

Research Update:

Arkansas River Power Authority, CO Electric Revenue Bond Rating Lowered To 'BBB-' On Affordability, Economic Conditions

June 5, 2026

Overview

- S&P Global Ratings lowered its long-term and underlying rating (SPUR) to 'BBB-' from 'BBB' on Arkansas River Power Authority (ARPA), Colorado's outstanding electric revenue bonds.
- The outlook is stable.
- The downgrade reflects our evolving view of the deteriorating affordability and economic conditions of the two largest members by percentage of ARPA's revenue, namely Lamar (32% of revenue) and La Junta (30%), as well as our view that they would likely face considerable challenges in raising rates sufficiently to cover the entirety of ARPA's debt service if either or both of these key members were required to step up in the event other members' default. Lamar's and La Junta's retail rates are well above the state average, and their retail rate-raising flexibility is constrained by their service areas' low incomes and elevated poverty rates of 21% and 27%, respectively, which we view as limiting financial flexibility, as we believe the general economy is facing a slowdown.

Rationale

Security

A first lien on net revenue of the system, which sells power to member municipalities on an all-requirements basis, net of any generation that each individual municipality chooses to produce, secures the authority's bonds outstanding. Power sales contracts between the authority and its members represent take-or-pay obligations, and ARPA's governing board can adjust rates as necessary, effectively creating an unlimited step-up provision in the event of one or more members' default. The authority's outstanding electric revenue debt totaled \$101.9 million as of Dec. 31, 2024.

Credit highlights

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ARPA's credit quality is based on our weak-link approach, which assesses La Junta as the weakest member within a subset of members (Lamar and La Junta) that are capable of fully covering all of ARPA's debt service in a potential step-up scenario. Based on the amalgam of high poverty rates in the leading members' service territories and the weakening national economic environment, we believe that the leading members are more likely to face constraints in their ability to raise rates substantially if called upon to cover potential defaults by other members.

We view ARPA's operational and financial profiles as stable and note a decline in the authority's debt service requirements; stable fixed-charge coverage (FCC) averaging 1.4x during the past three fiscal years and liquidity of \$10.8 million, or 202 days cash on hand (DCOH), including a committed line of credit, as of fiscal-year end 2024; projected stable financial metrics during the next five years; and the potential for reduced wholesale rates in coming years that could also lessen rate pressures at the member level. ARPA lowered member rates by 8.6% on Jan. 1, 2025, and the authority may decrease rates further during the next five years as informed by a recently completed rate study and a more favorable purchased power agreement with Guzman Energy. However, key rating risks center around a lack of depth and diversity in the rural service area economy, weak income levels, and a high debt burden for the authority. Historically, a substantial portion of member revenue supported the Lamar Repowering Project, which was never operational, yielding a high wholesale rate and high member rates compared with state averages.

ARPA provides wholesale power to the following six member municipalities in southeastern Colorado:

- Lamar (32% of fiscal 2024 operating revenue);
- La Junta (30%);
- Trinidad (20%);
- Las Animas (10%);
- Springfield (5%); and
- Holly (3%).

Partially offsetting ARPA's credit weaknesses, in our view, are the following factors:

- We expect that the fixed-price, 17-year contract (there is no escalator for the entirety of the contract) with Guzman Energy will be more economical in the near term than the expiring contract with Xcel Energy, which should provide latitude to reduce wholesale rates to members.
- Guzman sources its power from a diverse fleet of owned and purchased assets and, as a part of contract stipulations, will not serve ARPA with coal. Guzman's fuel mix is roughly 30% to 32% natural gas, and the balance is solar/wind/battery power. Management indicates the contract has performance guarantees, as well as a responsibility on behalf of Guzman to ensure ARPA meets Colorado's renewable requirements.
- The authority's stable FCC, which incorporates certain fixed capacity payments made by the authority as debt-like, averaged 1.4x during the past three years, and based on our calculations is projected to remain steady at between 1.3x and 1.4x through 2031, commensurate with recent levels.
- Maintenance of a \$1.5 million line of credit, currently undrawn. ARPA has not made a draw on the line since 2012 and will keep the line in place indefinitely.

- Capital needs during the next few years are minimal and the authority does not plan to issue additional debt.
- Use of a debt service coverage adder that was adopted in 2014 and has been used each year since its adoption. ARPA also has an energy cost adjuster mechanism, but it has only been used once in the past several years.

Environmental, social, and governance

We view affordability risk factors as elevated given the members' retail electric rates are significantly above the state average and incomes are low, reducing rate-raising flexibility for the members and constraining the authority's rate-raising capacity and financial flexibility. Because of the high unpredictability of federal policy, along with the economy's stressors and the associated financial pressures that consumers are facing, we are monitoring the strength and stability of utilities' revenue streams for evidence of delinquent payments or other revenue erosion. (See "[Economic Outlook U.S. Q2 2026: Curb Your Enthusiasm](#)," March 25, 2026.)

We believe the authority faces reduced energy transition risks given that, under its supply contract with Guzman Energy, Guzman does not serve ARPA with coal and cannot do so going forward, which is an improvement from ARPA's previous contract with Xcel Energy. In addition, ARPA indicates its long-term power supply contract with Guzman has provisions that ensure the authority will meet all renewable portfolio requirements.

We view ARPA's governance factors related to risk management, culture, and oversight as credit-neutral. We believe the authority has prudent financial policies and practices in place. Management regularly produces long-term financial forecasts, which help identify potential challenges, and we view this as credit-supportive. We also view ARPA's cyber-security practices favorably.

Outlook

The stable outlook reflects our expectation that as ARPA migrates to a lower cost power contract it will ease some of the financial pressures that members face and could decrease the need for members to raise rates at the retail level.

Downside scenario

We could lower the rating if ARPA is unable to maintain sufficient cost recovery or fails to accomplish projected coverage levels, absent improvement in La Junta's credit profile. In addition, any material waning of the membership base and/or economic fundamentals, especially those of key members, and of the quality of cash flows that they generate, absent offsetting adjustments, could lead to a lower rating.

Upside scenario

We do not expect to raise the rating during the next two years given ARPA's limited rate flexibility; the authority's high debt burden; and members' weak service area demographics, elevated rates, and varied financial metrics.

Ratings List

Downgraded

To	From
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Arkansas River Power Authority, CO Electric Revenue Bond Rating Lowered To 'BBB-' On Affordability, Economic Conditions

Ratings List

Public Power

Arkansas River Pwr Auth, CO Wholesale Electric System Lamar & La Junta Repowering Proj	BBB- /Stable	BBB/Stable
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