Research Update:

Silicon Valley Clean Energy Authority, CA ICR Outlook Revised To Positive On Improved Cash Flow And Robust Liquidity

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Primary Contact

Scott W Sagen
Austin
1-212-438-0272
scott.sagen
@spglobal.com

Secondary Contact

Doug Snider
Englewood
1-303-721-4709
doug.snider
@spglobal.com

Overview

- S&P Global Ratings revised its outlook to positive from stable and affirmed its 'A' issuer credit rating (ICR) on Silicon Valley Clean Energy Authority (SVCE), Calif.
- The positive outlook is based on our view of the utility's improved cash flow and robust liquidity position over the past two fiscal years driven by declines in purchased power costs.

Rationale

Security

The ICR reflects our view of SVCE's overall creditworthiness and capacity and willingness to meet the utility's financial commitments in full as they come due. It does not apply to any specific financial obligation, as it does not consider the nature and provisions of those obligations, their standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligations. SVCE has no revenue debt outstanding, and debt service requirements reflect $1.1 million in lease payment obligations at the end of fiscal 2025.

Although SVCE operates as a joint powers authority (JPA) serving 13 member communities, it simultaneously provides direct retail service to all of its customers (albeit through the billing systems and physical assets of the incumbent investor-owned utility [IOU]). Given this direct retail service, we view SVCE's creditworthiness under the scope of our retail electric criteria.

Credit highlights

The rating reflects SVCE's diverse and generally affluent customer base, overwhelmingly carbon-free energy portfolio, and improved liquidity position equal to $593 million, or 19 months of liquidity, at the end of fiscal 2025, which provides a financial cushion to mitigate volatile power supply costs and exposure to the spot market. In our view, these characteristics provide the community choice aggregator (CCA) with financial flexibility. We expect fixed-charge coverage (FCC) metrics will fluctuate based on cost variability and potential draws on liquidity to maintain rate competitiveness.

The rating also reflects the following credit strengths:

- A deep and steadily growing customer base across 13 members towns, and its low customer opt-out rate, with overall participation rates at 96.3% in 2025;
- Healthy FCC metrics averaging 1.5x over the past three fiscal years; and
- Efforts to increase the portion of its power supply with long-term purchase power agreements (more than 10 years), which reduces, but does not eliminate, its near-term contracting risks.

These credit factors are offset by the utility's:

- Absence of a purchase power cost adjustment mechanism limits dynamic cost recovery, mitigated by its robust liquidity position and rate stabilization fund, which provides financial flexibility;
- Lack of a captive customer base and ease with which customers can transition back to the incumbent utility;
- Retail electric rates that are elevated relative to state averages but slightly advantageous compared with those of the incumbent IOUs; and
- Power portfolio that is exposed to volatile market prices via spot purchases, and short- and mid-term purchases and contracts, coupled with contracted power supply counterparties that include several companies that either exhibit weak credit quality or that we do not rate.

Environmental, social, and governance

We believe that SVCE faces limited environmental risks. Purchases of low- and no-carbon resources provided 79% of 2024 energy needs (including primarily large hydroelectric, solar, wind, and geothermal generation), followed by 21% unidentified market purchases. We believe SVCE's current and projected energy portfolio positions the utility favorably relative to California's stringent and continually evolving regulatory landscape. Although direct wildfire liability risk is low because SVCE outsources its transmission and distribution functions to Pacific Gas and Electric Co. (PG&E), public safety power shutoffs (PSPSs) by the owners of the transmission and distribution systems serving SVCE's customers could nevertheless adversely affect the reliability of customers' electric service. For example, there was a PG&E PSPS event in June 2025 that affected fewer than 40 customers and power was restored within two days. If there is a wildfire on the PG&E system, the utility will socialize the costs among all transmission customers including SVCE.

We believe SVCE faces slightly elevated social risk mitigated by strong service area income levels. Although residential rates are below those of PG&E, we note that PG&E's rates are elevated (154.7% of California's average retail system rate in 2024), which could weigh on financial flexibility. Management also lowered its discount to PG&E rates to 1% beginning January 2026 in an effort to build its liquidity position and manage power supply cost volatility. Because of the high unpredictability of federal policy--along with the economy's stressors and the associated financial pressures consumers are facing--we are monitoring the strength and stability of electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion. (See "Economic Outlook U.S. Q2 2026: Curb Your Enthusiasm," March 25, 2026.)

Finally, we view the utility's governance factors as generally credit supportive, as they include proactive risk management, robust JPA member agreements that limit both the ability and incentive for member departure, and strong financial policies and planning. 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 positive outlook reflects our view of the utility's robust liquidity position and maintenance of strong coverage metrics. There is at least a one-and-three chance we could raise the rating over the next two years if the utility maintains strong coverage metrics and exceeds its projected coverage metrics. We will continue to monitor near-term coverage trends as the utility balances rate competitiveness and further improvements in liquidity.

Downside scenario

We could revise the outlook to stable if the cost of future budgeted or unbudgeted power costs negatively affects financial performance meaningfully below historical metrics and results in thin coverage metrics. We could also revise the outlook if SVCE faces significant power supply counterparty nonperformance that erodes the CCA's financial performance while simultaneously increasing dependence on wholesale market prices. We believe the rating could be pressured if SVCE experiences customer opt-outs that leave it with meaningful surplus energy purchase commitments whose cost must be recovered either through liquidation into competitive wholesale markets or rate increases.

Upside scenario

We could raise the rating in the next two years if SVCE maintains strong FCC while successfully procuring reliable and competitive power and capacity under longer-term contracts, and without material erosion of customer retention, rate competitiveness, or liquidity.

Credit Opinion

SVCE is a JPA originally formed in 2016 to procure retail electric commodity on behalf of about 284,000 electric customers across 13 members that include cities, unincorporated Santa Clara County, and towns in the Silicon Valley.

SVCE derives about one-third of its retail revenues from residential customers, which we view as somewhat concentrated among its leading 10 customers primarily in the tech industry. However, no single customer accounted for more than 4.6% of total retail revenues in fiscal 2025, mitigating this concentration.

PG&E, on behalf of SVCE, performs monthly retail electric meter readings, bills SVCE's customers, collects customer payments, and conveys over its transmission and distribution systems the electricity SVCE procures. PG&E segregates and remits to SVCE the revenues it collects for SVCE; we understand these revenues are insulated from an IOU bankruptcy.

Retail electricity customers who migrated to SVCE at the introduction of service in their area may return to their respective incumbent IOU on 60 days' notice. SVCE does not impose fees on departing customers. We consider the relative ease with which customers can return to their previous electric utility as a potential risk to SVCE's revenue stream. SVCE has historically maintained a strong track record of opt-out rates, less than 4% since 2023.

Representatives of SVCE's member jurisdictions comprise the CCA's board. The board sets the retail rates for the power it procures at a fixed discount to PG&E (1%, down from 4% historically).

In addition to SVCE's energy charges, the major components of the customer bills that PG&E prepares also include charges for energy delivery, administrative expenses, and the power charge indifference adjustment (PCIA). The PCIA is a legislatively created vehicle. It provides for the IOUs' recovery of those portions of pre-existing generation investments and energy-procurement costs that market sales of energy surpluses created by customer migrations to CCAs do not financially support. The PCIA shields IOUs' non-CCA customers from the cost shifting that might otherwise occur due to the migration of retail customers to CCAs.

Improved liquidity driven by lower purchased power costs

Due to lower-than-budgeted operating expenses including purchased power costs in fiscal 2025, SVCE produced a robust 1.7x FCC before transfers to the rate stabilization fund despite a one-time bill credit and 4% rate discount. PCIA levels (1.02 cents per kilowatt-hour) in fiscal 2025 were close to fiscal 2024 levels and did not materially weaken coverage. SVCE has participated in four power prepay transactions that contribute about $19 million in power costs savings annually. The $100 million rate stabilization transfer reduced total operating revenue and weakened FCC to 1.1x but improved cash flows increased total available liquidity to $593 million, or 583 days of liquidity, by the end of fiscal 2025.

Based on our view of management's financial forecast, we believe FCC metrics could weaken below historically robust levels over the next two years as the utility considers draws on its available liquidity to mitigate rising power supply costs. FCC is S&P Global Ratings' internally adjusted coverage calculation, which treats a portion of purchased power costs as debt-like. Given the historical volatility in FCC (particularly in 2021), we believe its $100 million rate stabilization fund will support the maintenance of competitive rates given management's projected annual purchased power cost increases. The utility does not invest in capital assets for its power supply, and maintaining excess FCC will increase its liquidity position further above its maximum reserve target of 500 days of liquidity. We believe the continued maintenance of healthy liquidity underpins the current rating, given the operational risks SVCE faces.

SVCE's power portfolio is diverse, in our view, with no single contract accounting for more than 10% of total load, with the CCA gradually increasing the number of mid- to long-term power purchase agreements (PPAs), rather than spot or short-term contracts. Long-term PPAs currently represent 46% of its power supply, and will grow to 67% by fiscal 2030, reducing short-term recontracting risk. Although we generally view positively the long-term price certainty these contracts provide, the possibility of customer dislocation could result in surplus SVCE power. Management reported the CCA can sell its excess energy position into the wholesale market, with no end-use restrictions attached to any of its PPAs; however, this would still expose the CCA to market pricing.

Silicon Valley Clean Energy Authority, California--key credit metrics

	--Fiscal year ended Sept. 30--		
	2025	**2024**	**2023**
Operational metrics			
Electric customer accounts	283,938	281,583	280,000
% of electric retail revenues from residential customers	34	N.A.	N.A.
Top 10 electric customers' revenues as % of total electric operating revenue	19	N.A.	N.A.
Service area median household effective buying income as % of U.S.	N.A.	210	213
Financial metrics			
Gross revenues ($000s)	394,924	557,838	512,221

Silicon Valley Clean Energy Authority, California--key credit metrics

	--Fiscal year ended Sept. 30--		
	2025	2024	2023
Total operating expenses less depreciation and amortization ($000s)	371,743	396,523	400,436
Debt service ($000s)	483	537	565
Fixed-charge coverage (x)	1.1	1.9	1.6
Total available liquidity ($000s)*	593,807	479,942	321,845
Days' liquidity	583	442	293
Total on-balance-sheet debt ($000s)	1,147	402	910
Debt-to-capitalization (%)	0	0	0

*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		
Outlook Action		
	To	**From**
Silicon Vy Clean Energy Auth, CA Issuer Credit Rating	A/Positive	
Public Power		
Silicon Valley Clean Energy Authority CA Retail Electric	A/Positive	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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