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## Fitch: New ERA Funding Pause Does Not Affect Electric Co-op Credit

Fitch Ratings-New York/Austin-11 March 2025: Uncertainties surrounding funding of the U.S. Department of Agriculture's (USDA) Empowering Rural America program (New ERA) are not expected to weigh on the credit ratings of electric cooperatives, says Fitch Ratings. Cooperatives are unlikely to face significant financial burdens related to the suspension of funding, given prudent resource planning and financial management.

New ERA program funding was halted by the Trump administration in January 2025 as part of a broader review of the Inflation Reduction Act (IRA) and Infrastructure Investment Jobs Act (IIJA). Under the executive order, federal agencies were given 90 days to complete a review of funding.

As of Jan. 10, 2025, 13 electric cooperatives rated by Fitch had been allocated grants and/or loans valued at over $6.5 billion. Some of the largest recipients include San Miguel Electric Cooperative and East Kentucky Power Cooperative, which were each allocated roughly $1.4 billion of investment. Funds were designated for projects related to electric grid resilience, renewable energy or battery storage projects.

The failure to fund these initiatives would represent a lost opportunity for cooperatives to significantly lower their cost of transitioning to a lower carbon emitting portfolio of resources but is unlikely to impair credit quality. Many of the proposed projects were contingent on funding and have yet to be started. These would likely be cancelled or significantly altered if the project economics prove burdensome.

Some projects had been planned and approved prior to the New ERA program's launch as part of each utility's resource planning process. In these cases, debt funding for the projects has already been accounted for, included in each utility's budget and financial plan, and considered in Fitch's rating analysis. While receipt of the approved funding would likely lower the overall cost of electricity to consumers and improve affordability, as well as improve financial coverage and leverage ratios, these positive credit aspects have not yet been factored into our rating analysis.

The New ERA program is designed to provide up to $9.7 billion in appropriated grants and low-cost loans to rural electric cooperatives to fund projects that reduce greenhouse gas emissions and promote clean energy. Eligible projects can involve energy efficiency improvements, carbon capture systems, construction of renewable energy systems or the purchase of renewable energy output. The New ERA program is managed by the USDA through the Rural Utilities Service (RUS).

Other USDA loan programs, including the electric infrastructure loan program administered by the RUS that provides over $40 billion in loans to approximately 500 electric cooperatives, are reportedly uninterrupted by the IRA and IIJA review and funding freeze. However, a similar disruption in funding and disbursement to these legacy lending programs, while not expected, could pressure liquidity and would be a greater concern.

Nearly all electric cooperatives rated by Fitch have established access to a variety of funding sources, including relationships with CoBank, National Rural Utilities Cooperative Finance Corp., and large commercial banks, as well as issuance in the public and private debt markets. But a significant number of the country's electric distribution cooperatives still rely heavily on funding from RUS programs.