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Fitch: Further Cuts to Colorado River Water Use Could Increase Utility Costs

Fitch Ratings-San Francisco/New York/Austin-20 November 2025: Fitch Ratings does not anticipate near-term credit pressure on its rated water utilities despite increased costs stemming from likely cuts to Colorado River water allocations, based on utilities' ability and willingness to pass on rate increases to customers and wholesalers' long-term contracts with strong credit-quality purchasers. However, over the next three to five years, an inability to secure or develop additional supply to meet ongoing demand would likely weaken some utilities' operating risk profiles, potentially negatively affecting credit quality.

Talks continue among seven western states around permanently reducing Colorado River water usage after they failed to reach an agreement by the Nov. 11 deadline set by the U.S. Bureau of Reclamation (USBR). Despite several years of negotiations, Arizona, California, Colorado, Nevada, New Mexico, Utah and Wyoming have thus far been unable to reach a consensus on new operating parameters beyond 2026. Several water management agreements governing the Colorado River operations are set to expire at the end of next year. Under federal law, the USBR has the responsibility for managing the water of the Colorado River's upper and lower basins and will determine water allocations if the states are unable to reach an agreement.

Higher per acre-foot costs for Colorado River water and new water supplies will increase operating cost burdens and capital spending. These costs may pressure margins over time if rate increases cannot keep pace while utilities navigate chronic water scarcity. For some water suppliers, particularly in Arizona, further mandatory cuts to existing water allocations could lead to rate or property tax increases to cover fixed costs and capital costs associated with development of new water supplies. Higher rate increases could eventually pressure rate affordability.

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