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S&P: Ongoing Water Delivery Uncertainty Intensifies Credit Pressure On Utilities In The Rio Grande Basin

Key Takeaways

- On April 28, Mexico committed to increasing the U.S. share of the water supply in six of its Rio Grande tributaries through the end of the current five-year water cycle that ends in October and to collaborate with the U.S. to develop a longer-term plan to ensure supply predictability under the 1944 Water Treaty, which we view favorably.
- The announcement followed the U.S. federal administration's rejection of Mexico's request for a special allocation of Colorado River water as well as threats of tariffs and sanctions related to compliance under the 1944 treaty's water sharing terms.
- While short-term supply predictability from Mexico may be resolved, its previous failures to meet delivery targets have created credit pressure by weakening the underlying economic fundamentals and financial performance of utilities that rely on these deliveries and could contribute to ongoing challenges for utilities in the Rio Grande basin, given the water supply stress stemming from drought, aridification, increasing demand, and aging and deficient infrastructure.
- We expect longer-term solutions will likely be necessary to address the basin's supply challenges and may require greater infrastructure investment and clearer guidelines within the 1944 treaty, which we believe could improve the predictability of water deliveries, but may increase costs and strain affordability for some utilities in the region.

Continue reading.

29 Apr, 2025