Staff Report Item 13

TO: East Bay Community Energy Board of Directors

FROM: Howard Chang, COO & Treasurer

SUBJECT: Credit Rating Review (Informational Item)

DATE: January 19, 2022

Recommendation

Receive the review of the credit rating and its implications to EBCE operations.

Background and Discussion

On December 9, 2021 EBCE received a grade of "A/Stable" credit rating by S&P Global Ratings.

This rating was based on several aspects of EBCE's enterprise operations as it relates to various aspects of risk. The following is a summary of the strengths listed by S&P in the report:

- Deep customer base of 640,000 accounts with residential customers responsible for almost half of the load which gives EBCE large economies of scale, and a less than 5% opt out rate shows community support of value proposition
- Protective joint powers agreement with the jurisdictional members
- Diverse power supply arrangements
- Solid financial performance with an expectation of considerable liquidity increase in the coming years
- Limited direct exposure to local wildfire hazards

These strengths were considered partly offset by the following challenges:

- Direct retail competition with PG&E, which can limit rate-setting
- Volatile load profile and fulfilling renewable energy balancing mandates
- Exposure to PCIA
- Open position exposure to market purchases
- Still developing reserves and in a marginally tight current year of operations

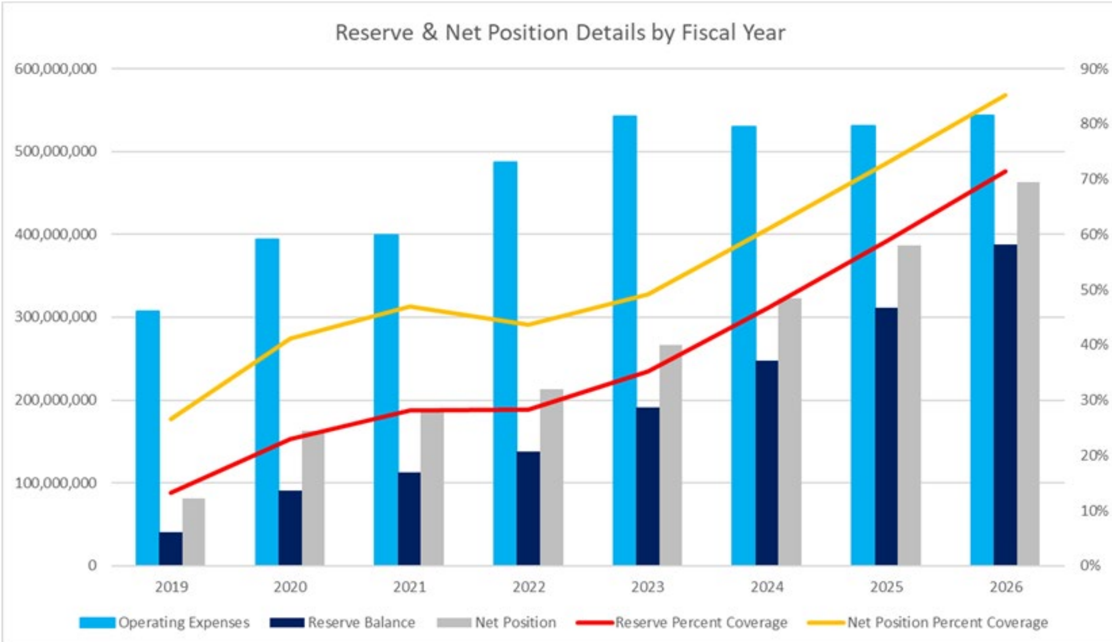
EAST BAY COMMUNITY ENERGY

The conclusions in the report were based upon data submitted to S&P and a staff presentation given to the rating analysts on Oct 22, 2021.

The presentation included a summary of EBCE's historical financial performance and strong five-year projections based on some essential assumptions; primarily in areas of PCIA, rates, established power purchase agreements, and expected forward costs of energy prices. The fundamental predication being on EBCE's net liquidity metrics. For S&P, the basis of the stable rating is EBCE's ability to generate and retain substantial cost coverage by holding high levels of cash and equivalents, which allows the organization to remain competitive with PG&E.

	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	Updated Budget FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
OPERATING REVENUES										
Electricity Sales, net	-	16,142,192	387,065,191	475,727,273	425,733,911	523,540,000	606,950,000	597,483,000	605,888,000	630,052,000
GASB 62 Revenue Deferral Fund	-	-	-	(12,680,000)	(3,134,000)	-	-	-	-	-
Other Revenue	-	-	186,742	334,205	902,949	894,000	-	-	-	-
Total Operating Revenues	-	16,142,192	387,251,933	463,381,478	423,502,860	524,434,000	606,950,000	597,483,000	605,888,000	630,052,000
Operating Expenses										
Cost of Electricity	-	7,116,223	293,176,788	373,477,417	377,480,734	458,392,000	512,591,000	499,421,000	499,351,000	510,321,000
Contract Services	1,677,333	1,619,904	9,609,129	12,890,724	12,076,636	13,090,000	13,548,000	14,022,000	14,513,000	15,021,000
Staff Compensation	112,172	1,268,342	3,830,701	5,852,793	7,134,883	9,421,000	9,751,000	10,092,000	10,445,000	10,811,000
General & Administration	14,025	811,417	767,035	2,252,505	2,585,219	6,239,000	6,457,000	6,683,000	6,917,000	7,159,000
Depreciation	-	5,304	14,084	43,298	52,603	60,000	273,000	278,000	283,000	288,000
Total Operating Expenses	1,803,530	10,821,190	307,397,737	394,516,737	399,330,075	487,202,000	542,620,000	530,496,000	531,509,000	543,600,000
Operating Income	(1,803,530)	5,321,002	79,854,196	68,864,741	24,172,785	37,232,000	64,330,000	66,987,000	74,379,000	86,452,000
NONOPERATING REVENUE (EXPENSES)										
Interest Income	-	-	248,702	1,357,175	636,395	798,000	493,000	627,000	768,000	928,000
Interest Expense	-	(432,952)	(1,813,959)	(743,178)	(869,612)	(898,000)	(1,093,000)	(1,093,000)	(1,093,000)	(1,093,000)
Capital Expenditures	-	-	-	-	-	(3,000,000)	-	-	-	-
Local Development Fund Transfer	-	-	-	(1,050,263)	(1,829,978)	(9,007,000)	(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
Total Nonoperating Revenues (Expenses)	-	(432,952)	(1,565,257)	(436,266)	(2,063,195)	(12,107,000)	(10,600,000)	(10,466,000)	(10,325,000)	(10,165,000)
NET POSITION										
Change in Net Position	(1,803,530)	4,888,050	78,288,939	68,428,475	22,109,590	25,125,000	53,730,000	56,521,000	64,054,000	76,287,000
Net position at beginning of year	-	(1,803,530)	3,084,520	81,373,459	149,801,934	171,911,524	197,036,524	250,766,524	307,287,524	371,341,524
Net position at end of year	(1,803,530)	3,084,520	81,373,459	149,801,934	171,911,524	197,036,524	250,766,524	307,287,524	371,341,524	447,628,524
GASB 62 Balance	-	-	-	12,680,000	15,814,000	15,814,000	15,814,000	15,814,000	15,814,000	15,814,000
Total Net Position w/ GASB 62 Balance	(1,803,530)	3,084,520	81,373,459	162,481,934	187,725,524	212,850,524	266,580,524	323,101,524	387,155,524	463,442,524
Days Liquidity on Hand		4	75	148	137	140	180	218	255	305
Adjusted Days Liquidity on Hand		63	121	193	181	180	220	258	295	345

It is important to note, by our current reserve policy (Policy P-10.1) liquidity and reserves are not exactly the same in this case. Liquidity reflects available cash and represents the organization's ability to absorb cost or operational shocks, whereas reserves is a subset of cash held to be untouched except in extreme circumstances and with Board permission. Because it is difficult to forecast future Reserves, the provided forecasts assume all incremental net position contributes to liquidity and is allocated to Reserves. The graph below shows net position and reserves both increasing in future years.



Based on the above tables, and as of July 1, 2021, EBCE's days liquidity on hand could cover approximately 137 days of operation based on net position and GASB 62 revenues. EBCE's Formal Reserve Policy states a target of 50% with a range of 25-75%. In addition to our cash/reserve position, our credit facility with Barclays Bank, LLC provides an additional 45 days of operating liquidity, should it be required. The facility is sized at $80MM with up to $60MM for cash and $35MM for LOCs. Additionally EBCE noted two potential working capital changes: Evaluating financing of the new office building purchase with low-cost financing through a lease leaseback structure and a planned RFP for new bank credit line in early 2022 to further improve credit terms and consider upsizing.

Fiscal Impact

This report is expected to have no fiscal impact on EBCE operations

Attachments

A. S&P Global Ratings Direct Report for EBCE