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## **S&P: Outages In Texas Challenge Public Power Utilities' Rate-Making Flexibility**

NEW YORK (S&P Global Ratings) Feb. 17, 2021—On Feb. 15 the Electric Reliability Council of Texas (ERCOT) implemented widespread rotating outages to protect the electric grid from an uncontrolled blackout after frigid temperatures and freezing moisture across Texas caused outages to 34 GW of power generation, or roughly 42% of its planned operational generation capacity in 2021. As of now, ERCOT's controlled outages continue to affect almost three million retail customers throughout the state as generation struggles to come online.

- We do not anticipate immediate credit impacts from ERCOT's recent rotating outages because we expect the effects on revenues to be modest relative to annual revenues. However, we believe the customer ire utilities might face after implementing the rotating outages (or load shedding) could challenge their rate-making flexibility;
- We understand that several public power utilities and electric cooperatives were unable to rotate their outages among their customers, which caused some customers to be without power much longer than expected and exposes the need for better market logistics;
- The scale and duration of ERCOT's generation outages due to extreme winter weather exposes the need to fund capital investments to winterize generation assets and equipment; and
- While ERCOT's rotating outage events have been infrequent to date, we believe that in the absence of additional capacity or market reforms, load shedding may become more than an isolated response to ensure grid reliability.

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