Moody’s: Energy Future Holdings in Danger of Bankruptcy

by Joel R. Glucksman on September 24, 2013

Energy Future Holdings Corp. is facing a "high probability" of being forced to seek protection due to the danger of bankruptcy, according to a recent report from credit ratings agency Moody's Investors Service.

The ratings agency said that the energy giant will likely seek bankruptcy protection and establish a reorganization plan by the end of the year, which would make it one of the top 10 largest non-financial corporate bankruptcies in the U.S. since the 1980s. In fact, the company is carrying one of the largest debt loads in recent history, ranking up there with Enron, WorldCom, General Motors, and Chrysler. In total, Energy Future Holdings is currently saddled with more than $41 billion in debt.

The company was purchased in a $45 billion leveraged buy-out in 2007 by a group of Wall Street companies that included Goldman Sachs, KKR, and TPG Capital. The investors appear to have hoped that the debt they took on to buy the company would be managed by a projected spike in natural gas prices. However, this backfired when the price of natural gas plummeted to record-low levels, leaving the group burdened with debt.

The electric utility company's assets include a power generation portfolio composed of nuclear energy and coal-fired power provided by Luminant, a power transmission business provided through Oncor Electric Delivery, and a retail power provider extended through TXU Energy.

Should the Texas-based company seek bankruptcy protection, electricity customers are not expected to experience significant service disruptions.

"Our expectation is that there should be no material impact on the grid," said Moody's analyst Jim Hempstead, according to Fuel Fix. "We have never seen a bankruptcy that has turned the lights off. All of the Luminant assets are going to get scrutinized as to what is economical and what is not - there may be a plant or two that is shut down or mothballed or otherwise taken out of the stack."

According to sources, should the company seek out bankruptcy protection, investors can expect to secure roughly 50 percent ultimate recovery on debt from subsidiaries. This amount would be among the lowest recovery from unregulated power companies, according to Electric, Light and Power.