

Bond Case Briefs

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Texas Freeze Strands Municipalities With Sky-High Power Tabs.

- **Some have to sell long-term bonds to pay for one week's costs**
- **Freak storm shows climate change costs can linger for years**

The crippling winter freeze that sent gas and power prices skyrocketing across Texas in February is providing a warning to cities about the risks of global warming: The cost of some extreme weather events can stick around for years.

The municipal-bond market generally shrugs off natural disasters because they are usually offset by an influx of federal aid. But the electricity meltdown in the Lone Star state has left cities and local utilities on the hook for massive power bills.

Bay City, a small community of less than 20,000 people, says its tab for that one week dwarfs what it spends in an entire year. Denton's utility spent \$200 million over four days buying power. San Antonio's utility plans to sell long-term bonds to spread out the \$1 billion in charges it incurred.

"What happened in Texas will increase the scrutiny and the awareness of what climate risk means," said Daniel Rabasco, head of municipal bonds at Mellon Investments Corp. "It's a wakeup call in terms of the severity of what a climate change impact could be."

While municipal-bond holders have been paying more attention to climate change in recent years, the Texas freeze is the latest in a series of disasters that have forced investors to rethink the way they evaluate bond portfolios that hold securities that don't mature for decades.

"The Texas freeze revealed issues that probably most people never thought of," said Chris Hamel, a senior fellow at Municipal Market Analytics and former head of municipal finance at RBC Capital.

The February storm knocked out almost half the state's electric generating capacity, sending wholesale electricity prices to \$9,000 a megawatt-hour and leaving millions without power for days. More than 100 people died in the crisis. Several power retailers and a large rural electric cooperative have already filed for bankruptcy under the crush of high power bills.

Issue Bonds

Bay City Mayor Robert Nelson said that while his \$4 million power bill could be lowered through negotiation or legal claims, the city has had to hire attorneys to help navigate the thicket of lawsuits and legislation still swirling in the storm's aftermath.

If that tab isn't reduced, Nelson said he isn't sure how his city will pay for it. The city might have to take a bank loan, work out a deal with their supplier, or issue bonds. That would be Nelson's last choice, he said, because it handicaps the city's ability to borrow for infrastructure improvements and services down the line.

“Everything is on the table,” Nelson said. “We don’t know what we can do.”

Bay City is far from alone. Denton’s utility had to issue \$100 million of commercial paper notes to cover its tab, while San Antonio’s power agency has said it will sell long-term bonds to spread out the \$670 million of natural gas charges and \$365 million of power charges. Corpus Christi issued a \$35 million bond through private placement to pay for power costs that were 27 times higher than average.

Unlike other states, Texas’s power grid is almost entirely disconnected from the rest of the country, meaning it’s exempt from federal regulations but also it’s unable to pull much power from neighboring jurisdictions during a crisis. And since the state’s energy infrastructure wasn’t built for such ultra cold temperatures, when the freeze blew through the state, natural gas wellheads, wind turbines and power plants suffered widespread malfunctions.

State Fix

The Electric Reliability Council of Texas, the state’s grid operator, is still owed nearly \$3 billion in short payments from its customers. Fitch Ratings estimates some utilities could collectively be on the hook for as much as \$4 billion, with a majority owed by San Antonio’s and the Brazos Electric Power Cooperative. Such high payments could force some to tap Wall Street for loans, delay capital projects, re-appropriate their general fund or spread costs by charging consumers for years.

The Texas legislature is advancing bills that would allow utilities to sell bonds backed by future payments on customer bills as a way to spread the costs over time.

While what happened in Texas two months ago is unlikely to happen elsewhere because of the state’s isolated generation and transmission structure, one-time disasters can happen anywhere. And municipal disclosure of climate-related risks is inconsistent at best.

“Munis are on the front lines of climate risk,” Rabasco said.

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— *With assistance by Eric Roston*