FitchRatings

Public Finance
Public Power
United States

Arkansas River Power Authority, Colorado

Ratings

Long Term Issuer Default Rating	BBB–

Outstanding Debt

Arkansas River Power Authority Power Revenue Refunding Bonds	BBB–
Arkansas River Power Authority Power Revenue Refunding Bonds (Taxable)	BBB–

Rating Outlook

Stable

Applicable Criteria

U.S. Public Power Rating Criteria (April 2021)

Public Sector, Revenue-Supported Entities Rating Criteria (February 2021)

Related Research

2021 Outlook: U.S. Public Power and Electric Cooperatives (December 2020)

Public Power - Fitch Analytical Comparative Tool (FACT) - 2020 (June 2020)

U.S. Public Power: Peer Review (June 2020)

Analysts

Rebecca Meyer, CFA, CPA, CISA
+1 512 215-3733
rebecca.meyer@fitchratings.com

Dennis Pidherny
+1 212 908-0738
dennis.pidherny@fitchratings.com

The affirmation of Arkansas River Power Authority's (ARPA or the authority) long-term rating and Issuer Default Rating (IDR) at 'BBB–' reflects the utility's 'bbb' financial profile assessment, including an elevated leverage ratio of 10.2x in fiscal 2020, as measured by net adjusted debt to adjusted funds available for debt service (FADS). ARPA's leverage remains elevated since the issuance of approximately $156 million of debt during fiscal 2007, 2008 and 2010 to fund the Lamar Repowering Project (LRP). The LRP was decommissioned in 2014 due to the project's inability to meet emission requirements.

The rating also reflects the authority's strong revenue defensibility and strong operating risk profile. ARPA's strong revenue defensibility is derived from all-requirements long-term wholesale power supply contracts with six members and the independent ability of the authority and its members to raise electric rates. Additionally, the revenue defensibility assessment reflects a midrange purchaser credit quality influenced by the generally stronger financial profiles and weaker service area characteristics of the ARPA members. ARPA's operating risk and operating cost burden are low, reflecting economic purchased power costs.

Key Rating Drivers

Revenue Defensibility: 'a'; All-Requirements Wholesale Provider: The assessment reflects midrange purchaser credit quality indicated by a purchaser credit index (PCI) of 2.5 based on the credit characteristics of ARPA's six members. However, the revenue defensibility of 'a' is supported by ARPA's unconditional, all-requirements contracts that extend for the life of ARPA's outstanding debt through 2043. Rate flexibility is very strong as ARPA and its members have the legal ability to independently set rates.

Operating Risk: 'a'; Low Operating Cost Burden: Operating risk is characterized by a low operating cost burden, reflecting the authority's low purchased power costs. Power supply is provided primarily through a purchase contract with Public Service of Colorado (PSCo; A–/Stable) through Jan. 31, 2025. Lifecycle investment needs are elevated based on a Fitch-estimated 18-year average age of ARPA's plant assets. Operating cost flexibility is neutral.

Financial Profile: 'bbb'; Elevated Leverage from Failed Lamar Repowering Project: The 'bbb' financial profile reflects ARPA's leverage metric, modestly in excess of 10.0x and still elevated from the financing of the now-decommissioned LRP. Fitch's analysis indicates that the authority's financial profile remains stable in a base case and a moderate stress scenario. ARPA's finances have not been adversely affected by the economic impact of the coronavirus. Liquidity is neutral to the rating.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- ARPA's maintenance of leverage, as represented by Fitch's leverage metric, consistently below 10.0x in Fitch's base and stress cases.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Sustained deterioration of the ARPA members' PCI, which could be driven by declining service area characteristics of the members;

- Financial performance that results in an increase in leverage above 12.0x on a sustained basis in Fitch's base and stress cases.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
BBB–	Affirmed	Stable	8/18/21
BBB–	Assigned	Stable	5/24/18

Credit Profile

ARPA was formed in 1979 to provide all-requirements wholesale power to its member communities in southeast Colorado: Trinidad, La Junta, Lamar, Las Animas, Springfield and Holly. The authority's power supply is sourced from federal hydropower, renewable energy and supplemental power purchases which replaced LRP output.

Lamar Repowering Project

The LRP was a joint effort by the authority, the Lamar Utilities Board (LUB) and the city of Lamar to repower LUB's 25MW natural gas-generating unit into a 38.5MW coal-fired unit. In September 2014, the three entities decided to decommission and salvage the LRP because the project had failed to meet its original objectives.

ARPA undertook steps to stabilize its finances, operations, and member relationships following the project closure decision, although the LRP left APRA with reduced financial flexibility and strained member relationships. The authority spent approximately $174.1 million on the project, debt financing approximately $156.8 million of that total. The corresponding debt service on a nonfunctioning asset heightened ARPA's leverage, reducing its financial flexibility and resulting in higher member rates.

Three of ARPA's members at that time filed suit to terminate their contractual relationship with ARPA. One of the three members, Raton (NM) left ARPA, while the other two (Lamar and Trinidad) remain with ARPA, having resolved their differences through settlement agreements. The settlement with Lamar amounts to $350,000 per year through 2043.

During the first half of this year, ARPA demolished a portion of the Lamar plant and provided the city of Lamar with funds to enable its work with a private enterprise to repurpose the northside of plant facilities from coal handling to agricultural processing. These actions represent ARPA's final LRP operating responsibilities.

Revenue Defensibility

ARPA is an all-requirements, wholesale energy and power provider to six small municipalities located in Colorado. Members are obligated to purchase all their energy needs from ARPA pursuant to take-and-pay contracts that extend through the life of ARPA's outstanding debt.

Rate flexibility is very strong. ARPA and its membership have the independent legal ability to raise rates without external approval. Under the terms of the power supply agreement (PSA), ARPA is able to charge its members at the rates established by its board. The board is required under the PSA to review ARPA's rates at least once a year but can elect to do so more frequently to ensure rates are sufficient to cover certain defined items, including but not limited to operating and maintenance expenses, ARPA's debt service, the costs of purchased power and energy, and building reasonable reserves.

Rate changes can be made at any time with board approval, although members shall receive 30 days of notice of any rate changes unless ARPA has good cause to reduce the notice period. Under the PSA, members agree to pay ARPA's rates as operating costs of their respective electric systems. ARPA members, likewise, retain the independent ability to raise rates.

A PCI of 2.5x indicates mid-range purchaser credit quality, reflecting stronger member financial profiles but a preponderance of weaker service area characteristics and above average electric rates. The PCI reflects all six Colorado-based members: Lamar Light and Power (33%), La Junta Electric (31%), Trinidad Electric Utility (20%), Las Animas (9%), Holly (3%) and Springfield (4%). The majority of members don't have outstanding debt and liquidity is generally adequate. Rate affordability is split between midrange and weaker based on data through 2020, which does not yet reflect ARPA's 3.6% reduction of its basic energy rate effective January 2021.

Operating Risk

ARPA has consistently maintained an operating cost burden below 10 cents, averaging 6.7 cents over the past five years, and considered low by Fitch for wholesale power systems. The

authority's cost burden is driven primarily by its low purchased power costs but does not include and fully reflect the full costs of ongoing debt service costs associated with the LRP.

ARPA's power supply resources are sufficient to meet its projected power needs through Jan. 31, 2025, when the authority's contract with PSCo expires. The power supply contract was assigned, pursuant to FERC order, to PSCo from Twin Eagle Resource Management LLC effective July 1, 2019 at the existing prices negotiated under the Twin Eagle contract. The assignment was made pursuant to a purchase and sale agreement made between Twin Eagle and PSCo in April 2019 under which PSCo acquired three jurisdictional wholesale power sales agreements from Twin Eagle, becoming the wholesale provider of service to the load-serving entity customers under the agreements, including that between Twin Eagle and ARPA. The authority expects the PSCo contract to provide approximately 64% of its energy during 2021.

ARPA's power supply is also provided from two long-term hydropower contracts with the Western Area Power Administration (WAPA), and from wind turbines owned by ARPA and its members, including the Lamar wind project. Although not mandated by Colorado's renewable energy laws due to its municipal utility status, ARPA is reviewing renewable PPA options. Colorado's legislature established a goal during the 2019 session to achieve a 26% reduction in greenhouse gas (GHG) emissions within the state by 2025 and 50% by 2030.

ARPA operates within the Western Electricity Coordinating Council (WECC), one of six U.S. regional entities responsible for overseeing and monitoring reliability and assessments. While power supply capacity is diverse across WECC, resource diversity varies by state. Colorado's resource mix is in flux, migrating from coal toward the GHG emission standards.

Lifecycle investment needs are elevated based on Fitch's estimated age of ARPA's assets (18 years) as of Dec. 31, 2020. Fitch expects the average age of the authority's plant to increase further over the next five years based on ARPA's capital spending plans which fall short of its annual depreciation. ARPA's prospective capital expenditure needs are modest, consistent with their plans to use purchased power and third-party transmission to provide for customer requirements.

Financial Profile

ARPA's leverage metric has moderated to 10.2x in fiscal 2020 from a five-year peak of 12.4 in 2016 but remains elevated. The decline since 2016 reflects the authority's healthy financial performance which has bolstered liquidity, aided by the 2018 debt extension and restructuring of debt. ARPA's liquidity profile is neutral to the rating, with Fitch-calculated coverage of full obligations (COFO) of 1.1x in fiscal 2020 and 358 days cash on hand, improved from 101 days in 2016. Additional liquidity is provided by a $1.5 million line of credit providing a liquidity cushion of 388 days.

Fitch Analytical Stress Test (FAST) — Base and Stress Case

Fitch's forward-looking FAST analysis expects ARPA to maintain a stable financial profile through the base case scenario and through a moderate stress case that considers the impact of reduced demand. The base case indicates that leverage will likely remain at or above over 10.0x until after the current power supply contract expires in January of 2025. COFO is expected to remain just over 1.0x and days cash rebuilds subsequent to a decline in 2021 related to the $14.8 million debt retirement.

Fitch's base case assumptions reflect the expectation of modest one percent per annum sales growth and include ARPA's 2021 rate reduction. Other assumptions such as power supply and operating expenses are informed by ARPA's long-term forecast. Capex is minimal and reflects the authority's plans to rely on purchased power for incremental power supply needs over the next five years. The base case assumes no new debt issuance.

Fitch's stress scenario depicts a decline in demand in years one and two, followed by recovery thereafter. The stress scenario indicates that ARPA's leverage ratio would peak at 12.0x and also remain at or above 10.0x until year five.

Financial Profile

Fitch considers ARPA's debt profile to be neutral to the rating based on its fixed-rate structure and the lack of variable-rate risk. The authority had approximately $128.3 million in fixed-rate

revenue bonds outstanding as of Dec. 31, 2020, including series 2010 and series 2018. ARPA retired approximately $14.8 million of debt in January 2021, paying off its series 2010 bonds. The series 2018 bonds will amortize over the next 22 years through 2043 to repay expenses originally related to LRP costs.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Financial Summary

(Audited Fiscal Years Ended Dec. 31)	2016	2017	2018	2019	2020
Net Adjusted Debt to Adjusted FADS (x)	**12.43**	**11.34**	**9.78**	**10.13**	**10.20**
Net Adjusted Debt Calculation ($000)					
Total Current Maturities of Long-Term Debt	2,260	2,375	2,840	2,950	1,015
Total Long-Term Debt	149,108	146,505	142,273	138,868	137,397
Total Debt	**151,368**	**148,880**	**145,113**	**141,818**	**138,412**
+ Capitalized Fixed Charge - Purchased Power and Gas	37,365	38,140	39,655	41,185	40,771
- Total Unrestricted Cash	5,240	6,292	11,823	16,002	17,894
Net Adjusted Debt	**183,493**	**180,728**	**172,946**	**167,000**	**161,289**
Adjusted FADS for Leverage Calculation ($000)					
Total Operating Revenue	31,327	31,171	32,194	31,204	31,095
Total Operating Expenses	19,131	17,825	17,719	18,249	18,509
Operating Income	**12,197**	**13,345**	**14,475**	**12,955**	**12,586**
+ Depreciation and Amortization	266	267	266	270	269
+ Interest Income	212	118	258	500	251
+ Other Non-Cash Charges	(32)	0	0	0	0
Funds Available for Debt Service	**12,643**	**13,730**	**14,999**	**13,725**	**13,105**
+ Adjustment for Purchased Power	4,671	4,768	4,957	5,148	5,096
- Total Transfers/Distributions	2,556	2,556	2,281	2,381	2,384
Adjusted FADS for Leverage	**14,757**	**15,942**	**17,675**	**16,492**	**15,818**
Coverage of Full Obligations (x)	**0.99**	**1.06**	**1.16**	**1.11**	**1.07**
Funds Available for Debt Service	12,643	13,730	14,999	13,725	13,105
+ Adjustment for Purchased Power	4,671	4,768	4,957	5,148	5,096
- Total Transfers/Distributions	2,556	2,556	2,281	2,381	2,384
Adjusted FADS for Coverage	**14,757**	**15,942**	**17,675**	**16,492**	**15,818**
Full Obligations Calculation					
Cash Interest Paid	8,042	7,957	7,955	6,890	6,804
Prior Year Current Maturities	2,150	2,260	2,375	2,840	2,950
Total Annual Debt Service	**10,192**	**10,217**	**10,330**	**9,730**	**9,754**
+ Adjustment for Purchased Power	4,671	4,768	4,957	5,148	5,096
Total Fixed Obligations	**14,863**	**14,984**	**15,287**	**14,878**	**14,850**
Liquidity Cushion (Days)	**130**	**162**	**279**	**355**	**388**
Unrestricted Cash (Days)	**101**	**131**	**247**	**325**	**358**
Liquidity Calculation					
+ Total Unrestricted Cash	5,240	6,292	11,823	16,002	17,894
+ Total Borrowing Capacity	1,500	1,500	1,500	1,500	1,500
Total Liquidity	**6,740**	**7,792**	**13,323**	**17,502**	**19,394**
Cash Operating Expense Calculation					
Total Operating Expense	19,131	17,825	17,719	18,249	18,509
- Depreciation and Amortization	266	267	266	270	269
- Other Non-Cash Charges	(32)	0	0	0	0
Cash Operating Expenses	**18,864**	**17,559**	**17,453**	**17,980**	**18,240**

FADS – Funds available for debt service.
Source: Fitch Ratings, Fitch Solutions, Lumesis, EIA, Arkansas River Power Authority (CO).

Key Definitions

Terms	Definition	Significance
Issuer Default Rating (IDR)	An expression of overall enterprise risk and relative vulnerability to default.	Provides an opinion of the relative ability of an entity to meet financial commitments, expressed as an ordinal measure of credit risk.
Standalone Credit Profile (SCP)	An expression of overall enterprise risk.	Provides an opinion of the credit quality of an entity on a standalone basis irrespective of it relationship with, or the credit quality of, its related municipality.
Net Adjusted Debt	Adjusted debt – unrestricted cash – funds restricted for debt service	Provides an inclusive evaluation of long-term liabilities offset by funds available for debt service.
Adjusted FADS	EBITDA + interest income + 30% of purchase power expense + operating lease expense – transfers/distributions + pension expense	Provides an indication of cash flow available for the payment of debt service, adjusting for purchased power, operating lease and pension obligations.
Net Adjusted Debt to FADS	Net adjusted debt/adjusted FADS	Provides an indication of net total leverage position against available operating cash flow.
Full Obligations	Cash interest paid + scheduled long-term principal payments + 30% of purchase power expense	Provides an indication of inclusive fixed and debt service obligations.
Coverage of Full Obligations	(EBITDA + interest income + 30% of purchase power expense + operating lease expense – transfers/distributions)/full obligations	Provides an indication of the relative cushion of operating cash flow to fixed charges.
Base Case	The expected forward-looking case in the current macroeconomic environment.	Provides the analytical starting point in the forward-looking analysis, and also informs the stress case.
Stress Case	The potential performance under a common set of assumptions.	Illustrates how cycles affect individual issuers differently, and informs the level of rating stability and credit resiliency.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.