

VALLEY CLEAN ENERGY ALLIANCE

Staff Report – Item 13

TO: Board of Directors

FROM: Edward Burnham, Finance and Operations Director
Mitch Sears, Chief Executive Officer

SUBJECT: Authorize the CEO to Pursue a Credit Rating from S&P Global Inc. (“S&P”) on behalf of VCE.

DATE: February 13, 2025

RECOMMENDATION:

Authorize the Chief Executive Officer to pursue an initial investment grade credit rating with S&P Global Inc. (“S&P”) and to approve related agreements on behalf of VCE.

BACKGROUND

A key financial objective included in VCE’s Strategic Plan is the pursuit of an investment grade credit rating. The Strategic Plan calls for the establishment of a solid financial base and active examination and assessment of risk to help earn a high credit rating and establishment of a healthy financial position from which to deliver customer and community value.

- Strategic Plan Goal 1: Maintain and grow a strong financial foundation and manage costs to achieve long-term organizational health.
 - 1.2. Objective: Achieve an investment grade credit rating by end of 2028.

Peer CCA’s

As of January 30, 2025, many of VCE’s Community Choice Aggregation (CCA) peers maintain a public credit rating from S&P. Retaining an investment grade credit rating from S&P has helped other CCA’s negotiate better terms with its counterparties when signing new Power Purchase Agreements (“PPAs”), meet advisory financial measures from regulators, and demonstrate financial stability to various counter parties. An investment grade credit rating from S&P is characterized as anything above BBB-. The table below includes S&P’s credit rating for VCE’s peers.

| Issuer | S&P Rating |
|---|--------------|
| Central Coast Community Energy | A (Stable) |
| Silicon Valley Clean Energy | A (Stable) |
| Ava Community Energy | A (Stable) |
| Marin Clean Energy | A (Stable) |
| Sonoma Clean Power Authority | A (Stable) |
| Peninsula Clean Energy Authority | A- (Stable) |
| Clean Power Alliance of Southern California | A- (Stable) |
| Pioneer Community Energy | A- (Stable) |
| Desert Community Energy | BBB (Stable) |
| San Jose Clean Energy | A (Stable) |

DISCUSSION & ANALYSIS

Over the past several years, VCE has taken a disciplined fiscal approach and built a solid long-term renewable energy portfolio which has positioned it well to offer competitive rates and low carbon content energy while maintaining regulatory compliance. As its peer CCA's have done, VCE will initially pursue a Rating Evaluation Service ("RES") from S&P. A RES is a confidential opinion, expressed in both written and verbal form, of the credit quality of an issuer or a given debt instrument based on a hypothetical scenario. In this case, a reasonable hypothetical scenario could include the basic question of: "What would the Issuer Credit Rating be for VCE?" If VCE agrees with S&P's assessment, then the RES would convert to a public credit rating. The RES will cost \$37,500 and the conversion to a public credit rating will cost an additional \$20,000, for a total cost of \$57,500. VCE will also retain PFM Financial Advisors ("PFM") for the purposes of this exercise with a not to exceed contract of \$25,000.

Timeline

Based on the current timeline, VCE will engage S&P in March with a rating meeting scheduled in April following final 2024 audited financial results. It is expected that a public rating would be published in April assuming VCE concurs with S&P's assessment.

CONCLUSION

Establishment of an investment grade credit rating can assist VCE in reducing power costs in the future by receiving more advantageous terms on new PPAs. Staff is recommend pursuit of the credit rating.

ATTACHMENT

- 1) Resolution 2025-XXX

VALLEY CLEAN ENERGY ALLIANCE

RESOLUTION NO. 2025-____

RESOLUTION OF THE BOARD OF DIRECTORS OF VALLEY CLEAN ENERGY ALLIANCE (VCE) AUTHORIZING THE CHIEF EXECUTIVE OFFICER IN CONSULTATION WITH LEGAL COUNSEL TO APPROVE INITIAL INVESTMENT GRADE CREDIT RATING AGREEMENTS WITH S&P GLOBAL INC.

WHEREAS, Valley Clean Energy Alliance (“VCE”) was formed as a community choice aggregation agency (“CCA”) on November 16, 2016, under the Joint Exercise of Power Act, California Government Code sections 6500 et seq., among the County of Yolo, and the Cities of Davis and Woodland, to reduce greenhouse gas emissions, provide electricity, carry out programs to reduce energy consumption, develop local jobs in renewable energy, and promote energy security and rate stability in all of the member jurisdictions. The City of Winters, located in Yolo County, was added as a member of VCE and a party to the JPA in December of 2019; and,

WHEREAS, a key financial objective included in VCE’s Strategic Plan is the pursuit of an investment grade credit rating; and

WHEREAS, the Strategic Plan calls for the establishment of a solid financial base and active examination and assessment of risk to help establish a healthy financial position from which to deliver customer and community value; and

WHEREAS, achievement of an investment grade credit rating will assist VCE in negotiations with its counterparties when signing new Power Purchase Agreements (“PPAs”), meet advisory financial measures from regulators, and demonstrate financial stability to various counter parties, thereby helping VCE deliver customer and community value.

NOW, THEREFORE, the Board of Directors of Valley Clean Energy Alliance resolves as follows:

1. The Chief Executive Officer, in consultation with legal counsel, is authorized to execute Initial Investment Grade Credit Rating Agreements with S&P Global Inc.

PASSED, APPROVED, AND ADOPTED, at a regular meeting of Valley Clean Energy Alliance, held on the ____ day of _____ 2025, by the following vote:

- AYES:
- NOES:
- ABSENT:
- ABSTAIN:

_____, VCE Chair

Alisa M. Lembke, VCE Board Secretary