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Fitch: Public Power Credit Unaffected by Glen Canyon Dam Drought Measures

Fitch Ratings-Austin/New York-13 May 2022: The US Bureau of Reclamation (BOR) recently announced urgent drought response actions at Lake Powell, which are designed to preserve water levels and power generation at the Glen Canyon Dam, the second-largest hydroelectric power source in the US southwest. The announced actions will preserve minimum levels of power supply from this low-cost, carbon-free hydroelectric resource for regional public power utilities in the short term. Still, consensus is needed among the entities that rely on Lake Powell for water and power to address declining hydrology in the Colorado River Basin if power generation is to be sustained longer term, says Fitch Ratings.

Reduced hydroelectric output, as a result of the Colorado River Basin drought, is driving replacement power costs higher for purchasing utilities but the increases are manageable. The BOR increased project energy and capacity rates charged to purchasing utilities by 8% and reduced available allocations in December 2021, given the region's increasingly severe drought conditions. The BOR indicated it would no longer purchase power in order to firm deliveries to purchasing utilities, given increasing market energy prices in the western US.

Utilities rated by Fitch are absorbing the incremental cost caused by reduced supply in 2022 and are replacing the lower generation with additional purchased power, increased output from other owned generation, or reduced off-system (optional, non-customer) sales. To the extent the project's power supply remains curtailed, replacement power costs for Fitch-rated public power issuers should continue to be recovered through rate adjustments.

The Colorado River Storage Project (CRSP), which includes the 1,320MW Glen Canyon Dam power plant, provides cost-based energy supply at typically below market prices to 130 public entity customers: 53 native American tribes, 60 municipalities, cooperatives and irrigation districts, and 17 other entities. Four Fitch-rated utilities receive between 5% and 18% of their total power supply from the project: Colorado Springs, Colorado; Platte River Power Authority, Colorado; Tri-State Generation and Transmission Association, Inc., Colorado; and the Utah Municipal Power Agency, Utah. Two additional rated systems, Fort Collins, Colorado and Provo, Utah, purchase power from the above-named utilities.

The Glen Canyon Dam constitutes only one of multiple generation sources for the Fitch-rated utilities, limiting the credit effect of generation shortages, even in the event of full cessation of power from the facility. However, the reduction of low-cost power supply from Glen Canyon is just one example of the sector's broader operating cost pressures, which are highlighted in Fitch Ratings 2022 Outlook: U.S. Public Power and Electric Cooperatives. Additionally, lower generation from Glen Canyon reduces carbon-free electricity as the sector is pursuing cleaner, non-emitting electric sources.

Glen Canyon Dam, Lake Powell, and the Glen Canyon Dam power plant together form the largest project of the CRSP and are collectively owned and managed by the BOR. The project controls water

releases from the Upper Colorado River Basin to the Lower Basin and generates hydroelectric power, accounting for approximately 75% of CRSP's generating capacity.

The entire Colorado River Basin is experiencing progressively worse drought conditions since 2000. Lake Powell's water surface elevation is 3,523 feet, the lowest since the lake was originally filled in the 1960s. The lowest elevation at which Lake Powell can generate hydropower is 3,490 feet.

The BOR took unprecedented action to send more flow into Lake Powell from upstream reservoirs and release less water downstream. The two actions are estimated to increase water levels by approximately 16 feet, protecting the sole water supply to local communities and the BOR's operational ability to transfer water from the upper Colorado River Basin and preserve hydroelectric generation.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.