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Ratings

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Research Update:

Clean Power Alliance, CA Issuer Credit Rating Raised To 'A' From 'A-' On Improved Liquidity; Outlook Is Stable

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Overview

- S&P Global Ratings raised its issuer credit rating to 'A' from 'A-' on Clean Power Alliance (CPA), Calif.
- The outlook is stable.
- The upgrade reflects our view of CPA's solid operating results and markedly improved liquidity position, which we expect will be sustained given the community choice aggregator's (CCA) solid risk-mitigation practices that limit its exposure to potentially variable energy costs (and, in turn, unexpected draws on liquidity).

Rationale

Security

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

Credit highlights

The rating reflects CPA's meaningfully improved liquidity, in line with management's targets, which increased to 182 days' operating expenses in fiscal 2025 from 61 days in fiscal 2022, in the face of variable market conditions. This improvement is especially important because, in our view, CPA faces heightened liquidity needs given the risks related to potential customer departures and/or energy-supplier disruptions against the backdrop of retail competition for its customers. The rating further reflects the CCA's diverse, predominantly residential customer base, with member communities exhibiting typically above-average incomes throughout Los Angeles and Ventura counties. These factors together provide CPA with economies of scale and rate-setting flexibility. Finally, the rating is supported by CPA's diverse and overwhelmingly low-carbon energy portfolio, which positions the CCA well relative to California's stringent renewable mandates.

These factors are tempered by the ease with which customers can transition back to the incumbent investor-owned utility, Southern California Edison Co. (SCE). Additional risks include a power portfolio that is exposed to volatile market prices via short- and medium-term purchases and contracts, rising resource adequacy and delivery costs, and contracted power supply counterparties that include several companies that exhibit weak credit quality or that we do not rate, which could translate into nonperformance of current or future power contracts, in turn exposing CPA to the spot market.

Finally, CPA projects lowering its rates now that it has achieved its target liquidity balances, which translates to a meaningful decline in projected fixed charge coverage (FCC). We believe the CCA’s current and forecast robust liquidity mitigates the risk of thinner margins but will continue to monitor it closely for any financial deterioration.

The rating further reflects the following credit strengths:

- CPA's participation rate has been stable, at about 93%, indicative of a somewhat inelastic customer base.
- The CCA’s power portfolio is generally diverse in terms of both fuel and counterparty, which limits market exposure.
- CPA sets its rates based on its cost of service, which we believe provides it with ratemaking flexibility and ultimately allows it to cover costs in a generally predictable and reliable manner. However, CPA still considers its relative competitiveness to SCE when setting rates, which tempers this flexibility somewhat.
- The utility has no debt outstanding, and no plans to issue debt in the near term.

Offsetting these strengths, in our view, are the following factors:

- Retail electric rates have closely followed those of SCE, whose rates are slightly elevated relative to the state average, according to the most recent available information from the Energy Information Administration. On a total customer bill basis, CPA’s rates range from 2% below to 6% above those of SCE, depending on the energy product to which customers are subscribed. Individual customer rate comparisons vary by specific rate schedule and customer usage.
- A large number of CPA’s purchase power contracts are still in early stages (construction and/or pre-construction), which could lead to power shortfalls and/or unbudgeted cost escalations in the event a project unwinds or is repriced.

Environmental, social, and governance

CPA's energy transition risk is low, based on its predominantly carbon-free resource portfolio. 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. CPA faces indirect exposure to physical environmental risk because it relies on SCE's transmission and distribution assets. The need to fund any wildfire liabilities or mitigation could lead SCE to socialize these costs among all users of its transmission and distribution systems.

CPA's affordability risks are minimal, with residential rates generally remaining within a narrow band relative to those of SCE, which are near the state average. In addition, CPA's service territory is generally characterized by healthy median household effective buying incomes (albeit with pockets of lower wealth), which further mitigates affordability challenges. Nevertheless, we are monitoring the strength and stability of electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion given continued inflationary challenges across the country.

Finally, we view the utility's governance factors related to risk management, culture, and oversight as generally credit supportive, as they include robust financial and operational forecasting, proactive risk management, robust contractual 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. This opt-out rate has remained low--with an overall participation rate of 93%.

Outlook

The stable outlook reflects our anticipation that CPA's diverse and generally affluent service territory will continue to support rate increases, if necessary, to maintain steady financial metrics with minimal customer opt-outs as a result. The outlook further reflects our expectation that CPA will continue to execute on its power supply plan, thus reducing exposure to increasingly stringent emissions regulations and competitive and potentially volatile wholesale markets.

Downside scenario

Over the next two years, we could lower the rating if the cost of future power, storage, delivery, and/or capacity constrain CPA's ability to maintain FCC of at least 1.0x or otherwise erode its liquidity and/or competitive position. We could also lower the rating if CPA experiences customer opt-outs that leave it with meaningful surplus energy purchase commitments whose cost must be recovered through either liquidation into competitive wholesale markets or rate increases.

Upside scenario

We do not expect to raise the rating over the next two years given a financial forecast that indicates liquidity will remain flat while FCC will decline to just over 1.0x.

Credit Opinion

Enterprise profile

CPA is a joint powers authority originally formed in 2017 (with retail service beginning in 2018) to procure retail electric power on behalf of more than 1 million accounts across 38 member communities in Los Angeles and Ventura counties. CPA derives about half of its retail revenues from residential, which we believe provides the CCA with revenue stability. The CCA added three new communities in 2025, together representing an approximately 3.7% increase in energy sales, with an additional two communities planned in 2027 for another 1% increase in sales--manageable growth, in our view.

SCE, on behalf of CPA, performs monthly retail electric meter readings, bills CPA's customers, collects customer payments, and conveys over its transmission and distribution systems for the electricity CPA procures. SCE segregates and remits to CPA the revenues it collects for CPA; we understand these revenues are insulated from an investor-owned utility (IOU) bankruptcy.

CPA's retail electricity customers may return to their incumbent IOU following the submission of an opt-out request. Opt-out requests received more than five days prior to a customer's electric meter read date are processed on that meter read date; all other opt-out requests are processed on the next meter read date. CPA does not impose fees on departing customers. We consider the relative ease with which customers can return to their previous electric utility a potential risk to CPA's revenue stream.

Representatives of CPA's member jurisdictions comprise the CCA's board. The board sets the retail rates for the power it procures. In addition to CPA's energy charges, the major components of the customer bills that SCE 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 ultimately constrains rate-setting flexibility relative to SCE, in our view. Management expects that the PCIA will be elevated in fiscal 2026, which will translate to a decrease in CPA-collected revenues. Thereafter, CPA expects to lower rates, which would enhance its rate affordability and overall competitive position but simultaneously erode net margins and, in turn, FCC.

Rather than strictly following SCE's rates up and down as many CCAs' rates do, which could result in uneven financial performance, CPA sets its rates based on its cost of service, with a secondary consideration given to competitiveness with SCE. We believe this rate-setting practice provides the utility with greater ratemaking flexibility and ultimately allows CPA to recover costs more predictably and reliably in a wider array of market conditions. This model has resulted in CPA net rates (inclusive of the PCIA charge) exceeding those of SCE for certain periods in the past. CPA's participation rate is healthy at 93%, and has been very stable, varying just 0.5% over the past two years despite rates that have, at times, exceeded those of SCE by as much as 13%, indicative of a somewhat inelastic customer base.

CPA’s energy portfolio is generally diverse, but with a large number of contracts still under construction or in pre-construction phases, the CCA could face unexpected energy shortfalls or contract repricing. To mitigate impacts of price spikes and market volatility, CPA has established hedging parameters, limiting its maximum exposure in a given quarter to 15% of its total energy needs, with future balances stepping down thereafter. Despite the diversity among counterparties and hedging program, there is still risk associated with the low-rated or unrated counterparties' nonperformance.

Financial profile

CPA does not have any debt; however, S&P Global Ratings calculates FCC to reflect our view that CPA 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 calculate an average FCC of 1.17x between fiscal years 2023 and 2025. Based on our calculations of management-provided projections, we expect FCC will decrease to just over 1.0x following planned rate decreases.

At fiscal year-end June 30, 2025, CPA had $541 million of unrestricted cash and investments, as well as $120 million available under a line of credit. In our view, these reserves provide a meaningful cushion for tempering exposures to potential customer departures or supplier disruptions. Liquidity is projected to remain flat through the forecast period.

CPA currently has no on-balance sheet debt, with no plans to issue direct debt in the near or medium term.

Clean Power Alliance, California--key credit metrics

	--Fiscal year ended June 30--		
	2025	2024	2023
Operational metrics			
Electric customer accounts	1,040,001	1,041,999	1,000,162
% of electric retail sales from residential customers	53	46	49
Top 15 electric customers' sales as % of total electric retail sales	5	5	3
Service area median household effective buying income as % of U.S.	N.A.	127	125
Financial metrics			
Gross revenues ($000s)	1,465,769	1,367,454	1,169,547
Total operating expenses less depreciation and amortization ($000s)	1,328,096	1,260,470	1,088,599
Debt Service (Lease Payments) ($000s)	476	462	415
Debt service coverage (x)	289.0	231.6	195.1
Fixed-charge coverage (x)	1.2	1.2	1.1
Total available liquidity ($000s) *	661,492	553,509	292,787
Days' liquidity	182	160	98
Total on-balance-sheet debt ($000s)	1,829	2,256	2,256
Debt-to-capitalization (%)	0	1	1

*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		
Upgraded		
	To	**From**
Public Power		
Clean Power Alliance CA, Utility Revenues	A/Stable	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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