ERCOT's Black Swan Event & How Surety Would Have Helped

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The winter storms in Texas last month devastated millions. Record-breaking temperatures, snow, and ice resulted in mass blackouts, billions in damages, and many competing opinions on what went wrong.Electric Reliability Council of Texas (ERCOT) and Texas power companies, also known as market participants, alike struggled to manage the consequences of this storm, which many have deemed a "Black Swan event." It is clear that ERCOT, the Public Utility Commission of Texas, and market participants have a lot of work ahead of them to ensure similar events do not happen again. Rather than looking at the cause of last month's event, let's look at what ensued from a liquidity perspective.

No one was prepared for what happened in the ERCOT power market last month. Weather caused certain generation resources to shut down across the state, significantly restricting the grid's power supply while demand soared. Prices hit the ERCOT market price cap of $9,000/MWh for days, creating bills worth billions for market participants over a short two-week timeframe. As a result, many Texas power companies were subject to spiking collateral requirements and found themselves in a serious liquidity crunch. Treasury groups were forced to rely on the tools they had in place to manage this event, and for many, the requirements were too burdensome to continue operating as they had been just weeks before.

Last month is a perfect example of why **all market participants** should work with their broker to ensure **surety** is available to them; it could make the marginal difference needed between defaulting or not. Surety support is off-balance sheet, usually offered unsecured, and competitively priced. Power companies should be encouraged to use surety to cover baseline collateral obligations, helping preserve their cash and credit facilities as much as possible. Not only does this have a positive impact on a firm's credit profile by improving their liquidity, but also can lower annual costs and potentially offer the marginal liquidity needed in a stress event like last month.

Most participants choose to satisfy their collateral obligations with letters of credit or cash, which is typically provided through credit facilities in place with their banking partners or their own balance sheet. These liquidity sources are finite, and if not sized appropriately, companies can face default or bankruptcy in an event similar to last month. Rather than just relying on these two sources of liquidity, why not have all three instruments, that are acceptable to the ISO or RTO, at your disposal? The infrastructure a Treasury & Risk Management team has in place today can have a meaningful impact on their response to what might happen tomorrow.

To be perfectly clear, surety would not have changed the liquidity requirements imposed by ERCOT last month, rather it could have bolstered a participant's available resources to satisfy those requirements. If you or anyone you know is interested in learning more about how surety could have helped through last month's liquidity crunch, please don't hesitate to reach out.

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