

# Pedernales Electric Cooperative Inc., Texas

November 12, 2025

This report does not constitute a rating action.

## Credit Highlights

- S&P Global Ratings' short-term rating on [Pedernales Electric Cooperative Inc.](#) (PEC), Texas' \$300 million taxable commercial paper (CP) notes is 'A-1'.

## Rationale

### Security

The \$300 million in CP notes are unsecured and on parity with PEC's other existing and future unsecured credit facilities. PEC's total obligations, including unsecured credit facilities and unsubordinated debt, was approximately \$1.2 billion as of Dec. 31, 2024. CP note proceeds can be used for general corporate purposes, including capital spending. While any of PEC's revolving credit agreements (RCAs) can be used to pay maturing CP, PEC plans to specifically reserve its \$200 million multiyear RCA with Bank of America and its \$100 million multiyear RCA with National Rural Utilities Cooperative Finance Corp. (CFC) to back the \$300 million CP program; both RCAs expire on Nov. 26, 2027. A combined \$305 million in other unsecured RCAs with CFC (\$100 million), CoBank (\$100 million), and Bank of America (\$105 million), although not dedicated only to CP repayment (being also available for general corporate purposes), provides additional liquidity support, for a total of \$605 million in RCAs.

Based on the provisions in the resolution on short-term debt limits, CP issuances or direct borrowings under revolving line-of-credit facilities reduce the amount available under the lines (although if PEC draws \$305 million or less from the revolving facilities, PEC can still issue the maximum \$300 million in CP). These provisions ensure that a corresponding amount of liquidity available from the revolving facilities will backstop any issuance of CP such that PEC is able to repay CP in the event that PEC lacks market access or is otherwise unable to refinance the CP.

We do not publicly rate PEC's long-term debt or creditworthiness, and have not assigned PEC a public long-term rating or issuer credit rating in connection with the short-term rating, although we have internally assessed PEC's long-term creditworthiness.

As of Dec. 31, 2024, all-in liquidity facilities totaled \$605 million, but net of \$115 million outstanding in CP the available amount was \$490 million (not including \$20 million in cash on

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hand). We understand that PEC plans to refinance CP with long-term debt when CP balances reach \$100 million to 200 million.

## Credit overview

We determined the PEC short-term rating by applying our "[Methodology For Linking Long-Term And Short-Term Ratings](#)" criteria, April 7, 2017, and PEC's long-term general creditworthiness by applying our "[U.S. Municipal Retail Electric And Gas Utilities: Methodology And Assumptions](#)" criteria, Sept. 27, 2018.

The rating reflects our view of PEC's:

- Robust liquidity position consisting primarily of lines of credit, net of draws, totaling \$511 million inclusive of \$20 million in unrestricted cash, equivalent to a combined 255 days as of Dec. 31, 2024, which is critical to managing operating risks within the Electric Reliability Council of Texas (ERCOT) market;
- Favorable and mostly firm power supply contracts, including the diversity of power supply resources that the contract with the Lower Colorado River Authority (LCRA; A/Positive) provides;
- Diverse and primarily residential customer base that contributes 73% of retail revenue, providing significant revenue stability and predictability;
- Healthy fixed-charge coverage (FCC) that measured 1.4x in fiscal 2024 and should, based on management's forecast, remain at 1.3x to 1.4x over the next five years, supported by PEC's expectation of continued strong annual load growth averaging 3% to 4%;
- Competitive retail rates that we believe provide financial flexibility and are affordable given above-average income levels in the service territory; and
- Strong and proactive management team with good long-term planning practices and prudent cost recovery in recent years.

Partly offsetting the above strengths, in our view, are PEC's:

- Operating risks related to the ERCOT market, where utilities and wholesale power providers remain somewhat exposed to power price spikes and/or volatility given extreme temperature changes and peaks in demand, which climate change likely exacerbates. We believe inherent ERCOT market design limitations remain, including limited interconnectedness with adjoining states, periodic strained resource adequacy, and only adequate incentives for the construction of surplus firm capacity.
- Very high debt burden for a non-vertically integrated distribution and transmission utility, with 57% debt to capitalization as of fiscal 2024.
- Significant capital needs associated with a rapidly growing customer base and demand, totaling \$1.1 billion over the next five years, approximately 60% of which management plans to finance with additional debt.

PEC has continued to manage market exposure and performed well operationally and financially since the North American winter storm (informally known as Uri) of February 2021, which cost it an unbudgeted \$160 million when PEC had to procure high-priced replacement power on the ERCOT market. PEC has fully recovered the costs with a two-year storm surcharge and other adjustments. Since Uri, the region has experienced multiple record summer heat waves and severe winter cold snaps, including a significant ice storm in early 2023. During these subsequent

weather events, the assets underlying PEC's power supply were resilient and PEC was not exposed to sustained high market prices. We attribute this to PEC's power supply diversity, improved weatherization of assets and fuel by power providers such as LCRA, mostly firm power supply contracts (including LCRA's generation portfolio), minimal exposure to intermittent renewable energy resources, conservative forecasting, and proactive power supply planning. We also note PEC has strong load management programs in place to reduce demand during peak events. Management also reports that given the increased solar, wind, and battery capacity in ERCOT, sustained high market prices have been limited.

We nonetheless view PEC and other ERCOT-based utilities as exposed to uncertainty and adversity related to several inherent market risks in the region. We believe PEC and its primary power provider, LCRA (which provides at least 65% of PEC's energy supply), as with many other ERCOT utilities, could continue to face challenges associated with the ERCOT market's relative price volatility, periodic strained resource adequacy, extreme temperature and demand fluctuations, and weaker grid interconnectivity than that of grids in other states. The rating could come under pressure if PEC or LCRA is unable to manage the risks associated with participation in the ERCOT market, if our view of PEC's economic base and competitiveness deteriorates, or if PEC's predominantly carbon-based power supply exposes it to extraordinary costs, including regulatory mandates.

Our A/Positive long-term rating on LCRA reflects our view of LCRA's continued operational resilience, including its plans to add peaking generation (a 180-megawatt peaking plant went on line in September 2025) and contracts to meet increasing load growth, and the authority's improved financial performance over the past two fiscal years.

## **Environmental, social, and governance**

In our view, physical environmental risks are elevated given the pattern of increasing extreme weather events, especially with regard to extreme temperatures in Texas against the backdrop of ERCOT's aforementioned limitations. Also, while PEC is not a generating utility, LCRA, from which PEC derives at least 65% of its power supply, derives one-third to one-half of its energy needs from coal-fired assets in any given year and almost all its energy needs from carbon-based resources, with less than 10% coming from hydro, battery, and solar resources. Thus, PEC could indirectly face higher energy transition risks related to carbon emissions regulations. Such measures could directly and indirectly affect public power and electric cooperative utilities' operations, costs of doing business, retail rates, financial flexibility, and credit quality.

We believe PEC's exposure to social factors is largely credit neutral given customers' generally favorable income levels and competitive and affordable rates.

In our view, governance is a moderate credit risk given that the environment in which PEC operates continues to require strong liquidity, proactive planning, hedging, and financial flexibility, which come at a cost. Notwithstanding these issues, we believe management's policies, proactive planning, liquidity, and sophistication are credit supportive. We also believe cyber and physical security practices are sound.

## **Credit Opinion**

PEC, the largest electric distribution cooperative in the U.S., provides retail electricity services to more than 425,000 mostly residential (92%) customers across Central Texas in the Hill Country region. PEC's service territory includes western portions of the greater Austin metropolitan statistical area and the northern portion of the greater San Antonio metropolitan statistical area,

areas experiencing significant growth. Management's projections indicate annual new meter growth of about 18,000, or about 4% to 5%, and 3% annual load growth. PEC is not serving any large load data centers, but reports receiving several inquiries recently. According to management, in the event that PEC comes to serve such customers, PEC has several protections in place to avoid operating and financial risks. Data center loads require an interconnect study that is filed with ERCOT and formal ERCOT approval. Thus far, the proliferation of data centers in its service territory has not materialized, likely as a result of prohibitive real estate costs within its compared with other areas of Texas.

Residential customers account for approximately three-fourths of PEC's load and revenue, providing PEC with considerable financial stability and revenue predictability. PEC's large size and scope also provide for significant economies of scale, although a higher customer count increases exposure during stress events, such as in the case of higher power costs during the 2021 winter storm. The customer base is very diverse, with no customer representing more than 0.7% of revenue and with the leading 10 customers representing just 4.0%. PEC serves about 17 customers per line-mile, which is above average for a cooperative utility and which allows it to spread fixed costs over a greater number of customers, promoting lower retail rates.

We view PEC's rate-setting practices as credit supportive, including the use of a power cost adjustment account to promote rate stability. Management reports that it may raise base rates to go into effect in March 2026, likely by almost 5 percentage points. Based on the U.S. Energy Information Administration's latest available data from 2024, PEC's weighted average system rate competitiveness (based on relative customer classes' revenue contributions) was 98% of the state average. We expect PEC's rates to remain competitive with customer bills expected to rise about 2% annually on average during fiscal years 2025 through 2029.

We are monitoring the strength and stability of electric utilities' revenue streams given inflationary pressures on electricity prices (which have outpaced the broader Consumer Price Index inflation rate), reflecting higher operating and debt costs as a result of investments in emissions reductions, load growth, and climate resilience. We anticipate that substantial and sweeping tariffs could also pressure electricity prices as utilities source costlier materials and components critical to the sector's build cycle. Coupled with the high unpredictability around federal policy, the economy's stressors and the associated financial pressures that consumers are facing--including diminished consumer confidence and expectations of rising inflation and unemployment--might make it more difficult for rate-setting bodies to harmonize the interests of utilities, their customers, and their investors, which could negatively affect utilities' financial metrics. (See "[Economic Outlook U.S. Q4 2025: Below-Trend Growth Persists Amid A Swirl of Policy Shifts](#)," Sept. 23, 2025.)

PEC's power supply is based largely on a load-following agreement with LCRA that runs through 2041 and covers at least 65% of PEC's requirements, and PEC also pays LCRA to provide firming for as much as 15% of its intermittent, renewable energy. PEC's cost of power is closely tied to LCRA's generation cost. PEC meets an additional 20% of load through a series of block-and-shape supply contracts, whereby capacity varies hour to hour over the term, running through December 2028. Management reports that it offers more favorable pricing than can be obtained in the market through a traditional hourly load-following contract. PEC meets the remaining 15% of load through various purchase power agreements consisting of wind, solar, and other unidentified resources ranging from two to 25 years, almost all at fixed prices. PEC meets 100% of load through these contracts in a typical year.

Senior leadership at PEC has significant direct PEC and industry experience, and financial management has been sound over the past few years even in light of the challenges of the

## Pedernales Electric Cooperative Inc., Texas

pandemic, significant storms and heat waves, and a high-interest-rate and inflationary environment. PEC also implemented a new power supply risk management policy recently, and PEC's annual updates to its five-year financial forecast and capital plan are favorable to credit, in our view. Management targets debt service coverage of no less than 1.7x, which we consider sound, but actual debt service coverage has exceeded 2.3x for four consecutive years.

In our view, FCC has been in a relatively tight range of about 1.2x to 1.5x since fiscal 2016, including 1.5x in fiscal 2022 and 1.4x in both fiscal years 2023 and 2024. FCC is our internally adjusted coverage metric that imputes onto PEC certain costs that power suppliers bear, in lieu of an explicit capacity or demand charge. After consideration of 50% of projected purchased power costs as fixed debtlike obligations, PEC's financial projections indicate that it will likely maintain FCC near 1.4x, largely as a result of continued strong growth and prudent cost recovery. We believe management's other forecast assumptions are reasonable.

PEC has a very healthy liquidity position, in our view. All-in liquidity consists primarily of lines of credit, net of draws, totaling \$511 million inclusive of \$20 million in unrestricted cash, equivalent to a combined 255 days as of Dec. 31, 2024. Management's financial forecast reflects maintenance of very strong available liquidity through fiscal 2029 at no less than \$662 million including undrawn lines of credit. We view such liquidity as critical given the operating risks that PEC faces within the ERCOT market.

While we consider PEC's debt to capitalization very high for a distribution cooperative utility without owned generation, at 57% as of fiscal 2024, we also view it as manageable. Management expects to debt-finance roughly 60% of its identified capital needs totaling \$1.1 billion through 2029, with the majority of capital spending related to distribution system projects. Debt to capitalization is forecast to peak at 58% through 2029. Historically, PEC has used loans from CoBank, the National Rural Utilities Cooperative Finance Corp., and other financial institutions to fund system expansions and upgrades, and plans to issue CP from time to time for capital projects largely related to systemwide growth.

## Pedernales Electric Cooperative Inc., Texas--key credit metrics

	--Fiscal year ended Dec. 31--		
	2024	2023	2022
<b>Operational metrics</b>			
Electric customer accounts	425,109	403,712	385,868
% of electric retail revenues from residential customers	73	73	74
Top 10 electric customers' revenues as % of total electric operating revenue	4	4	3
Service area median household effective buying income as % of U.S.	122	125	100
Weighted average retail electric rate as % of state	98	96	94
<b>Financial metrics</b>			
Gross revenues (\$000s)	923,174	878,878	836,372
Total operating expenses less depreciation and amortization (\$000s)	730,656	694,203	643,670
Debt service (\$000s)	81,998	67,054	68,593
Debt service coverage (x)	2.3	2.8	2.8
Fixed-charge coverage (x)	1.4	1.4	1.5
Total available liquidity (\$000s)*	510,821	429,583	381,362
Days' liquidity	255	226	216
Total on-balance-sheet debt (\$000s)	1,221,407	1,126,109	1,035,155

Pedernales Electric Cooperative Inc., Texas--key credit metrics

	--Fiscal year ended Dec. 31--		
	2024	2023	2022
Debt to capitalization (%)	57	56	55

\*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenue minus expenses divided by debt service. Fixed-charge coverage--Sum of revenue minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy).

Ratings List

Current Ratings

Public Power

Pedernales Electric Cooperative Inc, TX Retail Electric Cooperative	A-1
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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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