

Rating Action: Moody's revises Peninsula Clean Energy Authority, CA's outlook to positive from stable; Baa2 issuer rating affirmed

27 Jun 2022

New York, June 27, 2022 -- Moody's Investors Service ("Moody's") has revised Peninsula Clean Energy Authority, CA's (PCE) outlook to positive from stable and has affirmed its Baa2 issuer rating.

RATINGS RATIONALE

The revision of the outlook to positive from stable recognizes Peninsula Clean Energy Authority's maturing business profile with a strengthened liquidity position and a reduction in wholesale power exposure that we expect to continue. PCE has also effectively managed through a volatile power market environment and the pandemic shock, showing resiliency.

PCE's rating is supported by the economic strength of its 309,000 customers located throughout all of the affluent communities in San Mateo County (Aaa stable) and the recent addition of the City of Los Banos located in Merced County. The rating also incorporates the inherent strengths of the California 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 the relatively low customer opt-out rate.

PCE's net position is forecast to return to positive in 2023 due to material reductions in the Power Cost Indifference Adjustment (PCIA) charges as a result of increased energy market costs. PCE's pricing strategy to offer its 50% renewable product at 5% below PG&E's bundled cost for generation remains unchanged and is expected to support the forecast growth in its net position and cash balances while remaining price competitive to PG&E.

PCE has diversified its power procurement mix over the last several years, with its current power purchase agreements (PPAs) covering around 70% to 80% of its expected load, an increase from 20% to 30% in 2019, reflecting a substantial reduction in uncontracted load. The PPAs are diversified across renewable fuel sources, contract lengths and by energy supplier with no single supplier providing more than 15% of PCE's load requirements. PCE's power procurement strategy has been effective to date and includes a conservative approach to liquidity management and a focus on serving the electric needs of San Mateo County and Los Banos. PCE's recent long-term PPA's executed within the last several years benefit from low-cost long-term renewable generation resources.

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.

RATING OUTLOOK

The positive outlook reflects our expectation that PCE will return to positive operations in the near-term and will continue to maintain its already strong liquidity profile and continue to successfully manage its power portfolio to ensure customers remain supportive of the clean energy offered by PCE through the CCA model.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Trend of strengthening financial operations continues, including growing net position and internal liquidity
- Improvement in weighted average credit quality of municipal participants
- 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

Headquartered in Redwood City, CA, Peninsula Clean Energy Authority, CA (PCE) is a California Joint Powers Authority (JPA) formed in 2016 created after 20 communities in San Mateo County and the county unanimously executed the joint powers agreement to participate in clean energy aggregation. The City of Los Banos joined the JPA in November 2020 and electric service began in Los Banos in April 2022. PCE now provides electric service to approximately 309,000 retail customers as a CCA under the CPUC Code Section 366.2.

METHODOLOGY

The principal methodology used in this rating was US Municipal Joint Action Agencies Methodology published in August 2020 and available at <https://ratings.moodys.com/api/rmc-documents/68329>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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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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