

# Central Coast Community Energy, CA Assigned 'A' Issuer Credit Rating

October 16, 2020

CENTENNIAL (S&P Global Ratings) Oct. 16, 2020--S&P Global Ratings assigned its 'A' issuer credit rating (ICR) to Central Coast Community Energy (3CE), Calif. The outlook is stable.

3CE is a joint powers agency (JPA) originally formed in 2017, and expanded in 2019 and 2020, to procure retail electric commodity on behalf of about 439,000 electric customers across 33 member cities, counties, and towns throughout California's Central Coast. The incumbent investor-owned utilities (IOUs) deliver the electricity across their existing infrastructure.

While 3CE operates as a JPA with many member cities, it simultaneously provides direct retail service to all of its customers (albeit through the billing systems and physical assets of the incumbent IOU.) Given this direct retail service, S&P Global Ratings views 3CE's creditworthiness under the scope of our retail electric criteria.

"The rating reflects our opinion of 3CE's strong enterprise and financial risk profiles," said S&P Global Ratings credit analyst Doug Snider.

The strong enterprise risk profile reflects our view of the community choice aggregator's (CCA's):

- Large customer base with robust income levels;
- Solid, albeit brief, track record of customer retention;
- Protective JPA member agreements with municipalities, compared with retail customers who retain the right to depart the CCA;
- Diverse power supply and low cost of power;
- Credit-supportive policies and procedures including fundamentally robust JPA contracts, robust long-term financial forecasting, and a balanced approach to power supply management and contract procurement;
- Limited direct exposure to wildfires through California's strict liability standard and inverse condemnation due to the absence of ownership of transmission and distribution assets; and
- Core mandate to provide renewable power, which positions 3CE well for California's renewable portfolio standard.

Offsetting these factors are 3CE's direct retail competition with the IOUs, which constrains the CCA to maintain rates comparable with the incumbent IOUs. The CCA also faces power-procurement constraints, as the utility must balance its obligation to enter into long-term contracts with a potentially volatile load profile (and must balance its renewable mandates with the need for reliable baseload energy), and the risk of members exiting the CCA.

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The strong financial risk profile reflects 3CE's robust liquidity, debt-free balance sheet, and the expectation that fixed cost coverage will trend down as the utility shifts to a cost-of-service rate-setting model.

We believe the CCA's direct environmental risks are low, based on its plans to service 100% of its energy needs through long-term, fixed-price renewable purchase power agreements (PPAs) by 2030. Yet, as a practical matter, the intermittency of renewable resources might frustrate the CCA from achieving those goals in the absence of storage technology breakthroughs. The CCA faces social risk related to COVID-19, as efforts to protect the health and safety of the community may affect the utility's financial metrics if customers continue to be unable to pay utility bills in a timely fashion. We note the CCA deferred 50% of its retail generation charges in May and June 2020 to provide customers with financial relief. Plans to recoup the majority of that lost revenue over the next year will depend on the strength of the local, state, and national economic recovery. Finally, we view the utility's governance factors as generally credit-supportive, as they include robust JPA member agreements, full rate-setting autonomy, strong policies and planning, and a proactive and experienced management team. However, the potential for retail customer opt-out tempers our view of the CCA's governance factors somewhat.

The stable outlook reflects our assessment of 3CE's record of customer retention since its 2017 inception. In addition, after it builds up cash reserves, 3CE plans to further reduce rates relative to those of PG&E, which should further incentivize retail customers to remain with the CCA. The outlook further reflects the utility's robust cash reserves, providing ample cushion in the face of a potentially volatile load profile.

We could lower the rating if customers continue to struggle to make timely bill payments. While unexpected, if 3CE were to experience significant retail customer opt-out or lose one or more of its member cities or counties, it could be forced to sell surplus contracted power to the market. In the event market prices were significantly below those of 3CE's portfolio, the utility could face significant financial pressure, which, in turn, could lead us to lower the rating.

We do not expect to raise the rating in the next two years given 3CE's inherent risks posed by the direct competition for its entire retail customer base; the recessionary pressures that are having an observable effect on collections; and the utility's projections that include reducing rates after building up liquidity, which will lower fixed charge coverage metrics.

### RELATED RESEARCH

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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