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Colorado River Final EIS: Issuer Exposure Varies, And Capacity To Fund Adaptation Will Shape Credit Quality - S&P

This report does not constitute a rating action.

Key Takeaways

- The impacts of the Final Environmental Impact Study (EIS) for the Colorado River on individual utilities will emerge over time, as the U.S. Bureau of Reclamation's (USBR) proposed reductions are state totals rather than specific utility allocations. S&P Global Ratings believes that actual exposure depends on a utility's ability to offset cuts through deliverable storage, water exchanges, and local supplies. Consequently, utilities with these resources may see minimal impact, while those lacking them may face disproportionately larger reductions.
- USBR's preferred alternative caps Lower Basin shortages at 3.0 million acre-feet and anticipates new operating rules in roughly two-year intervals through 2036, unless a consensus agreement supports a longer period. Upper Basin conservation remains voluntary, capped at 200,000 acre-feet annually, and subject to hydrologic conditions.
- While priority water rights provide an initial screen for exposure, they do not dictate the final credit outcome. The proposed framework shifts the focus from annual curtailment to a decade of adaptation spending; therefore, credit quality will depend less on the magnitude of water reductions and more on an issuer's capacity to absorb replacement costs. For local governments, credit stability will rely on effective utility rate-setting and the coordination of capital investment with land use and infrastructure planning.
- We view the proposed framework as a long-term credit driver working through adaptation costs and affordability, not as an immediate credit event. Our March credit view is unchanged, and any pressure should remain issuer-specific rather than sector-wide.

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