

THE TEXAS VALENTINE'S DAY FIASCO 2021

On Valentine's Day 2021 Texas was covered in four to six inches of snow and suffered freezing temperatures. This caused unprecedented demand for energy and the power grid collapsed. Sadly the houses in Texas are not designed for such low temperatures and, therefore, the population was unprepared for the levels of cold. Many people died (it is not yet clear exactly how many) but some died as a result of carbon monoxide poisoning because they took refuge in their cars with the engine running to provide heat that wasn't available in their houses.

When the thaw started on the 20th of February and temperatures reached 20°C/70°F, heat recovered, but safe drinking water suppliers were interrupted: an unexpected consequence of the power outages. It suffered from a domino effect where various parts of the infrastructure failed causing further failures further along the supply chain.

According to the US Energy Information Administration Texas:

- is the top US producer of both crude oil and natural gas;
- has refineries able to process their 6 million barrels of crude per day and accounted for 31% of the US's refining capacity;
- leads the nation in wind power generation (about 28% of all US wind powered electricity in 2019). Its wind turbines have produced more electricity than both of the States nuclear power stations since 2014;
- produces more electricity than any other state, generating almost twice as much as Florida the second highest, although the Texas industrial sector, including the refineries and petrochemical plants, accounts for half of the energy consumed in the State;
- is the largest energy producing and energy consuming state.

How could the State not produce enough energy to keep its citizens warm when it produces more electricity than any other state in the US? Quite simply: ITS INFRASTRUCTURE WAS NOT RESILIENT! And there were no effective contingency plans.

Texas is a state which prides itself on its independence and self-reliance and the state decided not to be connected to the US national grid so that when its own resources became frozen it could not import energy from other parts of the US. Not only was the State short of electricity, but the shortage also caused dramatic increases in the prices of energy which put consumers under pressure, and also the power providers. Domestic electricity in Texas is priced on a market price-linked basis and in some cases consumers ended up paying \$900 MWh compared to the normal \$25 per MWh. This then left the power providers unable to meet their commitments to the generators, and consequently about a dozen domestic providers owing about \$2 billion have gone into bankruptcy.

What has this got to do with business? It is very clear that there had been almost no business resilience planning in Texas and this led to fatalities. The lessons to be learned are equally applicable to any organisation be it in the public or private sector. Fortunately, businesses will rarely have to face the life or death situations that hit Texas on Valentine's Day.

The lessons are:

1. be prepared to collaborate in an emergency. Texas's lack of connection to the US National Grid greatly hampered the ability of the State to cope with the failure of its own energy supply;
2. no analysis had taken place of the supply chain and nobody clearly understood the domino effect i.e.: that without electric power fresh drinking water could not be provided;
3. there were clearly no contingency plans for dealing this sort of (admittedly rare) event but given the recent history of unusual ("Black Swan") events, often climate related, it was an entirely predictable event;
4. expect the unexpected: plan however unlikely an event. That doesn't mean that new investment necessarily needs to be made at this point in time: the thought process would have identified some of the risks that the state was running in its energy strategy;
5. check whether any of your business is located in a high-risk area;
6. a business resilience review is critical. The State and business should undertake a business resilience review in the very near future so that they can be prepared for other Black Swan events in the future – which will surely happen.

Remember if you fail to plan you plan to fail.

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