

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings upgrades Peninsula Clean Energy Authority, CA's issuer rating to A3 from Baa1; outlook stable**

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09 Dec 2024

New York, December 09, 2024 -- Moody's Ratings (Moody's) has upgraded Peninsula Clean Energy Authority, CA's (PCE) issuer rating to A3 from Baa1. The outlook is stable.

#### RATINGS RATIONALE

The upgrade reflects our view that PCE's credit profile benefits from a strong and resilient service territory serving 314,000 customers throughout San Mateo County as well as the City of Los Banos in Merced County, California. PCE's rating incorporates the strengths of the California Community Choice Aggregator (CCA) model that provides it with a captive, sticky customer base capable of delivering reliable revenue and cash flow on a consistent basis despite variations in costs, as shown by its consistently low customer opt-out rates. The rating also recognizes 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 also supported by PCE's strong liquidity profile with days cash on hand of 393 days at its June 30, 2024 fiscal year end. Today's rating action incorporates a view that PCE will continue to maintain a robust liquidity profile with days cash on hand above 200 days. PCE's rate setting strategy has also improved, in our view, since it has decoupled from benchmarking rates to Pacific Gas & Electric Company (PG&E, Baa2 first mortgage bonds positive) and has instead shifted to a cost-of-service approach where discounts relative to PG&E will vary depending on PCE's cost profile.

PCE also has a diversified power procurement mix relying on multiple power purchase agreements (PPAs) to cover load along with a mix of financial hedges; reducing the impact that uncontracted load has on costs. PCE also benefits from a winter peaking load profile. Notably, in September 2024 it participated in its first electric prepay transaction through the California Community Choice Financing Authority enabling

reduced long-term power costs for its customers by about \$5.7 million annually during the initial period. PCE is also adding commercial load, including adding 60 gigawatt hours of load from the Caltrain electrification project and from enterprises choosing to convert to PCE from direct access.

The rating is constrained by the newness of the CCA business model, wholesale energy market exposure, California's inherently volatile power markets, and by the fact that CCAs are subject to actions and policy directions from the California Public Utilities Commission (CPUC), since they serve customers whose rates are regulated by the CPUC.

## RATING OUTLOOK

The stable rating outlook reflects our view that PCE can maintain liquidity comfortably in excess of 200 days on a sustained basis while conservatively administering its power portfolio and minimizing opt-out rates.

## 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 for a sustained period with days cash on hand below 180 days
- Power procurement market risk increases and 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 Authority (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 314,000 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 this rating 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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