



Rating Action: Moody's upgrades Peninsula Clean Energy Authority, CA's issuer rating to Baa1 from Baa2, outlook stable

29 Jun 2023

New York, June 28, 2023 – Moody's Investors Service has upgraded Peninsula Clean Energy Authority, CA's (PCE) issuer rating to Baa1 from Baa2. The outlook was revised to stable from positive.

RATINGS RATIONALE

The upgrade reflects our view of the increasing strength of Peninsula Clean Energy Authority's credit profile, recognizing its maturing business profile with a strengthening liquidity position and a reduction in wholesale power exposure that we expect to continue. PCE has also shown strong resiliency as it demonstrated effective management through a volatile power market and pandemic shock over the last several years.

PCE's rating is supported by the economic strength of its 310,000 customers located throughout affluent San Mateo County (Aaa stable) and the recent addition of the City of Los Banos in Merced County. The rating also incorporates the inherent strengths of the California Community Choice Aggregator (CCA) model which provide PCE with a captive and sticky customer base capable of delivering reliable revenue and cash flow on a consistent basis despite variations in cost, as shown by its track record of low customer opt-out rates.

The rating is further supported by a solid liquidity profile with a significant increase in days cash on hand and expanding net position in FY 2023 due to material reductions in the power cost indifference adjustment (PCIA). PCE's pricing strategy to benchmark 5% below Pacific Gas and Electric Company's (PG&E) rates remains unchanged. We expect PCE will continue to grow its net position and cash balances while remaining price competitive to PG&E.

PCE has also demonstrated a strong resource management strategy by procuring a diversified power generation mix, incorporating multiple PPAs to cover the majority of their expected load in the short and medium term, which mitigates the effect of uncontracted load on costs.

The rating also incorporates PCE's established provisions for timely, full cost recovery through its independent rate setting authority and its demonstrated ability to generate internal free cash flow on a sustained basis.

The rating is constrained by the newness of the CCA business model, the exposure to wholesale energy markets and the inherent volatility of California's power markets. PCE is also undergoing transitions within its executive management that we will continue to monitor.

RATING OUTLOOK

The stable rating outlook reflects our view that PCE can maintain liquidity in excess of 200 days while conservatively administering its power portfolio, minimizing opt-out rates and transitioning its executive management team.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Trend of strengthening financial operations continues, including growing net position and maintaining internal liquidity above 300 days on a sustained basis.

- Narrowing or de-risking of power related remarketing risk.
- Broader statutory acceptance of the CCA business model persists.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Material decline in financial liquidity.
- Power procurement market risk increases which results in sustained losses or customer under-collections.
- Significant acceleration of customer opt-out rates.
- State policy changes occur which weakens the CCA model from a credit perspective.

PROFILE

Peninsula Clean Energy (PCE) is a community choice aggregator and a Joint Powers Authority (JPA) formed to reduce energy-related greenhouse gas emissions and promote renewable energy penetration in California. Headquartered in Redwood City, CA, PCE formed in 2016 pursuant to the California Joint Exercise of Powers Act and provides electric service under the Community Choice Aggregation Program under California Public Utilities Code Section 366.2. PCE supplies clean energy to 310,000 customers in 22 member communities across San Mateo County as well as to the City of Los Banos in Merced County. PCE procures energy and capacity for its customers, while PG&E continues to provide transmission and distribution services; its charges appear on the customer's PG&E bill. PCE operates with no local tax funds nor is it required to pay taxes.

METHODOLOGY

The principal methodology used in these ratings was US Municipal Joint Action Agencies published in December 2022 and available at <https://ratings.moodys.com/rmc-documents/396803>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Gayle Podurgiel
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Angelo Sabatelle
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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