

Bulletin:

Strong Liquidity And Margins Mitigate COVID-19 Risks For Lower Colorado River Authority, TX

April 20, 2020

CENTENNIAL (S&P Global Ratings) April 20, 2020--S&P Global Ratings said today that the Lower Colorado River Authority, Texas (LCRA) and affiliate Transmission Services Corp.'s (TSCorp.) (A/Stable) robust liquidity, strong margins, and flexible capital plan position the authority well for evolving events related to the COVID-19 pandemic.

Despite TSCorp.'s guaranteed rate of return as a transmission service provider, extended contraction within the Electric Reliability Council of Texas (ERCOT) could result in some retail electric providers failing to pay the bills that ultimately flow to TSCorp. Similarly, softening demand or nonpayment by customers could pressure LCRA's margins. ERCOT's weekly load fell by about 2% between March 22 and April 4, but neither LCRA nor TSCorp. have seen material financial or operational impacts from the pandemic thus far.

Mitigating these risks are TSCorp.'s and LCRA's exceptionally strong liquidity positions, which could be leveraged to absorb revenue shortfalls. TSCorp. reported \$263 million in unrestricted cash and investments Dec. 31, 2019; while LCRA reported \$375 million in unrestricted cash and investments as of Sept. 30, 2019. Furthermore, LCRA's customer rates entered 2020 well below budget following unprecedented price spikes in ERCOT in August 2019, affording the authority rate flexibility. Finally, LCRA's capital plan is flexible. Management reported one-third to one-half of LCRA's \$300 million five-year capital improvement plan (CIP) could be deferred, while the majority of TSCorp.'s \$1.4 billion CIP could be deferred, aside from those projects deemed crucial to the grid.

LCRA and TSC have enacted their established contingency plans in response to the pandemic, and will continue to adjust as the situation unfolds.

For more information, please see our articles:

- COVID-19's Potential Effects In U.S. Public Finance Vary By Sector, March 5, 2020
- An Already Historic U.S. Downturn Now Looks Even Worse, April 16, 2020
- Lower Colorado River Authority, Texas, Feb. 28, 2020

This report does not constitute a rating action.

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