

U.S. Municipal Bond Market

Brazos Electric Power Files Ch. 11 Petition, S&P Places Six Texas Utilities on CreditWatch with Negative Implications

- This morning, the Brazos Electric Power Cooperative filed a Chapter 11 Petition in U.S. Bankruptcy Court.
- Brazos Electric reports it has \$2 billion of payments due to ERCOT, and finds itself in a “liquidity trap it cannot solve.”
- S&P placed the ratings of six Texas utilities on CreditWatch with negative implications on Friday, Feb 26. Brazos Electric was one of the utilities.
- According to S&P, it is “Too early to tell” whether there could be federal or state relief that to help lessen the burden experienced by the utilities. “In the absence of government intervention, we [S&P] expect that customers will see the effects of any debt additions or higher rates on their bills for many years,” wrote the rating agency.

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Brazos Electric Power Cooperative Files Ch. 11 Petition

Today, the Brazos Electric Power Cooperative (Brazos Electric) filed a Chapter 11 Petition in U.S. Bankruptcy Court.

Brazos Electric reported it has \$2 billion of payments due to the Electricity Reliability Council of Texas (ERCOT), and now finds itself in a “liquidity trap it cannot solve,” and “will not foist this catastrophic ‘black swan’ financial event onto its members and their consumers, and commenced this bankruptcy to maintain the stability and integrity of its entire cooperative system,” per this morning’s petition.

Brazos Electric reported it has \$2 billion of payments due to ERCOT and now finds itself in a “liquidity trap it cannot solve.”

Brazos Electric (A/A+), Texas’ largest and oldest power generation and transmission utility, is located about 100 miles south of Dallas in Waco, Texas. It is a wholesale provider to its 16 member coops and one municipality. Its members serve a total of almost 750,000 retail customers in Texas. The underlying ratings of Brazos Electric were recently placed on “CreditWatch with negative implications” by S&P on Feb. 26 and placed on “RatingWatch Negative” by Fitch on Feb. 24.

There are about \$2 billion of outstanding debt obligations to be considered according to Brazos Electric. These include about \$1.8 billion of Federal Financing Bank (FFB) Notes. Brazos Electric also has enough (\$245 million) in its Cushion of Credit account to pay the FFB secured debt for next 18 months, per the Ch. 11 petition. There is also a Brazos Electric outstanding unsecured revolving facility of almost \$500 million.

Details from the Chapter 11 Petition

We are now getting an idea of exactly how expensive the extreme weather events might end up costing based on recent information that has come to light since

Friday. The Brazos Electric Ch. 11 petition describes, “During the week of Feb 22, \$2.1 billion in ERCOT settlement-charge invoices came due. These demands far exceed Brazos Electric’s highest liquidity levels in recent years and could not have been reasonably anticipated or modeled.”

The \$2 billion power charge for Brazos Electric alone from, “The Black Swan Winter Event caused the ERCOT wholesale market to incur charges of \$55 billion over a seven-day period, an amount equal to that ordinarily incurs over four years. . . Brazos’ share of those charges are estimated at \$2.1 billion. . . Brazos’ total power cost to its Co-op members in 2020 was \$774 million.”

S&P Places Six Texas Utilities on Creditwatch with Negative Implications

On Friday, Feb. 26, Standard and Poor’s placed the ratings of six Texas utilities on CreditWatch with negative implications. This is in the wake of extreme cost spikes in power procurement as a result of the February 2021 winter storm event in Texas and the surrounding region.

“The CreditWatch placement reflects our view that the above utilities could experience credit stress following the events of the week of Feb. 14, when Texas and many neighboring states experienced a major winter storm that led to a surge in demand for both power and natural gas and disrupted generating units and gas deliveries, resulting in extremely high wholesale prices for power and natural gas, in turn negatively affecting those utilities that were short or insufficiently hedged.” wrote S&P.

The rating agency also notes that it is too early to surmise whether federal or state relief could materialize and flow to help utilities and ratepayers.

“It is also too early to tell whether there will be federal or state measures that address the burdensome wholesale and retail costs that utilities and ratepayers experienced. In the absence of government intervention, we expect that customers will see the effects of any debt additions or higher rates on their bills for many years,” indicated by S&P.

Texas' ERCOT-Area Public Power Utilities on 'Rating Watch Negative,' per Fitch
We also wrote last week that [Texas' ERCOT-Area Public Power Utilities on 'Rating Watch Negative,' per a Fitch Rating Action.](#)

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S&P also notes that it is too early to surmise whether federal or state relief could materialize and flow to help utilities and ratepayers.

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