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Research Update:

Ava Community Energy, CA Issuer Credit Rating Affirmed At 'A'; Outlook Is Stable

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Overview

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

Rationale

Security

At fiscal year-end 2025, Ava had no debt outstanding. The ICR reflects Ava's general creditworthiness and its capacity and willingness to meet its financial commitments as they come due. Because Ava provides retail electric service and is a public agency, S&P Global Ratings evaluates Ava's creditworthiness under the scope of its municipal retail electric and gas utilities criteria.

Credit highlights

Ava, a community choice aggregator (CCA) that began operations in 2018, serves more than 760,000 customer accounts and, we believe, has achieved credit-supportive operational and financial results. The CCA directly competes with the service area's incumbent investor-owned utility, Pacific Gas and Electric Co. (PG&E; BB/Positive), providing customers with the energy portion of their electric service. (PG&E's transmission and distribution assets deliver the electricity.) Because of the direct competition, we believe Ava's rate-setting flexibility is somewhat limited because of low barriers for customers to leave the CCA if its rates became uncompetitive relative to those of PG&E.

The rating further reflects our view of Ava's:

- Deep customer base, with residential customers responsible for about 40% of kilowatt-hour sales, enhancing revenue stability;

- Protective joint powers agreements with member communities, requiring a departing member to provide six months' notice, receive Ava board approval, and make the CCA whole for any costs incurred to serve that member signed prior to its departure, which we believe is a disincentive for a member community to terminate its membership in Ava;
- Diverse power supply arrangements with a variety of contract types, geographic locations, generation technologies, and storage capabilities;
- Robust financial performance, including historical fixed-cost and imputed charge coverage (FCC) averaging 1.4x over the past three years after transfers to a rate stabilization fund, and considerable liquidity of $865 million or 393 days at the end of fiscal 2025. Based on a management-provided financial forecast, we believe FCC will weaken over the next two years before rebounding due to increased power charge indifference adjustment (PCIA) expenses; we expect liquidity will remain healthy in each of the next five years, exceeding more than a year of operating expenses; and
- Lack of debt, enhancing the CCA's financial flexibility.

Partially offsetting the above strengths, in our view, are Ava's:

- Power procurement uncertainty, as the CCA must balance its obligation to enter long-term contracts with a potentially volatile load profile given possible member community and/or individual customer exit, as well as a need to balance its renewable mandates with the need for reliable baseload energy;
- Exposure to the PCIA, which varies year to year and could pressure the CCA's competitiveness if costly enough;
- High reliance on market purchases, with the CCA obtaining less than 50% of its needs through long-term contracts in fiscal 2025, which we expect will continue for the next several years, although we recognize that its hedging practices considerably reduce Ava's exposure to elevated market prices, with typically more than 90% of projected load hedged at the start of each month; and
- Indirect exposure to wildfire liabilities incurred by PG&E for its transmission and distribution assets, noting California's strict inverse condemnation standard and PG&E's track record of equipment causing wildfires, although we recognize that the CCA has limited direct wildfire exposure given the absence of Ava-owned generation, transmission, or distribution assets.

Environmental, social, and governance

We believe Ava's exposure to climate transition risk is low because of its predominantly carbon-free resource portfolio that limits the potential for regulatory costs and positions the CCA well for California's renewable portfolio standard. In calendar 2024, Ava's fuel mix of its standard offering was 62% eligible renewables. Ava plans for its fuel mix to be 100% carbon-free and at least 65% from eligible renewables by 2030.

In our view, Ava has some exposure to social capital risks because the CCA's weighted average rate, inclusive of generation, transmission, and distribution charges, is meaningfully above the state average, reducing its rate-raising flexibility. Ava, due to its cost structure, sets its rates close to those set by PG&E, whose weighted average rate was 155% of the state average based on 2024 data from the U.S. Energy Information Administration. (We note that the transmission and distribution portion of the bill is set by and paid to PG&E.)

We view Ava's risk management, culture, and oversight factors as credit-supportive, as they include robust joint powers agreements with members, full rate-setting autonomy, comprehensive policies and planning (including a risk management program with detailed hedging targets), and a sophisticated management team. The CCA produces detailed long-term financial forecasting and integrated resource plans, and participates in California utility proceedings.

Outlook

The stable outlook reflects our expectation that Ava's rates will remain competitive with those of PG&E, enabling the CCA to avoid outmigration of customers. We also believe that Ava will maintain significant available reserves, providing flexibility to meet financial obligations.

Downside scenario

Over the next two years, we could lower the rating if power supply costs increase more than expected, which could pressure the CCA's rate competitiveness and/or result in a reduction in FCC and/or unrestricted reserves, depending on management's actions. Also, if any of the member communities or a material number of retail customers leave the CCA, Ava could be forced to sell surplus contracted power to the market. In the event that market prices decrease to levels significantly below those of the CCA's portfolio, Ava could face significant financial pressure, which could lead us to lower the rating, although we note that the short tenor of much of the power supply reduces the exposure.

Upside scenario

We could raise the rating if FCC materially strengthens on a sustained basis while Ava continues adding long-term power supply contracts and maintains liquidity near or above current levels.

Credit Opinion

In our view, the service area has favorable economic fundamentals. As of February 2026, the CCA serves 17 member communities, mostly in Alameda County. Median household effective buying income in the county, which is part of the broad and diverse San Francisco Bay Area economy, is 150% of the national level. Customer concentration in the service area is minimal, with the top 10 customers accounting for only 6.5% of revenue and the top customer 2.0%. We recognize, however, that Ava has seen an increase in uncollectible accounts over the past several years, indicating that some customers are facing payment challenges. Because of the high unpredictability of federal policy--along with the economy's stressors and the associated financial pressures consumers are facing--we are monitoring the strength and stability of utilities' revenue streams for evidence of delinquent payments or other revenue erosion (see "Economic Outlook U.S. Q1 2026: Steady As She Goes But On A Narrow Path," Nov. 24, 2025).

Ava has a large number of customer accounts, which we believe provides the CCA with considerable economies of scale. Ava has grown quickly in the years since it began operations because all the accounts in the member communities that PG&E previously served were automatically switched to the CCA when that member community joined Ava. Ava will expand to serve customers in unincorporated San Joaquin County in May 2026. Customers can opt out of Ava service and return to PG&E; there is no penalty to return to PG&E if this occurs within a set timeframe. However, the CCA's opt-out rate has been less than 5%, which we view as low and demonstrating Ava's value proposition.

We believe Ava has a diverse power supply. The CCA has entered numerous power supply contracts with a variety of resource types, geographic locations, and storage capabilities. In our view, Ava performs appropriate due diligence when entering power supply contracts, including examining counterparties' financial well-being and requiring collateral postings. We note, however, the intermittency of renewable resources might frustrate Ava from achieving California's ambitious greenhouse gas emission goals in the absence of storage technology breakthroughs.

Compared with the member communities, individual customers have a much lower barrier to leave the CCA, and this, in our view, constrains Ava's rate-raising flexibility. The CCA, which has rate-setting autonomy, has offered customers a rate slightly lower than that which they would have received from PG&E, while still increasing unrestricted reserves. (The CCA also has an offering that is slightly more expensive than the rate the customers would have received from PG&E.) We believe Ava's lower rate offering is one of the reasons that the CCA's opt-out rates have been minimal. If Ava's rates outpaced those of PG&E, we think more customers would opt out and return to PG&E. Because of this, we think that rate-setting flexibility is somewhat limited and especially so for as long as the CCA intends to set rates relative to the PG&E rate.

We believe that FCC demonstrates healthy cost recovery, averaging 1.4x over the past three years. FCC is an S&P Global Ratings-calculated metric that treats a share of the CCA's purchased power expenses as debtlike instead of an operating expense. We note that Ava has transferred a significant amount of operating revenue to its rate stabilization fund in each of the past three years. Without these transfers, FCC would have averaged 1.7x, which we view as noteworthy. Using the CCA's forecast, we project that FCC will weaken to near 1.0x in fiscal 2027 because of increased PCIA costs before rebounding to at least 1.3x in the following years. The PCIA, which Ava has limited ability to influence, reflects the costs that PG&E incurred to procure power for customers who subsequently joined the CCA. Over the longer term, the PCIA will become less meaningful as power supply contracts that PG&E signed for its former customers expire.

The utility has considerable liquidity to meet operational and financial challenges. Available reserves, including undrawn amounts on a committed line of credit, were $865 million, or 393 days of operating expenses, at fiscal year-end 2025. We believe Ava's risks associated with its core business model--specifically, the potential for customer exodus, rate-setting constraints, and substantial purchases of market electricity--necessitate relatively enhanced reserves. We project that liquidity will continue to exceed one year of operating expenses in each of the next five years.

Ava has no debt outstanding, and we view this favorably. The CCA's management reports that Ava could incur debt if the associated assets were economical and fit within its risk management plan's tolerances. We note that if the CCA acquires direct or indirect ownership of capital assets, this could have implications for Ava's exposure to California's strict inverse condemnation standard related to wildfires.

Ava Community Energy, California--key credit metrics

	--Fiscal year ended June 30--		
	2025	2024	2023
Operational metrics			
Electric customer accounts	762,451	640,000	640,000
% of electric retail revenues from residential customers	41	41	43
Top 10 electric customers' revenues as % of total electric operating revenue	7	N.A.	5

Ava Community Energy, California--key credit metrics

	--Fiscal year ended June 30--		
Service area median household effective buying income as % of U.S.	150	150	151
Weighted average retail electric rate as % of state	N.A.	155	140
Financial metrics			
Gross revenues ($000s)	822,375	922,686	820,540
Total operating expenses less depreciation and amortization ($000s)	802,546	749,242	693,695
Debt service ($000s)	260	66	679
Debt service coverage (x)	76.3	2627.9	186.8
Fixed-charge coverage (x)	1.1	1.6	1.6
Total available liquidity ($000s)*	864,754	788,534	504,279
Days' liquidity	393	384	265
Total on-balance-sheet debt ($000s)	11,878	0	0
Debt-to-capitalization (%)	2	0	0

*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	
Ratings Affirmed	
Public Power	
Ava Community Energy, CA Retail Electric	A/Stable

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