Summary:
Marin Clean Energy, California; Retail Electric

Primary Credit Analyst:
Doug Snider, Centennial + 1 (303) 721 4709; doug.snider@spglobal.com

Secondary Contact:
Alexandra Rozgonyi, Centennial + 1 (303) 721 4824; alexandra.rozgonyi@spglobal.com

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Rating Action

S&P Global Ratings affirmed its 'A' issuer credit rating (ICR) on Marin Clean Energy (MCE), Calif. The outlook is stable.

Credit overview

The ICR reflects MCE's growing, predominantly residential customer base with well-above-average incomes. The rating further reflects the community choice aggregator's (CCA's) robust and increasing liquidity balances and an overwhelmingly carbon-free energy portfolio. Tempering these strengths are a recent softening in MCE's fixed charge coverage (FCC), the ease with which customers can transition back to the incumbent utility, and retail electric rates that are elevated relative to state averages but advantageous compared with those of the incumbent investor-owned utilities (IOUs). Additional risks are a power portfolio that is exposed to volatile market prices via 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.

MCE is a joint powers authority (JPA) originally formed in 2008 (with retail service beginning in 2010) to procure retail electric power on behalf of about 580,000 accounts serving more than a million people across 37 member communities in four San Francisco Bay Area counties. MCE derives the majority of its retail revenues from residential customers (about 53% in fiscal 2021), which we believe provides the CCA with revenue stability. The customer base has increased significantly recently, with almost 100,000 customers added since April 2021. Management indicated future expansions could occur within Contra Costa and Solano counties. We believe MCE's large size provides the utility with economies of scale. However, the continued growth results in an ongoing need for MCE to expand its power portfolio—a potential exposure, especially given currently elevated energy and storage prices.

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

Retail electricity customers who migrated to MCE at the introduction of service in their area may return to their respective incumbent IOU upon 60 days' notice. MCE 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 MCE's revenue stream. While MCE's opt-out rate is elevated relative to that of other rated CCAs at about 13%, we note that a significant portion of these departures occurred closer to MCE's inception as the first CCA in California. The
cumulative opt-out rate declined from 2021 to 2022.

Representatives of MCE’s member jurisdictions comprise the CCA’s board. The board sets the retail rates for the power it procures. In addition to MCE’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. The PCIA varies by customer class, but decreased by about 55% in March, which enhanced MCE’s ratemaking flexibility. Despite a cumulative 20 cent per kilowatt hour (kWh) increase in early 2022, these PCIA changes coupled with a PG&E rate increase resulted in MCE’s net costs ranging from 7%-9% below those of PG&E.

Rather than following PG&E’s rates up and down as many CCAs’ rates do, which could result in uneven financial performance, MCE sets its rates based on its cost of service. We believe this rate-setting practice provides the utility with greater ratemaking flexibility and ultimately allows MCE to more predictably and reliably cover costs in a wider array of market conditions. This model has resulted in MCE net rates (inclusive of the PCIA charge) being above those of PG&E for certain periods in the past. Importantly, customer opt-outs have not increased markedly during these periods, suggesting an additional layer of ratemaking flexibility.

The stable outlook reflects our assessment of exceptionally strong incomes across the service territory that mitigate high rates; a robust and increasing liquidity balance that reduces but does not eliminate counterparty and customer migration risks; stable customer retention rates; and a resource portfolio that limits the utility’s exposure to increasingly stringent emissions regulations and competitive and potentially volatile wholesale markets.

**Environmental, social, and governance**

We believe that MCE faces limited environmental risks. Purchases of wind, solar, and hydroelectric generation resources that are free of greenhouse gas emissions covered about 90% of 2020’s load when looking at its light green product (which the majority of its customers purchase.) MCE is targeting increasing its greenhouse gas-free composition to 95% by 2023, and renewable portfolio standard (RPS) eligible renewables to 85% by 2029. We believe MCE’s current and projected energy portfolio positions the utility favorably relative to California’s stringent and continually evolving regulatory landscape. Yet, as a practical matter, the intermittency of renewable resources might frustrate the CCA from achieving those goals, especially given the rising costs of battery storage technology inputs.

Although direct wildfire liability risk is low because MCE outsources its transmission and distribution functions, public safety power shutoffs by the owners of the transmission and distribution systems serving MCE’s customers could nevertheless adversely affect the reliability of customers’ electric service. Management has indicated it is exploring the possibility of asset ownership in the future, which could create direct exposure to wildfires and related liability claims.

We believe MCE faces slightly elevated social risk. Although residential rates are below those of PG&E, we note that PG&E’s rates are elevated (124% of California’s average retail system rate in 2020), which could weigh on financial flexibility. However, this is mitigated somewhat by well-above-average effective buying incomes across MCE’s territory.
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 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.

**Stable Outlook**

**Downside scenario**

We could lower the rating if the cost of future power and/or energy storage negatively affects competitiveness, especially against the backdrop of a growing customer base, or if MCE faces significant power supply counterparty non-performance that erodes the CCA's competitive position and/or financial performance while simultaneously increasing dependence on wholesale market prices. We could also lower the rating if MCE 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 do not expect to raise the rating in the next two years given a budget that suggests 2021's softer FCC will be perpetuated through 2022. However, we could raise the rating in the next two years if MCE is able to successfully procure reliable and competitive power under longer-term contracts to support recent load growth while FCC materially improves on a sustained basis without material erosion of customer retention, rate competitiveness, or liquidity. We would reassess financial metrics and wildfire exposure if MCE were to issue debt.

**Credit Opinion**

**Enterprise profile**

MCE's 580,000 customers provide revenue diversity and economies of scale, and management expects to continue adding members over the next several years. The four counties' median household effective buying incomes were 150% of the U.S. average in 2020, on a weighted-average basis relative to load. No single retail customer accounted for more than 1% of operating revenues in 2021, providing further revenue stability. Uncollectible balances increased to about 3% (compared with less than 1% before the COVID-19 pandemic) of total sales; however, management expects this will fall to about 1.5% due to externally funded relief programs.

MCE's power portfolio is diverse, in our view, with more than 350 power purchase and resource adequacy contracts in place. Similarly, the CCA's fuel mix is diversified among a number of clean and renewable resources.

Tempering these strengths is the ease with which customers can revert to PG&E as their electric provider, especially if MCE's relative competitiveness vis-a-vis PG&E declines. However, MCE's track record of customer retention even when all-in retail rates were above those of PG&E tempers this somewhat. Counterparties that include suppliers that we believe exhibit weak credit attributes, and a currently volatile energy market that could pressure short-term purchases as well as future long-term contract pricing are additional risks.
Financial profile
MCE does not have any debt; however, S&P Global Ratings calculates FCC to reflect our view that MCE is funding its contracted power suppliers’ recovery of investments in generation capacity. When calculating FCC, our proxy for suppliers’ recovery of capital investment from their purchasers reduces operating expenses and imputes debt service by a matching amount. Applying that adjustment, we calculated FCC of 1.14x in 2021, representing a departure from 1.27x in 2019 and 1.44x in 2020, due to higher PCIA rates and elevated energy costs. Our calculations based on MCE's projections suggest FCC will average 1.26x over the next five years. We note there is some uncertainty surrounding projected expenses, given continued volatility in market prices for both energy and storage. Therefore, we believe protracted higher energy prices could frustrate MCE's ability to produce metrics in line with forecast levels.

We consider the $223 million of unrestricted cash and investments and rate stabilization funds that MCE reported at fiscal year-end March 31, 2021 as providing a robust cushion for tempering exposures to potential customer departures or supplier disruptions. Liquidity is further bolstered by a $40 million committed line of credit. With the rate stabilization fund and line of credit, liquidity represented 191 days' worth of operating expenses. Moreover, liquidity is projected to rise continually through the forecast period, providing additional cushion in the event of above-budget power costs or other expenses. We believe the continued maintenance of robust liquidity underpins the current rating, given the previously discussed operational risks MCE faces.

MCE indicated it is exploring the possibility of direct asset ownership through debt issuances, in the event the additional debt and associated assets were economic and would fit within its risk management tolerances. No such projects or assets have been identified at present. We would revisit our assessment of MCE's debt and liabilities if the CCA added concrete plans to issue debt.

Related Research
• Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings’ public website at www.standardandpoors.com. Use the Ratings search box located in the left column.