon is an independent energy analyst/consultant based in Mansfield, TX. He is the Editor of [Shale Magazine](#) and co-host of [In The Oil Patch Radio](#), a...

Read More

Print

Reprints & Permissions

ADVERTISEMENT