



**Rating Action: Moody's upgrades Silicon Valley Clean Energy Authority's (CA) issuer rating to Baa1 from Baa2, outlook stable**

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New York, July 26, 2023 -- Moody's Investors Service has upgraded Silicon Valley Clean Energy Authority's (CA) (SVCE) issuer rating to Baa1 from Baa2. The outlook is stable.

#### RATINGS RATIONALE

The upgrade reflects our view that SVCE's credit profile is supported by its strong service territory; a maturing business profile with a strengthening liquidity position; as well as a diversified power procurement mix with a conservative hedging strategy that has significant load hedged multiple years in advance. SVCE has also shown strong resiliency as it demonstrated effective management through a volatile power market and pandemic shock over the last several years.

SVCE's rating is supported by the economic strength of its service territory that serves over 288,000 customers throughout Santa Clara County, California. Its service territory encompasses an affluent area with median family income of nearly \$160,000 and a population of roughly 1 million, exclusive of the city of San Jose, which SVCE does not serve. The rating also takes into account SVCE's established provisions for timely, full cost recovery through its autonomous rate setting authority. SVCE generally sets its rates to remain competitive with Pacific Gas & Electric Company, with discount levels ranging from 1-9%. The rating also incorporates the strengths of the California CCA model which provide SVCE with a captive, sticky customer base capable of delivering reliable revenue and cash flow on a consistent basis despite variations in cost. Its customer opt-out rates are consistently low, between 3-4%.

Strong liquidity is a key factor supporting SVCE's credit rating. Moody's calculates that SVCE ended fiscal 2022 with 193 days cash on hand and expects liquidity to improve further in 2023, moving above 230 days cash on hand by its September 30 fiscal year-end. Material reductions to the power cost indifference adjustment (PCIA) are a key driver behind SVCE's strengthening net position and liquidity profile, as high energy costs in California reduce the PCIA, benefiting SVCE. The CCA has also adopted a more stringent reserve policy, with a higher reserve target of 285 days cash on hand relative to 230 days previously, a credit positive.

SVCE has also established an effective strategy for managing resources by substantially expanding its mix of Power Purchase Agreements (PPAs) since the initial rating assignment. These PPAs secure a mix of clean generation resources, including geothermal, solar plus storage, wind and standalone storage assets over a long term, generally for 15 to 20 years. In addition, through its participation in the California Community Choice Financing Authority (CCCFA), SVCE has also entered into two thirty year electricity prepay transactions that allow it to purchase electricity at a discount in a non-recourse transaction with a highly rated financial counterparty for an annual savings of \$6.5 million.

In 2022, SVCE signed an agreement with Google to provide its offices in Mountain View and Sunnyvale with time-matched 24/7 carbon-free electricity for ten years, including taking on additional load that was previously served by Direct Access. There is the potential for SVCE to further increase its load growth by converting other Direct Access load, a credit positive. SVCE has a larger concentration of commercial and industrial customers relative to other CCAs that we rate as well as multiple commercial customers sourcing energy through California's Direct Access program.

The rating is constrained by the newness of the CCA business model, the exposure to wholesale energy markets and the inherent volatility of California's power markets.

## RATING OUTLOOK

The stable outlook reflects our expectation that SVCE can maintain a strong liquidity position while also maintaining low opt-out rates. The stable outlook also incorporates our view that SVCE's economic service territory will remain strong and supportive of the clean energy value proposition the CCA offers.

## FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Maintenance of strong liquidity position through sound financial management with days cash on hand in excess of 300 days
- 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

## FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- 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 150 days cash on hand
- 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, with 12 cities and unincorporated Santa Clara County participating. SVCE provides electric service to more than 288,000 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.

## 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.

## REGULATORY DISCLOSURES

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