RATING ACTION COMMENTARY

Fitch Upgrades Marin Clean Energy's (CA) IDR to 'A-'; Outlook Stable

Tue 10 Dec, 2024 - 2:38 PM ET

Fitch Ratings - New York - 10 Dec 2024: Fitch Ratings has upgraded Marin Clean Energy, CA's (MCE) Long-Term Issuer Default Rating (IDR) to 'A-' from 'BBB+'. The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Marin Clean Energy (CA)	LT IDR	A- Rating Outlook Stable	Upgrade	BBB+ Rating Outlook Stable
Marin Clean Energy (CA) /Issuer Default Rating/1 LT	LT	A- Rating Outlook Stable	Upgrade	BBB+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

The IDR upgrade to 'A-' reflects MCE's improved liquidity position and strong historical trend of customer retention despite its limited operational role as a Community Choice Aggregator (CCA) and volatile market dynamics. As a CCA, MCE serves a non-captive customer base. MCE customers can choose to reject MCE provided electric supply and transfer to receive supply from Pacific Gas & Electric (PG&E) instead. The competitive business environment is distinct from municipally owned utilities that have an exclusive right to provide retail electric service in their jurisdictions.

Despite occasionally higher rates than PG&E, MCE has successfully managed the competitive environment and retained approximately 86% of the customers able to opt-out each year in its service area since 2018. MCE's competitive advantage over PG&E is its power supply portfolio, which is predominately renewable (60%). Apart from occasional spot purchases needed for balancing, MCE's power resources are entirely carbon-free.

Additionally, through a January 2023 rate increase implemented to offset increased power supply costs, MCE has improved its liquidity cushion, measured as a percentage of annual operating costs, to 82% from 52% a year ago. Maintenance of customer retention ratios and strong liquidity will remain important considerations in MCE's rating going forward.

SECURITY

The IDR reflects Fitch's assessment of MCE's vulnerability to default on its financial obligations.

KEY RATING DRIVERS

Revenue Defensibility - 'Weaker'

MCE's 'Weaker' revenue defensibility assessment reflects a customer base that can opt out from MCE at any time and at minimal cost, which results in competitive pressure on MCE. However, while the potential for customers to switch providers creates an incentive for MCE to maintain rates in line with PG&E, MCE's customer retention has remained stable at or around 86% for the last seven years.

This stability includes periods when MCE's rates exceeded PG&E's, such as over the last 12 months. MCE places a strong emphasis on customer retention, deploying dedicated staffing and resources, including an in-house call center, to provide customer service and improve customer relationships.

MCE has the independent authority to set and adjust rates and can legally impose an exit fee on departing customers. However, this does not fully mitigate risk of customer loss. The assessment also reflects MCE's lack of control over the Power Cost Indifference Adjustment (PCIA) charged to its customers and established by the California Public Utilities Commission. Presently, the average PCIA charged to MCE's customers is comparable to the PCIA charged by PG&E to its own customers.

Operating Risk - 'Midrange'

MCE's operating risk is limited given its narrow role as an energy-only provider. Power supply resources consist of over 350 energy and capacity purchase contracts with varying length of term, counterparties and fuel type. Operating risks are managed with robust hedging practices, and management is developing demand response and load shaping programs to help manage power supply volatility.

Contracted resources are geographically diverse. MCE's energy mix was 60% renewable and 99% carbon free in calendar year 2024, which is well ahead of state mandates and the renewable content available in PG&E's power supply. Operating costs increased to 11.5 cents per KWh in 2024 from 10.7 cents per KWh in 2023 due primarily to the rising costs of renewable energy.

The 'Midrange' assessment also incorporates the long-term financial risk associated with right-sizing a power supply for a potentially variable customer base. This is due to state requirements established by Senate Bill 350, requiring 65% of the state's required renewable portfolio standard (RPS) be secured under 10 year or longer contracts beginning Jan. 1, 2021. MCE's portfolio of resources already complies with 2027 RPS targets, and future procurement is expected to provide for continued compliance thereafter.

Financial Profile - 'Stronger'

MCE's stronger financial profile reflects typically robust operating margins and liquidity levels, which are expected to continue. Operating margins were very strong in FY 2024, producing operating income and FADS of $144 million and $161 million, respectively. MCE last enacted an approximately 20% rate increase on Jan. 1, 2023 and does not anticipate rate increases in the foreseeable future.

Unrestricted reserves of $287 million at YE 2024 resulted in Fitch-calculated days cash on hand (DCOH) of 168 days. Fitch's liquidity cushion ratio, measured by the combination of annual cash flow, unrestricted cash reserves and available liquidity divided by operating expenditures, was 0.82x in fiscal 2024. This was a marked improvement from 0.52x in fiscal 2023.

The liquidity cushion incorporates MCE's line of credit, which increased to $60 million in fiscal 2023 from $40 million previously. MCE has no direct debt outstanding, and leverage is currently less of a factor in the financial profile assessment and rating.

Asymmetric Additional Risk Considerations

There are no asymmetric additional risk considerations that affected the rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Observed weakening of customer retention;

--An increase in the leverage ratio above 0.0x on a sustained basis or a trend of declining operating margins or reserve levels;

--Significant adverse change in the regulatory or competitive landscape within which MCE operates.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Cessation of competition from alternative energy provider;

--Enhancements to customer opt-out provisions that limits or reduces long-term customer departures.

PROFILE

MCE is a California joint powers authority (JPA) created on Dec. 19, 2008 to implement a CCA program. Since then, the JPA has grown from its initial eight members within Marin County to serve a population of over one million people over 36 communities and unincorporated areas.

MCE's service area includes Marin and Napa Counties (including all cities and towns), unincorporated Contra Costa County and Solano County, and the cities and towns of Benicia, Concord, Danville, El Cerrito, Fairfield, Lafayette, Martinez, Moraga, Oakley, Pinole, Pittsburg, Pleasant Hill, Richmond, San Pablo, San Ramon, Vallejo and Walnut Creek.

MCE serves a four-county service area but growing through the in-fill addition of parts of the counties not previously served. The governing body of each city or county must vote to join the MCE JPA, and MCE's board of directors must also vote affirmatively to extend service to the new community. There are additional cities within the service area that may elect and be approved to join in the future.

MCE provides energy supply to non-captive retail customers who elect MCE as their energy provider instead of PG&E. PG&E still delivers the energy to the customers of MCE

over PG&E transmission and distribution lines and provides billing services as MCE's collection agent. PG&E remits the funds daily to MCE and its role in this regard was well protected during the PG&E bankruptcy in 2019-2020.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The ESG Relevance Score of '2' for GHG Emissions & Air Quality for Marin Clean Energy varies from the public power sector guidance score of '3' since carbon-free systems (hydro, wind, nuclear, biomass and biowaste, geothermal) are not significantly exposed to the generation of GHG emissions from operations.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

FITCH RATINGS ANALYSTS

Julian Quintanilla, CFA
Director
Primary Rating Analyst
+1 212 908 9147
julian.quintanilla@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Kathy Masterson
Senior Director
Secondary Rating Analyst
+1 512 215 3730
kathryn.masterson@fitchratings.com

Dennis Pidherny
Managing Director
Committee Chairperson
+1 212 908 0738
dennis.pidherny@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub. 12 Jan 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Marin Clean Energy (CA) EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety

of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents

in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the “NRSRO”). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the “non-NRSROs”) and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.