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CREDIT OPINION
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Contacts

Jennifer Chang *VP-Senior Analyst* jennifer.chang@moodys.com	+1.212.553.3842
Philip Zielke *Associate Analyst 3* philip.zielke@moodys.com	212-553-0511
A. J. Sabatelle *Associate Managing Director* angelo.sabatelle@moodys.com	+1.212.553.4136

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Silicon Valley Clean Energy Authority

Update to credit analysis

Summary

Silicon Valley Clean Energy's (CA) (SVCE: Baa2, stable) credit profile recognizes its economically robust service area territory and status as a not-for-profit California Community Choice Aggregator (CCA) serving approximately 280,000 customers throughout municipalities and communities in Santa Clara County. SVCE's 13 municipal participants located in the Silicon Valley region of CA have an Aa2 weighted average credit quality, encompassing a customer base with very strong socio-economic conditions.

Despite the very strong socio-economic conditions within SVCE's service area, the service territory does include a large commercial and industrial customer base which were disproportionally impacted by the Shelter in Place (SIP) measures associated with COVID-19. Electricity demand has been returning to prior levels slightly faster than SVCE had previously anticipated, and management now expects load to return to near pre COVID-19 levels as early as FY 2022. SVCE's liquidity is expected to continue to remain adequate over the next year primarily as a result of anticipated lower PCIA rate adjustments and higher Pacific Gas & Electric Company (PG&E)[1] rates anticipated in early 2022 that will help mitigate potential prolonged impacts from COVID-19 on load and delayed customer receivables, as well as market price volatility from weather related events.

The credit quality also recognizes CA CCAs and SVCE's still limited history of operations, and the lack of tested regulations and provisions regarding municipalities' obligations towards CCAs should they choose to depart. Further, notwithstanding the economic challenges arising from the coronavirus, the CA CCA model has not gone through different economic cycles, and the model is still susceptible to further changes in the CA energy market with respect to resource adequacy requirements, Power Charge Indifference Adjustment (PCIA) and potentially Direct Access (DA) in the longer term.

This report was republished on 29 September 2021 with a corrected description of "Update to credit analysis" rather than "Credit update following Issuer Rating assignment"

Key Indicators

Exhibit 1

SVCE outperformed FY 2020 (September year-end) budget and was able to grow liquidity, but the brunt of COVID-19 associated financial impact will take place during FY 2021, with negative operating margin and some of use of cash

Stronger performance in FY 2020 and liquidity built-up help mitigate the load loss and slow economic recovery associated with COVID-19, and liquidity is expected to strengthen beyond 2021

	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E
Operating Revenue ('000)	249,948	292,473	297,044	251,846	339,123	274,590	262,453	279,543	291,790
Total Operating Expenses (excl.Depreciation and Interest) ('000)	199,927	228,949	266,821	252,383	295,967	262,050	255,748	259,466	266,457
Net Revenues ('000)	50,175	64,755	31,953	-216	43,456	13,448	7,724	21,122	26,422
Unrestricted Cash ('000)	58,963	124,048	164,425	158,400	194,885	202,734	205,102	220,526	241,005
Adjusted Days Liquidity on Hand (incl. Bank Lines) (days)	109	198	225	229	240	282	293	310	330

2021E-2026E per management's budget and forecast
Source: Moody's Investors Service, Silicon Valley Clean Energy Forecast

Credit strengths

» Statutory business model; sound operational and financial performance statewide for CCAs indicating the business model is working as intended

» Statutory provision requiring a departing member to fund its obligations, although untested.

» Historically low opt-out rates indicating customer acceptance of the business model, although small uptick has been realized since June 2020 during the coronavirus pandemic.

» Although subject to revision, pursuant to Senate Bill 237 and Public Utilities Code Section 365.1, on May 7, 2021 the CPUC formally recommended against further Direct Access expansion, mitigating near-term concern for increased commercial customer opt-out rates and resulting load demand decline for SVCE

» Participant's credit quality is Aa2

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

Credit challenges

» Sizable energy purchase commitments with surplus energy remarketing risk should customers depart and should surplus energy be at a higher cost than Cal ISO energy market

» Ongoing PCIA risk

» Still limited operating history with only 4 ½ years of operations

» Large commercial and industrial customer base remains susceptible to DA competition in the event that the CPUC revises their recommendation on DA

» Potential for regulatory changes and legislative actions that might impact future SVCE business model and operations

» COVID-19's economic impact on SVCE customer base has driven a notable increase in arrearage and percent of accounts receivable due over 120 days, and a small uptick in opt-out rates

Rating outlook

The stable outlook reflects expectations that SVCE will maintain an adequate liquidity position through fiscal 2022 despite continued moratorium on service disconnects and increase in average receivable days, while also maintaining discounted rates relative to PG&E.

Furthermore, the stable outlook incorporates our expectation that SVCE's economic service territory will remain strong and supportive of a clean energy value proposition offered by SVCE through the CCA model for customers in Santa Clara County.

Factors that could lead to an upgrade

» Significant strengthening of liquidity position through continued trend of sound financial operations

» Demonstrated resiliency and flexibility in response to market changes or economic weakness

» Narrowing or de-risking of power related remarketing risk

» Broader statutory acceptance of the CCA business model

» Successful in establishing longer term commercial contracts under developing customer retention program

» More favorable future treatment concerning the PCIA allocation that results in less pricing volatility or adequate cost allocation

Factors that could lead to a downgrade

» Significant and permanent load loss, impacting SVCE's ability to remain competitive and negatively impacting ability to maintain or increase current liquidity level going forward

» Reluctance or lack of willingness to raise rates such that liquidity profile weakens below 180 Days Cash on Hand (DCOH)

» Erosion of cost competitiveness relative to PG&E's generation rates

» Changes to state policies that weaken CCA's competitive position

» Inability to manage power procurement market risk such that cost volatility, financial losses or customer under-collections and an increase in opt-out rates occur

Profile

Headquartered in Sunnyvale, CA, Silicon Valley Clean Energy Authority (SVCE) is a California Joint Powers Authority (JPA) formed in March 2016 and created to provide all customers with carbon-free electricity within Santa Clara County. 12 cities and unincorporated Santa Clara County unanimously executed the joint powers agreement to participate in clean energy aggregation. SVCE provides electric service to approximately 280,000 retail customers as a CCA under the CPUC Code Section 366.2. SVCE has the rights and powers to set rates for the electricity it furnishes, incur indebtedness, and issue bonds or other obligations.

SVCE is governed by a board of directors consisting of elected representatives from each jurisdiction. SVCE has a local rate-setting process in which its board has authority to raise rates to grow annual revenues and reserves, if needed.

Detailed credit considerations

Fiscal 2020 financial performance shows liquidity improvement despite some increase in power procurement costs and partial-year COVID-19 related impact

FY 2020 financial performance was similar to management's original budget and slightly better than Moody's expectations, at a 1.6% revenue growth to $295.5 million relative to FY 2019 and an operating margin of around $30.2 million. Not included in operating revenues is an additional $6.6 million of liquidated damages from the PPA with the Slate solar-plus-storage project which was anticipated to come online in June 2021. Project completion has been postponed to November 2021 due to COVID-19, leading to CAISO interconnection and PG&E network upgrade delays, affecting permitting and construction.

Despite the decline in load of around 3.4% in FY 2020 relative to FY 2019, SVCE was able to increase its cash position to $164.4 million or 225 days cash relative to $119 million in fiscal 2019. A 21% PCIA rate increase implemented in May 2020 led to SVCE's decision to lower its discount to PG&E to 4% from 6%, positively impacting revenues and margin throughout most of fiscal 2020. In August 2019 PG&E's rates increased 3.78% along with a 7.04% PCIA rate increase resulting in a cumulative SVCE customer rate impact of 1.43% during FY 2020.

While SVCE had anticipated an increase in power supply costs in FY 2020, actual power supply costs outpaced budgeted expenses by 5.2%, driven largely by the aforementioned delay of the Slate solar-plus-storage PPA which resulted in unbudgeted market purchases to compensate for the lost capacity, as well as some unhedged exposure to high spot market prices during the summer and procurement of resource adequacy products to meet calendar year 2021 compliance. Once online, the PPA will supply SVCE with 46.5 MW of storage and 92 MW of solar generation while also providing PCC1 RECs and resource adequacy.

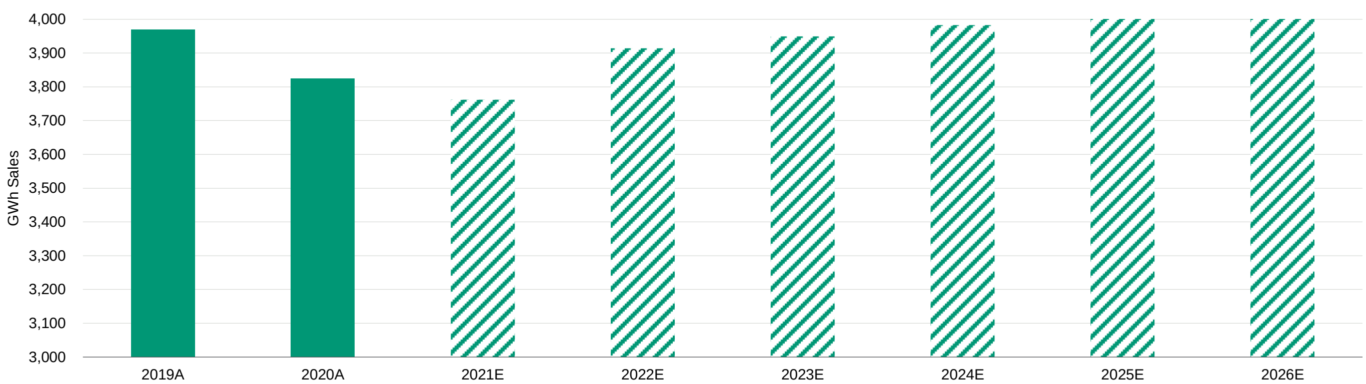
Demand load in recovery towards pre-pandemic levels, but slight uptick in opt-out rates since onset of pandemic

Given the pandemic related load demand decline and the timing of SVCE's September fiscal year end, SVCE will realize more notable energy sales decline related to COVID-19 in fiscal 2021 relative to fiscal 2020. Also, in addition to a higher level of aging receivables (see below), opt-out rates have also trended upward through the pandemic, both credit negative.

At the height of the pandemic, load demand decline affected the commercial customer class the most with load falling as much as 15% to 25% for large and small commercial customers respectively. Residential load, on the other hand, increased as much as 10% due to various shelter-in-place mandates. Recently, commercial load has begun to return as large and small commercial are only down 1% compared to pre-pandemic levels while residential load is up 2%. Following 2021, SVCE has budgeted for a gradual return of load demand to near pre-COVID-19 levels in FY 2022 and FY 2023 before exceeding FY 2019 levels in FY 2024 (Exhibit 2). The forecast does not consider weather related impact, and is based on an average load year. Opt out rates increased slightly to around 4.25% on average since the beginning of the pandemic, relative to the <4.0% pre-pandemic.

Exhibit 2

SVCE load demand is now expected to return to near pre-pandemic levels quicker than initially anticipated before growing to exceed FY 2019 levels in FY 2024



Source: Moody's Investors Service, SVCE Forecast

Fiscal 2021 and five year forecast show some resiliency to impacts from COVID-19, aided by a small rate increase to maintain liquidity

Management's mid-year adjusted fiscal 2021 budget contemplates an approximate 1.6% decline in load demand relative to FY 2020, driving a 17.7% reduction in net energy sales which will be partially offset by a 6.5% decline in related power procurement costs. The mid-year adjusted budget indicates that SVCE will need to dip into their existing reserve balances for around $6 million to compensate for the lower sales revenues.

Year to date financial performance through July 2021 show retail sales approximately 4% below budget and a resulting negative net position of $16.2 million. As a result, management anticipates a negative operating margin for the year of around $530 thousand, and a decline in liquidity to around $158.4 million relative to $164.4 million in FY 2020. As of July 31, 2021 cash was $151 million. Despite the decline in liquidity, the estimated amount exceeds Moody's forecast of FY 2021 liquidity of around $144 million.

Positively, July 30th year-to-date retail sales of 3,110 GWh slightly outpaced the mid-year adjusted budget. The decline in revenues anticipated in FY 2021 of $250 million relative to $295 million in FY 2020 is largely rate based. In May 2020, SVCE opted to lower their generation rates by approximately 8% despite a 21% PCIA rate increase in order to maintain a 4% discount to PG&E rates. Furthermore, in January 2021, in response to an approximate 40% additional PCIA rate increase and 4% PG&E generation rate increase, SVCE opted to reduce their customer rate discount compared to PG&E to 1% from 4% to mitigate the effects of the unfavorable margin impact.

Using CalCCA's NewGen Model and SVCE's updated market prices, SVCE budgets that in January 2022 the PCIA rate will decrease by 47%, while PG&E's rates are expected to increase by 9.5% (per PG&E's ERRA filing submitted in June 2021), which should have a positive financial impact on SVCE. The 47% PCIA rate decrease from 4.59 cents/kWh to 2.43 cents/kWh is due to a prior year overcollection (during FY 2020), stemming primarily from higher average market prices for the year relative to PG&E's legacy contract prices. Although definite PG&E rates will not be finalized until December 2021, should these anticipated rate changes occur and management adheres to their budgeted 1% discount to PG&E rates, SVCE's revenues are expected to increase by approximately 50% or $87 million higher in FY 2022 relative to FY 2021.

In accordance with the notable budgeted fiscal 2022 revenue increase, SVCE anticipates an approximate 16% increase in energy supply costs from budgeted fiscal 2021, as a result of several factors including forecast higher costs associated with serving the unhedged portion of SVCE's load (~20%) and increased resource adequacy and grid reliability charges. Additionally, COVID-19 driven delays in operational start dates for renewable PPAs have resulted in SVCE needing to replace the energy, resource adequacy and RECs at higher costs in the market, further increasing the budgeted power supply costs. However, following FY 2022, energy supply costs are budgeted to decline in 2023 and 2024, as additional energy contracts are signed and delayed PPAs begin to come online. Despite the budgeted expense increase, SVCE estimates days cash on hand of approximately 240 days in fiscal 2022, an increase of 11 days from the budgeted fiscal 2021 level.

Throughout the remaining forecast period from 2023-2026, SVCE expects to continue growing its liquidity measured by days cash on hand and remain above internal targets of at least 50% of prior year's operating expenses. However, in the event that declines in PCIA rates and/or the anticipated increases in PG&E's rates do not occur as expected, SVCE's financial flexibility, in particular its ability to continue to grow its liquidity position, would be negatively impacted. This uncertainty surrounding future PCIA and PG&E rates continues to weigh on SVCE's five-year forecast, although it is somewhat mitigated by a built-in cushion for future PCIA and PG&E rate adjustments starting in FY 2023. SVCE conservatively budgets an annual built-in cushion over the FY 2023-2026 period well above the PCIA adjustments during FY 2018-2021, to not only protect against potentially unfavorable rate changes but also other sources of cost variability such as higher power and RA prices, as well as weather volatility that could negatively impact margin.

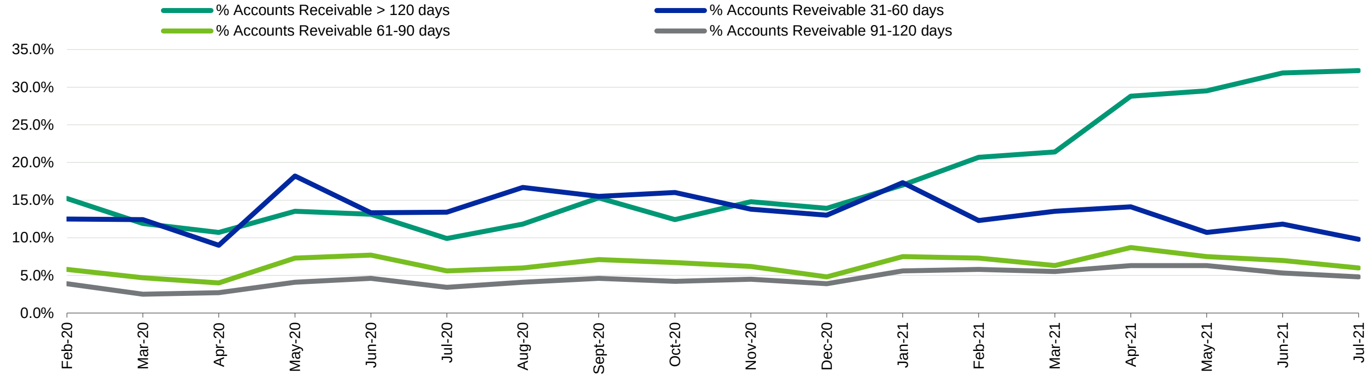
SVCE estimates increasing its cash position by over $80 million over the 2022-2026 period, while maintaining DCOH of over 240 days through fiscal 2024 and then growing to above 300 days in fiscal 2025. In a Moody's sensitized case, where net energy revenues are 3% below management expectations in fiscal 2022-2026, cumulative cash generated is around $32.7 million over the same period, with DCOH of at least 219 days through fiscal 2026, and reserve levels within the targeted range of fiscal 2022 before exceeding it in subsequent periods.

Increasing trend of accounts receivable due over 120 days is credit negative but is mitigated by SVCE's strong liquidity position

Since March 2020 at the onset of the pandemic, accounts receivable in the greater than 120-day bucket have continued to increase as a percentage of total amount owed (Exhibit 3). As of July 2021, outstanding customer debts were comprised of roughly 60% and 40% residential and commercial amounts respectively.

Exhibit 3

Percentage of accounts receivable balance that is due over 120 days continues to increase although management notes the total receivables balance has begun to decline since January 2021



Source: Silicon Valley Clean Energy Authority

However, SVCE notes that since January 2021 the total amount owed has declined. This decline in receivables has been largely realized in the period buckets of less than 120 days, denoting customers becoming more current with their outstanding balances. The receivables in the greater than 120 days however has remained fairly stable and at this point management estimates that bad debt expense write offs could reach as much as $3.2 million in fiscal 2021 in a high stress case, which SVCE could easily absorb.

There are state-wide programs designed to provide customer relief in these situations, such as the Arrearage Management Plan (AMP) and the California Arrearage Payment Plan (CAPP), with resulting payments being pro-rated between IOUs and CCAs. CAPP is only available for customers with active accounts overdue whereas amounts previously written off remain uneligible. SVCE, among other CCAs, are actively negotiating to change this. While these programs should provide some relief for SVCE, management does not intend to implement a separate payment plan beyond AMP and CAPP.

SVCE anticipates that the percentage of write-offs will grow from pre-pandemic levels of around 0.25% to between 0.75% and 1.0% in fiscal 2021. In November 2021, SVCE plans to reinstate its policy of returning customers accumulating delinquent accounts receivables to PG&E's service, something that was suspended in March 2020 as a result of the pandemic. While this will result in customers ultimately returning to PG&E as soon as February 2022, delinquent receivables associated with these accounts will be collected on behalf of SVCE by PG&E while the balance remains active.

California Public Utility Commission's recommendation against further expansion of Direct Access at this time is credit positive for SVCE

SVCE’s top 10 customers account for about 16.4% of total load, representing some concentration risk however, no single customer has concentration of more than 4% of total load. A significant portion of SVCE’s load comes from commercial and industrial (C&I) customers, at 48% and 17% respectively, comprising approximately 65% of the total load and revenue and increasing Direct Access risk to SVCE. This C&I level of exposure is somewhat elevated relative to other rated CCAs in CA and we note that a large portion of the commercial load is from technology savvy customers, some of which have their own energy procurement departments and already have a portion of their load procured under Direct Access.

In 2018, California lawmakers passed Senate Bill 237 which mandated that the commission increase the DA cap from 24,000 GWh per year by 4,000 GWh. The Bill also required the CPUC to provide recommendations on potential further DA reopening for all commercial and industrial customers. The recommendations were to be based on several criteria largely contingent on the continued compliance with California's environmental goals and reliability concerns.

In September 2020, the CPUC asserted that the DA program be reopened only if electricity service providers would be able to comply with California's resource planning, renewables and reliability obligations. Furthermore, they also suggested that, if DA were to be further expanded, it should be done in a gradual manner at approximately 10% increments of load per year.

Positively for SVCE, in May 2021, the CPUC adopted a recommendation against the further expansion of Direct Access as a result of uncertainty surrounding grid reliability following the rotating outages realized in Summer of 2020 and an inability to ensure DA expansion would not result in increased greenhouse gas emissions. The recommendation was submitted to the State Legislature by statute and, assuming no legislative action is taken, any commercial load departing for Direct Access would need to be allocated DA capacity through the annual lottery process of which SVCE understands there to be little to no available capacity. While SVCE remains particularly exposed to DA departure risk given their large share of commercial and industrial customers, the CPUC's recommendation at least temporarily protects SVCE from increasing DA related opt-out rates and resulting load loss.

The recommendation from the CPUC was appealed by direct access providers. However, the timeline for the CPUC to act on the appeal is uncertain. SVCE remains proactive in evaluating several approaches to address the DA threat such as implementing products in order to retain commercial customers, with favorable rates, as well as maintaining a net short position over the long run which would allow for load loss without incurring material stranded power procurement costs.

Revenue Generating Base - Underlying Service Territory in Santa Clara County

A core consideration in SVCE's credit profile is the economic strength of the underlying service territory and the size of its customer base encompassing 12 of 15 cities in Santa Clara County and unincorporated Santa Clara County. SVCE’s 13 municipal participants located in the Silicon Valley region of CA include a customer base with very strong socio-economic conditions even after COVID-19. Moody's estimates the weighted average credit quality for the participating cities is Aa2, including the unincorporated areas of Santa Clara County.

Exhibit 4

SVCE Service Area encompasses a customer base with strong socio-economic conditions

Source: Moody’s Investors Service

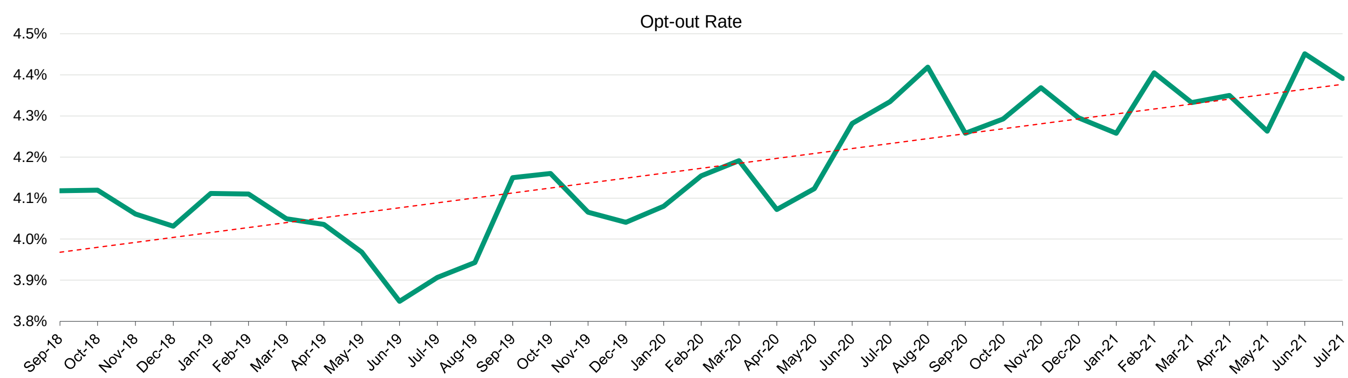
Santa Clara County’s economic strength is underpinned by consistent population and commercial growth, a low unemployment rate, and a high median household income. The county’s median household income is about 163% higher than California and 182% higher than the nation. As of most recent 2021 United States census data, Santa Clara county’s population of roughly 1.92 million citizens had a median family income of an estimated $140,651. The service area experienced some challenges as a result of COVID-19 with unemployment rates climbing as high as 10.7% in June 2020, however, as of June 2021 this has fallen to 5.1%, below the state and national average of 8% and 6.1% respectively. A significant portion of commercial customers are concentrated in the technology industry, which has been the driving force behind Silicon Valley. SVCE's customer base also includes a minimal number of public and agricultural customers.

While SVCE's overall participation rate has historically remained relatively static, opt-out rates have experienced an increasing trend since June 2019. This is evidenced by a July 2021 participation rate of around 95.7%, an approximate 0.5% increase from the 96.2% realized in June 2019. Furthermore, since March 2020, opt-out rates have increased. While SVCE does receive opt-out rationale from customers at the time of departure, management notes varying reasons which do not appear to follow a discernable pattern.

Most of the load served by SVCE is from the commercial and industrial sector. Although subject to uncertainty, SVCE estimates that large, nationwide retail chains are the most likely customers to remain on the waitlist for DA. Given the recent awarding of DA to Olam West Coast, it is plausible that opt-out rates could continue to increase, resulting in more pronounced commercial load demand for not just SVCE, but all CCAs as commercial customers have historically proven to be the most price sensitive. However, the recent CPUC recommendation against the further expansion of DA benefits SVCE. Moving forward, if DA is opened further, maintaining at least the same rate as PG&E combined with the CCA commitment to supply carbon-free energy will be key to reversing recent opt-out trends.

Exhibit 5

SVCE opt-out rates have realized a marginal increase in 2021 but should remain in the current range in the near-term owing to the CPUC's recommendation to halt additional DA departure



Source: Silicon Valley Clean Energy Authority

CCA Statutory Framework is supportive of credit quality, but remains untested

The legislation enabling CCAs in CA has an opt-out provision, meaning all customers automatically become customers of the CCA unless they choose to opt-out in order to remain with their current investor-owned utility (IOU) provider. This model provides SVCE with a captive and arguably sticky customer base allowing for reliable revenues and cash flows on a consistent basis, which is helpful for energy procurement planning purposes.

Further, the Joint Powers Agency (JPA) agreement between the municipal members and SVCE require that any departing member must pay any of its remaining cost obligations (i.e. energy procurement costs) prior to returning to the investor-owned utility. While this provision has not been tested in the courts, participating members have been apprised of the ultimate risk prior to each of them obtaining their respective approvals to enter into the SVCE participation agreement and join the CCA. Any municipal member of SVCE that chooses to depart would have to give 180 days' notice and fund its remaining obligations. The 180-day notice may be waived by two-thirds of the board subject to the member funding its required obligations. Although the requirement to fund its obligations prior to departure is viewed positively, the municipal participant is not responsible for these obligations until it voluntarily chooses to terminate the JPA agreement, similar to other CCAs. An involuntary termination may occur, subject to two-thirds of board approval, in the event a member exhibits material non-compliance with the provisions under the JPA agreement. However, it is uncertain that a large number of non-paying or opting-out customers within a particular municipality, would constitute a member's material non-compliance under the JPA agreement.

Under the California CCA structure, electricity is procured by SVCE and delivered through PG&E's existing infrastructure with the utility continuing to provide transmission, distribution, billing and related collection services to SVCE customers. Once a city ordinance is adopted for a city to join a CCA such as SVCE, all customers in the city automatically become CCA customers unless the customer elects to "opt-out" and return to PG&E in this case. A customer can "opt-out" without penalty in the first 60 days but have to pay a cost recovery charge of $5 for residential and $25 for commercial customers if they opt-out after the 60-day period expires. While SVCE has not yet implemented a charge to departing customers, likely due to the low "opt-out" rates and its continued customer growth, CCAs are legally allowed to collect this fee. Despite having the opt-out provision, retention rates have remained high for rated California CCAs. SVCE has experienced low opt-out rates from its customer base since its January 2017 inception of around 3.7% average annual rates. These opt-out rates have increased slightly to around 4.3% in July 2021 but will should remain in that range in at least the near term owing to the CPUC's recent recommendation against further DA expansion.

PCIA rates for CCAs can limit financial flexibility, liquidity and ability to maintain rate competitiveness

SVCE's forecast for FY 2022 includes stronger net energy sales relative to fiscal 2019, 2020 and 2021 owing primarily to substantially improved margins resulting from the aforementioned presumed 9.5% PG&E generation rate increase and a 47% PCIA rate decrease. SVCE estimates that this could result in an approximate 50% margin improvement in calendar year 2022. In May 2020, the PCIA rate underwent a 21% increase relative to previous rates, and an additional 40% increase was put in place in January 2021.

Specifically, as background, in October 2018, the CPUC adopted a new methodology to calculate the PCIA, which included a year-over-year cap on the rate increase of 0.5 cent per kWh (~20% of current rate), as well as a true-up mechanism between forecasted and actual market prices, while also permitting the inclusion of legacy generation on the part of the investor owned utilities (IOUs), and also removing a 10-year limit on cost recovery for post-2002 generation contracts, which all together increased the PCIA. In addition, PG&E under-collected PCIA balances in 2019, mostly because the new methodology was implemented in July of 2019 rather than January 1, and also because actual market power prices during the year were lower than originally forecasted. This also led to the previously referenced 2020 PCIA rate increase.

While SVCE does not expect to utilize liquidity reserves from fiscal 2022 through fiscal 2026 in their base case, we note that should net energy revenues decrease even by 3%, SVCE's net operating margin could become negative in fiscal 2023 and 2024 and would likely need to dip into liquidity reserves, in order to maintain rate competitiveness for its customers and diminish the risk of opt-out due to a sudden, but temporary bump in PCIA rates. We note however that there is a built-in $55 million cushion for these years to account for uncertainties and maintain positive operating margins. We view the future need to possibly dip into existing internal liquidity as credit negative and reflective of the reliance on large commercial and industrial customers. We balance these factors against SVCE's current liquidity position as well as our view that the change in the PCIA rate is a short-to-medium term development that may reverse itself in subsequent hearings or may be addressed through legislative actions or through proceedings at the CPUC.

Power procurement risk management, load stability and rate competitiveness

Managing power procurement risk remains the primary challenge for CCAs, including SVCE, particularly given the intermittent nature of the product offering. This risk was evidenced in FY 2020 and during 2021 given COVID-19's notable impact on load demand, requiring CCAs and other energy providers to adjust to load changing quickly and unexpectedly.

SVCE is responsible for the full energy requirement to serve its customers with a major component required to be renewable energy. SVCE has a mix of short-term and long-term power procurement agreements, with a risk policy in place to prohibit locking in 100% of power past one year. As of fiscal year end 2020, SVCE reported financial obligations of $1.492 billion through 2043 related to their contracted PPAs. A large spike is expected in fiscal 2022 as budgeted power supply costs are approximately 8.8% and 16.3% higher when compared to fiscal 2020 and budgeted 2021 power supply costs respectively. This is driven by higher market prices and resulting higher costs associated with serving the unhedged portion of SVCE's load (~20%) and increased resource adequacy and grid reliability charges. After the fiscal 2022 peak, SVCE expects its energy supply costs to decrease in fiscal 2023 and remain relatively stable through fiscal 2026 as other PPAs start to deliver.

In September 2021, SVCE and East Bay Community Energy (EBCE) jointly entered into a 30-year prepay transaction. The bond proceeds from the transaction support approximately 109 MW of energy volume of which SVCE will be allocated 50 MW with the remainder going to EBCE. Through the transaction, SVCE was able to achieve a discount of $4.38 per MWh for energy volumes assigned through the prepay structure resulting in annual savings to SVCE of approximately $1.9 million throughout the initial bond pricing period of about 10 years. The assignment of energy into the prepay structure does not create any additional obligations or responsibilities between SVCE and the energy supplier. All contractual terms of the energy supply agreement remain enforceable for both parties with only the payment for the assigned quantities getting settled through the prepay structure.

CCAs in general run the risk of procuring more energy under long term contracts than is needed to serve their customers' load, in the event of sudden load loss, or market changes which negatively impact customer retention. Although SVCE may be able to recuperate a portion of those costs by selling the energy into the wholesale power market, possibly at a loss, it would require some liquidity to potentially absorb those losses in the short term, or pass the costs on to customers which would impact its rate competitiveness. In an extreme worst-case scenario where there is a sudden decline in customer load, SVCE could find itself in an under collected position should contracted power prices paid by SVCE under these long-term arrangements exceed wholesale market prices for a sustained period. In the events of something akin to another coronavirus' impact, 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.

SVCE has adopted an extensive hedging strategy with 19 board approved counterparties under the Edison Electric Institute (EEI) Master Agreement. The strategy is centered on a load to resource target base (LRB%) of 100% of monthly demand for fiscal 2021 and 2022 before falling to 75% in fiscal 2023. As of July 2021, the current LRB% is 99%, 79% and 66% for the remainder of 2021, FY 2022 and FY 2023 respectively.

LIQUIDITY

As of its September 30, 2020 fiscal year end, SVCE had approximately $164 million in unrestricted cash, an increase of over $40 million from fiscal 2019 owing to steady monthly internal cash flow generation. Management anticipates ending FY 2021 with around $160 million or approximately 229 days cash on hand.

Management's latest forecast indicates days cash on hand from FY 2023-2026 to grow to an average of 304 days. Per Moody's case, which assumes a 3% cut to net energy sales, days cash on hand would remain around 245 days, which is just above SVCE's new target reserves of 180-230 days but below the maximum reserve level of 270-320 days.

An additional source of liquidity for SVCE is its $35 million line of credit (LOC) with River City Bank (RCB). The $35 million bank LOC remains undrawn upon but expires in October 2021. Given its current liquidity position, SVCE will not renew the LOC upon expiration.

DEBT STRUCTURE

SVCE does not have outstanding debt.

DEBT-RELATED DERIVATIVES

Not applicable.

PENSIONS AND OPEB

Not applicable.

ESG considerations

Environmental

SVCE operates in California, a state with aggressive RPS goals. SVCE is strictly focused on clean and renewable energy sources.

Social

SVCE, as is typical of most CCAs, has active participation and relations with customers. Customer participation is integral to the CCA business model, as is defined in the essence of this type of entity – community choice.

As mentioned above, SVCE's commercial customer base had been impacted by COVID-19, and SIP orders. During the pandemic's peak, this resulted in an overall estimated decline in load for the year of approximately 15% to 25% for large and small commercial respectively.

SVCE has experienced some increase in accounts receivable balances since the start of the pandemic, but this is partially mitigated through their stable and improving liquidity position, as well as state programs that benefit impacted customers.

Governance

Headquartered in Sunnyvale, CA, Silicon Valley Clean Energy Authority (SVCE) is a California Joint Powers Authority (JPA) formed in March 2016 and created to provide all customers with carbon-free electricity within Santa Clara County. 12 cities and the unincorporated Santa Clara County unanimously executed the joint powers agreement to participate in clean energy aggregation. SVCE maintains the rights and powers to set rates for the electricity it furnishes, incur indebtedness, and issue bonds or other obligations.

Importantly, SVCE is actively involved in policy and legislation impacting CCAs.

Exhibit 6

SVCE's share allocation by voting share

Member Participants	Voting Share
Sunnyvale	29.1%
Milpitas (ICR)	15.0%
Mountain View (ICR)	13.6%
Santa Clara County (Unincorporated)	8.8%
Gilroy (ICR)	6.6%
Cupertino (ICR)	5.3%
Morgan Hill (ICR)	5.1%
Campbell	4.7%
Los Gatos	4.5%
Los Altos	3.1%
Saratoga	2.8%
Los Altos Hills	1.0%
Monte Sereno	0.4%

Source: Moody's Investors Service

Rating methodology and scorecard factors

The principal methodology used in this rating was US Municipal Joint Action Agencies published in August 2020. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The scorecard used in this rating was the US Municipal Joint Action Agencies Scorecard for All-Requirements Agencies. A detailed scorecard for this rating is provided below.

Exhibit 7

Silicon Valley Clean Energy scorecard

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.	Aa2	
2. Resource Risk Management	a) Resource Diversity. Asset quality and complexity. Resource supply contract terms and counterparty credit quality. Wholesale market purchase exposure	Baa	
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)	Aa	211 days
	b) Adjusted Debt ratio (3-year avg) (%)	A	100%
	c) Fixed obligation charge coverage ratio (3-year avg) (x)	Ba	1.0x
5. Willingness to Recover Costs with Sound Financial Metrics	a) Rate Setting Record. Timeliness of rate recovery. Stability and strength of financial metrics	Baa	
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	-1	
Scorecard Indicated Outcome:		**Baa2**	

Scorecard represents 3-year average including fiscal 2019, fiscal 2020 and estimated fiscal 2021

Source: Moody's Investors Service

Endnotes

1 Wholly-owned subsidiary of PG&E Corporation (Ba2 stable)

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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