

Central Coast Community Energy, California

April 25, 2025

This report does not constitute a rating action.

Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) is 'A' on Central Coast Community Energy (3CE), Calif.
- The outlook is stable.

Rationale

Security

The ICR represents our view of 3CE's capacity and willingness to meet its financial commitments as they come due and does not apply to any specific financial obligation. 3CE has no long-term debt outstanding, nor does it plan to issue any debt in the near term.

Credit overview

The ICR reflects 3CE's diverse, generally affluent customer base; robust liquidity; and overwhelmingly clean energy portfolio. Tempering these strengths are the ease with which customers can transition back to the incumbent investor-owned utilities (Pacific Gas and Electric [PG&E] and Southern California Edison [SCE]), and retail electric rates that are elevated compared with state averages but advantageous relative to those of the incumbent investor-owned utilities (IOUs). Additional risks include a power portfolio that is exposed to volatile market prices via short-term market purchases, coupled with contracted power supply counterparties that include several companies that either exhibit weak credit quality or that we do not rate.

The rating further reflects our view of the following factors:

- The diverse fuel mix consists largely of renewable and noncarbon-emitting resources, including a wide variety of purchase power agreements spread across 23 counterparties.
- 3CE has a solid track record of customer retention, which has consistently been 94% across its service territory following various rate changes and customer enrollment periods. This indicates a lower degree of customer elasticity, in our view, an especially important

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consideration given the non-captive nature of the community choice aggregator's (CCA) retail customers.

- The service territory has little exposure to industrial customers and no meaningful customer concentration, which provides revenue certainty.
- 3CE has no debt outstanding and no plans to issue debt in the near term.

Partially offsetting the above strengths, in our view, are the following factors:

- Fixed charge coverage (FCC) fell to below 1.0x in fiscal 2024. However, we note that coverage was suppressed in part due to an expense timing issue. Moreover, our calculations based on management's projections indicate FCC will stabilize at around 1.1x, a level we view as commensurate with the current rating.
- While residential customers pay rates that are below those of PG&E and SCE, we note these IOU rates are elevated (PG&E's rates were 140% of California's average retail system rate in 2023, while SCE's were 109.7%), which could weigh on rate affordability and financial flexibility.
- The short tenor of many of 3CE's power supply arrangements against the backdrop of a currently volatile energy market could pressure short-term purchases as well as future long-term contract pricing.
- 3CE's exposure to wildfires through California's strict liability standard and inverse condemnation is limited, given the absence of ownership of transmission and distribution (T&D) assets. However, we note that the CCA has indirect exposure to wildfires, and the associated costs, which affect the incumbent IOUs' T&D assets needed to serve 3CE's customers.

Environmental, social, and governance

Environmental physical risks include drought conditions that can limit hydro supply, in turn necessitating the purchase of more volatile short-term or spot market purchases. We believe 3CE faces limited environmental risks related to California's renewable portfolio standards goals; the CCA anticipates achieving a 100% renewable energy portfolio--well ahead of state-level requirements. The CCA's 2023 energy mix was composed of various biomass and biowaste, geothermal, small and large hydroelectric, solar, and wind energy purchases (together representing about one-third of energy requirements). Unspecified power procured under bilateral contracts and spot market purchases provided the balance of energy. However, as a practical matter, the intermittency of renewable resources might frustrate the CCA from achieving California's ambitious greenhouse gas emission goals in the absence of advances in long-duration storage technology. We also note 3CE could face indirect exposure to wildfires from events caused by IOU utility T&D assets.

We believe 3CE has elevated exposure to social capital factors. Its residential customers paid rates that were slightly below those of PG&E and SCE in 2024. However, we note these IOU rates are elevated (PG&E's rates were 140% of California's average retail system rate in 2023, while SCE's were 109.7%), which could weigh on financial flexibility. However, this is mitigated somewhat by above-average effective buying incomes across 3CE's territory and a low delinquency rate. We continue to monitor the strength and stability of electric utilities' revenue streams given ongoing inflationary pressures on electricity prices (which have outpaced the broader Consumer Price Index inflation rate) coupled with higher operating and debt costs due to investments in emissions reductions, load growth, and climate resilience. S&P Global Ratings

believes the administration’s imposition of tariffs could exacerbate inflation by 50-70 basis points but observes that forecasting the duration and impact of tariffs is complicated by the high degree of unpredictability around policy implementation (see ““Liberation Day” Tariff Announcements: First Take On What It Means For U.S. And Global Outlook,” published April 3, 2025, on Ratings Direct). The economy’s stressors and the associated financial pressures consumers face might make it more difficult for rate-setting bodies to harmonize the interests of utilities, their customers, and their investors, which in turn could negatively affect utilities’ financial metrics.

Finally, we view the utility's governance factors as generally credit supportive, as they include robust Joint Power Authority member agreements, full rate-setting autonomy, strong policies and planning, and a proactive and experienced management team. We note that management has undertaken a comprehensive approach to mitigating the many challenges California CCAs face. However, the potential for retail customer opt-out is beyond management's control, and tempers our view of the CCA's governance factors somewhat.

Outlook

The stable outlook reflects our expectation that 3CE’s track record of strong customer retention will continue given its proactive customer outreach and generally favorable electric rates, which in turn should support the CCA’s ability to achieve forecast financial metrics.

Downside scenario

We could lower the rating if 3CE experiences customer defections at levels that leave it with meaningful surplus energy purchase commitments whose cost must be recovered either through liquidation into competitive wholesale markets or rate increases. We could also lower the rating if the cost of future power purchase arrangements negatively affects competitiveness, if 3CE faces significant power supply counterparty nonperformance that erodes the CCA's competitive position as a result of cost passthroughs while simultaneously increasing dependence on wholesale market prices, or if financial metrics otherwise fall short of projected levels.

Upside scenario

Based on management's projections of a largely flat (although improved from 2024) financial profile, we do not anticipate raising the rating within our outlook horizon.

Central Coast Community Energy, California—key credit metrics

	--Fiscal year ended Sept. 30--		
	2024	2023	2022
Operational metrics			
Electric customer accounts	446,529	445,214	443,552
% of electric retail revenues from residential customers	40	39	36
Top 10 electric customers' revenues as % of total electric operating revenue	7	7	7
Service area median household effective buying income as % of U.S.	120	120	122

Central Coast Community Energy, California—key credit metrics

	--Fiscal year ended Sept. 30--		
	2024	2023	2022
Operational metrics			
Financial metrics			
Gross revenues (\$000s)	557,350	459,803	402,740
Total operating expenses less depreciation and amortization (\$000s)	580,411	426,122	388,188
Debt service (\$000s)	N.A.	N.A.	N.A.
Debt service coverage (x)	N.M.	N.M.	N.M.
Fixed-charge coverage (x)	0.9	1.2	1.1
Total available liquidity (\$000s)*	219,173	255,280	183,531
Days' liquidity	138	219	173
Total on-balance-sheet debt (\$000s)	N.A.	N.A.	N.A.
Debt-to-capitalization (%)	N.A.	N.A.	N.A.

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

Ratings List	
Current Ratings	
Public Power	
Central Coast Community Energy, CA Retail Electric Pledge	A/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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