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Fitch: Texas Public Power Slowly Recovering from 2021 Winter Storm; Winterization Crucial

Fitch Ratings-Austin/New York-28 March 2022: Texas public power and electric cooperatives that operate within the Electric Reliability Council of Texas (ERCOT) are slowly recovering from 2021's devastating winter storm. Most public power and electric cooperative utilities are no longer in danger of immediate rating downgrades, according to a new Fitch Ratings report.

Operating risk will remain elevated for ERCOT utilities, and Fitch will continue to factor it into individual credit profiles. However, the utilities have largely financed storm costs long-term, raised rates where needed, and taken steps to reduce market exposure. This points to an improving credit environment that could stabilize Rating Outlooks over time.

"The winterization of generation assets, market reforms and steps taken by the utilities to hedge supplies should materially reduce financial exposure to future winter storm events," said Senior Director Kathy Masterson. "Similar outage events could still occur in ERCOT, but financial costs would be reduced."

Prioritization, or lack thereof, of winterization upgrades to the natural gas supply chain remains the biggest outstanding risk.

The natural gas industry, regulated by the Texas Railroad Commission, is not yet required to winterize infrastructure to the same standards the Public Utility Commission of Texas requires for electric generation. Though the ERCOT market is largely comprised of natural gas and wind, gas represented the largest share of generation capacity that failed to produce during the 2021 winter storm. Recently adopted legislation now requires critical natural gas facilities to register as critical load with their local utility.

"Designating these facilities as critical infrastructure similar to hospitals and police stations should prevent cuts in power supply from reoccurring," said Masterson.

Fitch plans to review its ERCOT utility ratings in the coming months. 'Reforms Could Stabilize Texas Public Power and Cooperative Rating Outlooks' is available at 'www.fitchratings.com'.

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