

U.S. Municipal Bond Market

Continuing to Assess Cost and Liquidity Pressures
for Texas Power Utilities

- We are still trying to piece together net costs and potential liquidity pressures Texas power utilities are facing following the recent extreme winter weather event.
- Moody's reported forecast potential costs we have not seen until now for two entities in their March 1 report. Moody's did not take sector-wide action like Fitch and S&P.
- San Antonio's municipal utility, CPS Energy, has incurred \$1 billion in charges due to the February extreme weather event. The municipal utility's CEO says, "We have the ability to manage through this process."
- The issuer credit rating for the Brazos Electric Power Cooperative was downgraded to "D" by S&P.

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Trying to Piece Together Public Power Costs

We are still trying to piece together the total costs for the surge in power demand during the recent winter storms across Texas and the surrounding region. This week we are seeing that, "In all, electricity providers skipped out on \$2.46 billion in power and service charges, grid operator Electric Reliability Council of Texas (ERCOT) said," according to Reuters. The article also noted, "ERCOT did not disclose which companies failed to pay the bills, but said it will begin naming firms and the amounts they have failed to pay in the future." As far as the prospect for potential state relief, the article also reported, "Texas could cut about \$2 billion off the burden facing municipal utilities, marketers and generators by reducing some fees, said Carrie Bivens, Potomac Economic. The governor also could apply a portion of the state emergency fund to cover some charges."

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The leading question related to current situation is, "Who will cover the costs?" University of Texas at Austin energy industry analyst Joshua Rhodes says, "There's actually precedent about clawing back some of this money from those who eventually made it." However, Rhodes qualifies that strategy by pointing out that a claw back has not occurred to the scale of what happened in February 2021. Another possible outcome is costs could be spread by utilities over a period of several years so customers are not hit with significant rate hikes immediately, as outlined by Public Citizen's Kaiba White.

Storm Fallout Pressures Liquidity; Borrowing Will Extend Cost Recovery Over
Many Years, Moody's

Fitch Ratings was first to act on the area electric utilities when they placed all public power and electric coops within the ERCOT footprint on "Rating Watch Negative" last week. Later in the week, S&P placed the ratings of six Texas utilities on CreditWatch

with negative implications. Yesterday, Moody's Investor Service published, Storm Fallout Pressures Liquidity; Borrowing Will Extend Cost Recovery Over Many Years, but Moody's did not take a sector-wide rating or outlook action similar to S&P nor Fitch. However, Moody's did include some estimated potential costs that we have not seen until now for two entities.

Today, Moody's included some estimated potential costs that we have not seen until now for two entities.

San Antonio Utility "Has Ability to Manage Through This Process"

San Antonio's municipal utility, CPS Energy, has incurred \$1 billion in charges due to the February extreme weather event. However, the municipal utility has the ability to manage through the fiscal dilemma.

"CPS Energy Chief Executive Officer Paula Gold-Williams saying during a board meeting Monday that it likely incurred \$200 million in charges from the state's grid operator and \$800 million for fuel. The utility has said that it will look to spread the cost of the storm over at least 10 years. She said that despite the unprecedented winter bill, it's better equipped to weather the financial hit from the storm than some other Texas towns. 'We do have great credit. We do have good tools,' Gold-Williams said. 'We have the ability to manage through this process,'" via a [Bloomberg article](#).

CPS Energy asked to have \$500 million of financing ability approved to help address the situation, also [according to Bloomberg](#).

Brazos Downgraded by S&P to "D"

The issuer credit rating for the the [Brazos Electric Power Cooperative](#) (Brazos Electric) was downgraded to "D" by S&P and the Brazos Sandy Creek Electric Cooperative was downgraded to a "CCC" with a "Watch Negative" outlook yesterday afternoon. We described the Chapter 11 petition that [Brazos Electric filed in U.S. Bankruptcy Court for the Southern District of Texas](#) in yesterday's commentary.

Brazos Electric was downgraded to a "D" credit rating by S&P and the Brazos Sandy Creek Electric Cooperative was downgraded to a "CCC" with a "Watch Negative" outlook.

Recent HilltopSecurities Municipal Commentary

- [Brazos Electric Power Files Ch. 11 Petition, S&P Places Six Texas Utilities on CreditWatch with Negative Implications](#), March 1, 2021
- [Winter Storm Uri Costs Slowly Reported by Texas Local Governments](#), February 26, 2021
- [Texas' ERCOT-Area Public Power Utilities on 'Rating Watch Negative,' per a Fitch Rating Action](#), February 24, 2021
- [Pension Funding Not Improving From Stabilizing Fiscal Conditions, NJ Proposing Full Payment to Avoid Asset Depletion](#), February 24, 2021
- [Higher than Typical Gas Costs for Oklahoma Municipal Power Authority](#), February 22, 2021
- [The Financial Impact from The Big Freeze is Just Heating Up](#), February 22, 2021
- [Texas Freeze](#), February 18, 2021
- [Some Preliminary Details Released of Proposed \\$1.9 Trillion American Rescue Plan](#), February 10, 2021
- [Deep Cuts Remain; State and Local Govt. Jobs Down Over 1.3 Million](#), February 8, 2021
- [State Outlook Remains Negative; Direct Fiscal Relief Still Needed](#), February 5, 2021
- [U.S. COVID-19 "Spikes Like We Have Not Yet Seen" Could Be Coming; Sixth Phase Relief Status](#), February 1, 2021

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

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