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CREDIT OPINION

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Peninsula Clean Energy Authority, CA

Update to credit analysis following recent upgrade

Summary

Peninsula Clean Energy Authority's (PCE: A3 stable) credit profile reflects the continued strength of the service territory as a not-for-profit California community choice aggregator (CCA) serving approximately 314,000 customers throughout all communities in San Mateo County (Aaa stable) as well as the City of Los Banos (Aa3 stable) located in Merced County. Our credit view 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. Our credit view also considers the CCA's maturing business profile with sustained strong liquidity as well as strong management of wholesale power exposure. We also consider 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 robust liquidity position is a key factor supporting the rating, with 393 days cash on hand as of fiscal 2024. It has also implemented a new rate setting strategy that decouples the CCA from its 5% discount to Pacific Gas & Electric (PG&E) towards a strategy that prioritizes a cost-of-service approach where rates are determined by the overall cost of delivering service throughout the authority while still aiming to remain competitive relative to PG&E. PCE has also diversified its power procurement mix over the last several years with its current power purchase agreements (PPAs) covering around 65% to 80% of its expected load, an increase from 20% to 30% in 2019, reflecting a substantial reduction in uncontracted load.

Credit strengths

» Strong socioeconomic makeup within underlying service territory

» Affluent customer base with low accounts receivable delinquency rates and a low customer “opt-out” rate

» Full cost recovery through independent rate-setting billed to customers

» Continued diversification of energy procurement contracts

» PCE costs are competitive with a new rate-setting strategy implemented

» Strong liquidity profile composed primarily of cash with over 393 days cash on hand as of FY 2024

Credit challenges

- » Sizable energy purchase commitments with surplus energy remarketing risk should customers depart and should surplus energy be at a higher cost than energy market
- » PCIA is an ongoing concern for PCE's rate competitiveness
- » PCE customers can opt out of program
- » Potential for regulatory changes and legislative changes that might impact future PCE business model and operations

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

- » 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

- » 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

Key indicators

Exhibit 1
Peninsula Clean Energy Authority, CA
For the fiscal year ending on June 30

(in $ millions)	2020	2021	2022	2023	2024
Operating Revenue*	278.1	228.1	237.9	428.2	456.6
Total Operating Expenses (excluding Depreciation and Interest Expense)	231.2	236.2	246.0	290.6	361.3
Unrestricted & Discretionary Reserves	210.0	170.1	135.1	253.5	389.1
Adjusted Days Liquidity on Hand (days)	331	263	200	318	393

* 2024 operating revenues exclude rate stabilization fund revenue deferrals.
Source: Moody's Ratings

Exhibit 2
PCE Service Area

*PCE also serves the City of Los Banos, in Merced County (not pictured)
Source: Moody's Ratings

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.

Detailed credit considerations

Strong current financial position and solid liquidity profile

Following two straight years of negative net position in FY 2021 and FY 2022 primarily due to significant PCIA charges, PCE has improved to a positive net position during FY 2023 and FY 2024. Going forward, PCE expects the positive trend in next position to continue through at least FY 2029.

Since 2019, PCE has maintained over 200 days of cash on hand and currently has a three year average of 304 days cash on hand for the FY 2022 - FY 2024 period, which puts them firmly in the 'Aaa' range for the liquidity rating category. Management forecasts that PCE's cash position will stabilize at about $275 million through the next five years, which represents about 200 days cash on hand. Though liquidity is projected to soften from FY 2023 and FY 2024 peaks, management aims to retain a target of 180-250 days cash on hand.

PCE provides generation services to an economically strong customer base

PCE's credit profile is anchored by the economic strength and size of its customer base of roughly 314,000 customers encompassing all of the communities in San Mateo County, along with the recently added City of Los Banos located in Merced County.

San Mateo County is an affluent area where customers strongly support the role that CCAs play to provide carbon-free energy. Fifteen of the 22 communities in the county opted for PCE's 100% renewable product for their municipal accounts, a more expensive product than the bundled product offered by PG&E. Multiple large local commercial firms have also opted for the 100% renewable product. Participation rates have historically been around 97% with little to no effect of member cities opting out.

PCE's customer mix is relatively fragmented, with about 40% of PCE's revenues provided by residential customers and the remainder coming from large and small commercial customers. Revenues from the large commercial sector can be sensitive to economic cycles and may be exposed to incremental risk if the Direct Access (DA) program is expanded. The DA program is managed by the CPUC and allows a limited number of nonresidential consumers to choose an energy provider other than their investor-owned utility. PCE's ability to maintain a net short power position over the long run and its plan to maintain strong liquidity help to mitigate this risk. Commercial Also, PCE continues to focus on 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.

In April 2022, PCE added the City of Los Banos as a new member. The addition of Los Banos is expected to result in a modest increase to revenues for PCE over the longer-term. Gradual customer growth centered around San Mateo County is credit positive. Los Banos, CA is home to PCE's largest solar project PPA, Wright Solar.

Exhibit 3
PCE Members including newest member, City of Los Banos

Member Participants	Voting Share
City of Redwood City	12.66%
City of South San Francisco	12.63%
City of San Mateo	12.35%
City of Menlo Park	7.86%
City of Daly City	7.12%
County of San Mateo (Unincorporated)	6.30%
City of Foster City	5.51%
City of Burlingame	5.40%
City of San Carlos	4.47%
City of San Bruno	3.78%
City of Los Banos	3.64%
City of Pacifica	2.72%
City of Belmort	2.45%
City of Milbrae	2.20%
City of Brisbane	2.06%
Town of Atherton	1.82%
City of East Palo Alto	1.78%
Town of Hlisborough	1.60%
City of Half Moon Bay	1.33%
Town of Woodside	1.13%
Town of Portola Valley	0.64%
Town of Colma	0.55%

Source: Moody's Ratings

PCIA cost fluctuations and rate setting strategy remain important long-term credit factors

Though PCIA charges have decreased since the highs in FY 2021 and FY 2022, the CCA still has ongoing exposure to this potential added charge. The PCIA is determined by the CPUC and is intended to allocate costs between investor owned utilities and CCAs to fairly distribute stranded costs related to past generation investments made by PG&E on behalf of customers now served by PCE. The

PCIA is a line item on customers' bills that narrows the competitive margin between the bundled investor owned utility customer and a CCA customer that was previously an investor owned utility customer.

PCE has recently updated its rate setting policy where the CCA no longer benchmarks its rates to 5% below PG&E's rates. Instead, PCE has adopted a cost-of-service approach where rates are determined by the overall cost of delivering service throughout the authority. As a result, PCE's discount relative to PG&E will fluctuate based on PCE's cost profile. The implementation of this policy will allow for greater flexibility in more challenging situations. Management has also stated that they are extremely focused on managing costs to ensure they are able to offer competitive pricing to their customers. PCE was the last CCA rated by Moody's that benchmarked its rates to PG&E (Marin Clean Energy & Clean Power San Francisco never benchmarked; Silicon Valley Clean Energy no longer benchmarks).

PCE business model supported by California state legislation

While the business model that PCE's CCA program operates under is relatively new, it is supported by key state objectives to lower carbon emissions and to derive clean energy through renewable energy sources. A new bill approved by the state legislature sets the objective to be at 100% green-house gas by 2045. The CCA model is a key element in the advancement of the state's objective to lower carbon emissions and transition to renewable energy sources. As a result, both state and local policymakers are generally on the same page as to their support of and ultimate success of this model. Also evident is the role of general oversight on various aspects of their business by the CPUC.

A strength of the California CCA model are the statutory provisions that enables PCE to immediately become the default provider of generation services for San Mateo County customers of PG&E upon PCE's inception. In PCE's case, all twenty of the cities in San Mateo County and the county voted affirmatively to join PCE, a credit positive. Once the municipal ordinance was unanimously adopted by all member communities of PCE, all customers automatically became PCE customers until they decide to opt out. The customer can opt out in 60 days without any penalty; after 60 days, PCE can impose an administrative "exit" fee of $5 for residential customers and $25 for commercial customers. PCE operates with no local tax funds nor is required to pay taxes. From a credit standpoint, this model provides PCE with a captive and arguably sticky customer base capable of delivering reliable revenue and cash flow on a consistent basis.

We recognize the importance of the California Joint Power Agency (JPA) statute requirement (Title 1, Division 7, Chapter 5, Article 1 (Section 6500)) that PCE municipal members of the JPA must pay any of their remaining cost obligations to PCE if they decide to depart PCE and return to PG&E. The effectiveness of this statue has not been tested in court, however members have been apprised of the ultimate risk prior to entering into the PCE participation agreement. Any municipal member of PCE that chooses to depart would have to give a one-year notice, fund its remaining obligations taken out on their behalf, and receive a super-majority (67%) vote of approval from the PCE board making such a decision challenging if their departure were to adversely affect PCE.

Operating experience mitigated by liquidity and cost recovery structure

We view PCE's somewhat limited operating experience as a risk given its relatively short operating history. This risk is mitigated by its structural provisions for timely, full cost recovery through an independent rate setting authority and sound liquidity position. At fiscal year-end 2024 and 2023, PCE had 393 and 318 days of liquidity on hand, respectively.

PCE's strategy is centered exclusively around serving the electric needs of its San Mateo County and Los Banos customers. A stable customer base makes power procurement risk more manageable. PCE has an actively involved board with a broad business background, has been able to secure cost competitive renewable resources, and has demonstrated the ability to generate internal free cash flow on a sustained basis.

PCE also has a timely local rate-setting process in which its board has authority to raise rates to grow annual revenues, if needed. Rate action by the board can be taken at any time. Additionally, if electricity demand should fall short of the PCE contracted obligations, PCE can increase rates to fund the unrecovered cost. Other strategies PCE can employ include selling excess power into the CAISO day ahead market.

Power procurement poses significant risk should any imbalance of forward energy and capacity arise

The most significant challenge that PCE faces relates to its ability to manage power procurement risk, owing to uncertainties around resource production and load demand variability. A particular risk is the potential for PCE to procure more energy under long term contracts than is needed to serve its customers' load requiring PCE to sell its more expensive excess energy into the wholesale power market at lower market prices at that time. In an extreme worst case scenario where there is a sustained decline in customer load, PCE could find itself in an under collected position should contracted power prices paid by PCE under its contractual arrangements exceed wholesale market prices for a sustained period. This scenario, for example, could emerge should a substantially higher than normal number of customers "opt-out" and return to PG&E for their generation product or through sustained technological advances which permanently limit customer load growth.

PCE's substantial reduction in uncontracted load and PPA diversification lowers power procurement risks

PCE has diversified its power procurement mix over the last several years with its current PPAs covering around 65% 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 as PCE's long-term PPA's executed within the last several years benefited from low-cost long-term renewable generation resources. Prospective changes in load demand and the need for new incremental renewable resources will depend upon demand growth within its mostly built out service area or customer additions through new JPA members. The growth of the electric vehicles market and any resulting increase in energy demand remains a likely source of continual load growth over the next couple of decades.

PCE's current hedging strategy has been employed to have about a 6% unhedged load in 2025 and less than a 15% unhedged load until 2027. This allows PCE to have increased cost certainty and limits the amount of market price volatility that could potentially incur, a positive for the credit.

PCE's long-term Strategic Planning is ambitious given the objective of 100% renewable energy by 2030. PCE has a power supply portfolio with a diverse mix of contracted energy sources including renewable energy from a geographically diverse area with many different suppliers. Strategic Planning on resource procurement is locally decided by PCE's board which asserts local control on power supply decisions but does include several state mandates such as ensuring it meets a state required reserve capacity margin, greenhouse gas standards and renewable energy standards. Further, PCE is required to submit an Integrated Resource Plan (IRP) to CPUC every few years. A new IRP was submitted to the CPUC in November 2022 and includes planning requirements for 2023 to 2035 which reinforces PCE's plan to have 100% renewable energy by 2030. PCE will also target a minimum of 50% of its portfolio to be procured from new projects by 2030 and at least 50% of its portfolio to be from long-term contracts

Debt and Other Liabilities

PCE has no long-term debt. PCE can issue long-term revenue bond debt.

Legal security

PCE has 22 members to its Joint Powers Agreement representing San Mateo County and its 21 municipalities along with the City of Los Banos in Merced County. When a member joins, all electric retail customers automatically become customers unless they choose within 60 days to "opt out." Opt-out customers go back to default service and receive generation services from the investor-owned utility. PG&E is required to bill PCE charges on PCE's behalf and remit revenues to PCE. PCE receives no financial support from the municipalities or counties it serves. PCE's board of directors fully controls he rate setting process and PCE can pass through costs on a monthly basis.

Debt structure

PCE has no long-term debt.

Debt-related derivatives

None.

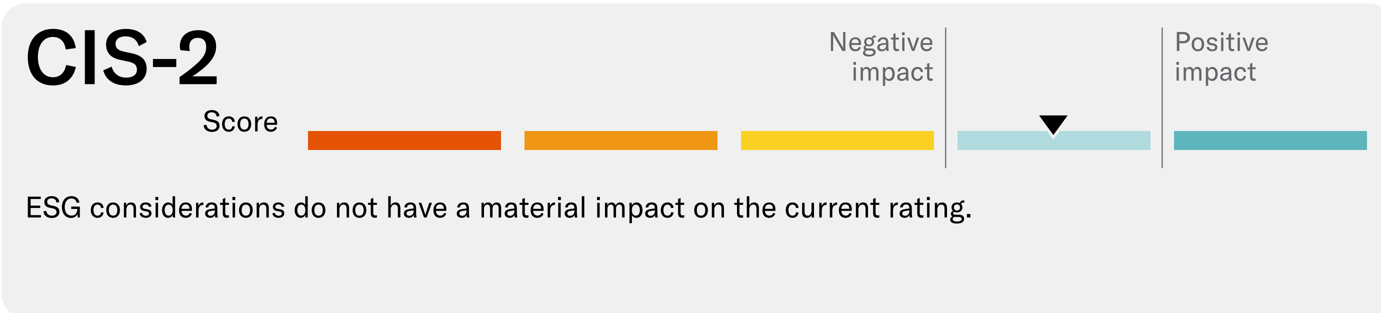
Pensions and OPEB

None.

ESG considerations

Peninsula Clean Energy Authority, CA's ESG credit impact score is CIS-2

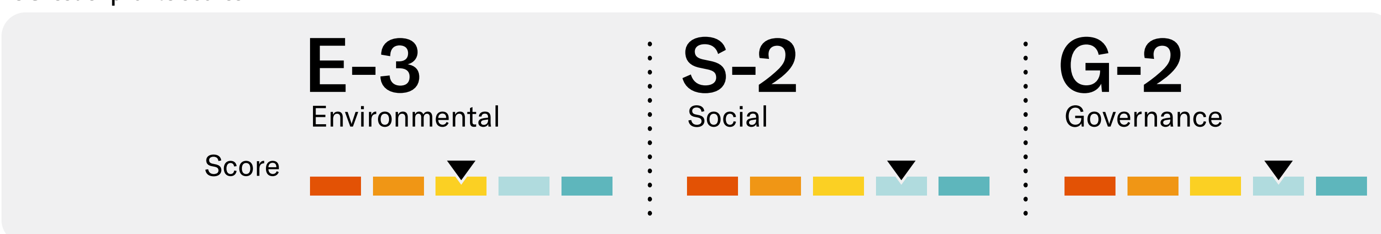
Exhibit 4
ESG credit impact score



Source: Moody's Ratings

Peninsula Clean Energy's (PCE) ESG Credit Impact Score is **CIS-2**. Its ESG attributes are considered to have a neutral-to-low impact on the current rating. PCE's **CIS-2** reflects the moderately negative environmental risk, along with its neutral-to-low social and governance risk.

Exhibit 5
ESG issuer profile scores



Source: Moody's Ratings

Environmental

PCE's exposure to environmental risk is moderately negative (**E-3**). This is largely driven by the negative exposure to physical climate risks mostly due to the potential for flooding in its service area, in addition to the CCA's exposure to potential wildfires in California. This is balanced against the issuer's neutral-to-low risk scores for carbon transition, water management, waste & pollution, and natural capital.

Social

PCE's neutral-to-low social risk (**S-2**) is reflective of the neutral-to-low risk scores for customer relations, human, demographic and societal trends, health & safety, and responsible production. PCE's strategy is centered exclusively around serving the electric needs of its San Mateo County customers. This helps to maintain a stable customer base to help keep power procurement risk manageable. Additionally, the CCA model is further supported by key state objectives to lower carbon emissions and to derive clean energy through renewable energy sources.

Governance

PCE's neutral-to-low governance risk (**G-2**) is largely in line with other CCAs and does not pose a particular risk. This is demonstrated by the neutral-to-low scores for financial strategy and risk management, management credibility and track record, organizational structure, compliance and reporting, board structure, policies and procedures. Furthermore, state and municipal policymakers are on the same page in wanting to see the CCA model succeed as demonstrated by the statutory provisions enacted by California.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

At the end of FY 2024, PCE had unrestricted cash of approximately $389 million or 393 days of cash on hand, above PCE's $253 million or 318 days of cash on hand at the end of FY 2023. However, expectations for the future estimate days cash on hand stabilizing at around 200 days cash on hand through 2029.

Rating methodology and scorecard factors

The principal methodology used in this rating is US Municipal Joint Action Agencies All-Requirements.

Exhibit 6

Rating factors

Peninsula Clean Energy Authority, CA

Factor	Subfactor/Description	Score	Metric
1. Participant Credit Quality and Cost Recovery Framework	a) Weighted Average participant credit quality. Unregulated rate setting including participants. Cost recovery structure and governance.	Aa	
2. Resource Risk Management	a) Resource Diversity. Asset quality and complexity. Resource supply contract terms and counterparty credit quality. Wholesale market purchase exposure	A	
3. Competitiveness	a) Cost competitiveness relative to regional peers	A	
4. Financial Strength and Liquidity	a) Adjusted days liquidity on hand (3-year avg) (days)	Aaa	304 days
	b) Debt ratio (3-year avg) (%)	A	100%
	c) Fixed obligation charge coverage ratio (3-year avg) (x)	Baa	1.1x
5. Willingness to Recover Costs with Sound Financial Metrics	a) Rate Setting Record. Timeliness of rate recovery. Stability and strength of financial metrics	A	
Notching Conventions		**Notch**	
	1 - Contractual Structure and Legal Environment	-1	
	2- Participant Diversity and Concentration	0	
	3 - Construction Risk	0	
	4 - Debt Service Reserve, Debt Structure and Financial Engineering	0	
	5 - Unmitigated Exposure to Wholesale Power Markets	-0.5	
Scorecard Indicated Outcome:		**A3**	

Adjusted days liquidity on hand is a three year average for FY 2022 - FY 2024.
Source: Moody's Ratings

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