

Research Update:

Sonoma Clean Power, CA Issuer Credit Rating Outlook Revised To Positive From Stable On Increased Available Reserves

September 18, 2026

Overview

- S&P Global Ratings revised the outlook to positive from stable and affirmed its 'A' issuer credit rating (ICR) on [Sonoma Clean Power](#) (SCP), California.
- The positive outlook reflects management's budgetary actions, including rate increases when needed and a recent addition of a line of credit, which has resulted in strong fixed charge coverage (FCC) and a rise in liquidity by about 3x between fiscal 2021 to 2025, which we believe provides flexibility in light of volatile costs associated with power cost indifference adjustment (PCIA).

Rationale

Security

The ICR represents our view of SCP's capacity and willingness to meet its financial commitments as they come due and does not apply to any specific financial obligation. SCP has no debt outstanding and no future debt plans.

Credit highlights

SCP is a community choice aggregator (CCA) formed in 2014 to procure retail electric commodity on behalf of its electric customers across 13 members in Sonoma and Mendocino counties. The CCA directly competes with the service area's incumbent investor-owned utility, Pacific Gas and Electric Co. (PG&E; BB+/Stable), to provide customers with the energy portion of its electric service. PG&E's transmission and distribution assets deliver the electricity.

The ICR reflects our view of SCP's growing and diversifying low- and noncarbon-emitting resources through about 30 primarily medium and long-term fixed-price contracts; robust income levels throughout the service area; improved FCC to 1.9x prior to transfers out to the rate stabilization fund (RSF); and growing cash position at about \$337 million, equivalent to 619 days of operating expenses in 2025. The improved FCC and ability to transfer funds into the RSF over the past few years was partly driven by the lower PCIA. Somewhat offsetting these credit

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strengths are the ease at which customers can opt out of service and the projected margin deficits in fiscal years 2027 and 2028, which management plans to offset with the RSF. Management reviews rates annually, and the board has supported rate increases in the past, even when that means rates are less competitive than PG&E's.

The rating further reflects our view of the following factors:

- SCP's customer base is primarily residential, with robust income levels, and stable annual average participation rates at around 86%.
- Management frequently reviews rates, and the board has demonstrated willingness to increase rates as needed even when rates have been higher than PG&E's. (For example, in January 2026 when rates were about 2.3% above PG&E's; this did not result in a greater number of opt-outs.)
- FCC and cash have remained extremely strong during the past three fiscal years (prior to transfers to the RSF), and management recently executed a \$100 million revolving line of credit with the Royal Bank of Canada to further support operations.
- SCP has protective joint power authority member agreements with counties and municipalities that create economic barriers to exiting SCP, tempered by the relative ease with which retail customers can return to PG&E. No members have requested or currently plan to request to exit.

Partly offsetting the above strengths, in our view, are the following factors:

- Direct retail competition with PG&E limits SCP's rate-setting flexibility. In our opinion, although this has not occurred, if the CCA's all-in energy bills were to remain above PG&E's for an extended period of time, there could be an increase in customer opt-outs.
- There is uncertainty about the level of the future PCIA that SCP must include in its rates, which we view as potentially constraining rate-setting flexibility. The PCIA amount varies year-over-year, partially depending on market prices for the resale of that power, and could pressure the CCA's financial metrics (as it did in fiscal 2021) or competitiveness.
- Elevated electric rates are currently at the level of PG&E's. In 2024, the most recent available data showed PG&E's rates were 155% of California's average system rate. However, during the first eight months of 2025, rates were about 7% below PG&E's bundled rates.

Outlook

The positive outlook reflects management's budgetary actions including rate increases when needed and the recent addition of a line of credit that has resulted in strong FCC and a rise in liquidity by over 3x since 2021, which we believe provides flexibility in light of volatile costs associated with PCIA.

Downside scenario

We could return the outlook to stable if purchased power costs or volatile PCIA result in consistently weaker FCC (when excluding transfers to and from the RSF), or if liquidity substantially declines, especially given the planned use of RSF funds. We could also return the outlook to stable if opt-outs rise, PCIA remains elevated without cost recovery, or power purchase agreement costs increase, resulting in weaker FCC; or if counterparty nonperformance erodes competitiveness or results in a decline in FCC and liquidity.

Upside scenario

We could raise the rating if management is able to maintain reserves at or near recent levels despite cost volatility through the PCIA and contract prices, and SCP sustains healthy FCC. A raised rating is also predicated on opt-out rates remaining at or near current levels, SCP's power portfolio limits recontracting risk, and counterparty non-performance does not result in weaker financial performance.

Credit Opinion

Enterprise profile

SCP serves a diverse customer base that consists of about 48% retail residential sales, which we consider more stable than a highly concentrated commercial or industrial customer base. The weighted average income levels across all members based on share of sales is about 119% in 2025, which we consider high. However, some areas may have less financial flexibility, given about 14% of the customer base exhibits below-average income levels at a weighted average rate of 85% of that of the nation.

New customers are automatically enrolled in SCP services unless they opt out, and opt-out rates have been generally stable at about 13%. However, at the end of 2023, SCP turned over 1,900 customers to PG&E to be shut off for nonpayment, given these customers cannot be shut off by SCP. This mainly consisted of a one-time release from the expiration of amnesty for nonpayment due to the pandemic. The opt-out rate increased to 13.8% in July 2023 and has since declined to about 12.7% in June 2026. After a customer has been shut off for nonpayment by PG&E, it would have to re-enroll in SCP services. We view the relative ease with which SCP customers can return to PG&E, including the absence of any fees, as a potential exposure to SCP's revenue stream.

Management reviews rates frequently throughout the year, and the board has demonstrated willingness to increase rates above that of PG&E when needed, but for the most part largely follows the direction of PG&E. There have been times, in 2020, 2021, 2022, and 2026 where rates have been above that of PG&E, and during these times there was not an increase in opt-outs. Recent rate changes reflect SCP rates that were 7% below PG&E bundled rates in the first eight months of 2025, then in September 2025 on parity to PG&E to support a build-up in reserves. In January 2026, SCP rates were 2.3% above PG&E; this was due to a combination of SCP's reduced rates and PG&E overcollection on bills. Nevertheless, rates are still elevated, and we believe that a material change in competitiveness could prompt an increase in opt-outs. We believe SCP has elevated exposure to social capital factors. Although SCP's total bundled bill is currently at the same level as PG&E's rates this year, bills are still high compared with state and national levels, which could frustrate future financial flexibility. Further, 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 electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion. (See "[Economic Outlook U.S. Q3 2026: Resilient To Layered Supply Shocks](#)," June 24, 2026.)

SCP has a diverse power portfolio of largely noncarbon-emitting resources. SCP has about 30 power supply contracts and six storage assets contracts, consisting of a combination of rated and unrated entities. Fuel sources based on CleanStart product and actual 2025 gigawatt hour consisted of hydro (41%), solar (22%), geothermal (16%), nuclear (8%), wind (9%), small hydro (3%) and CAISO system power (1%). The weighted average length of contracts is about seven years, although it has increased since management layered in longer-term contracts. In November

2024, SCP executed a renewable energy prepayment transaction to reduce the cost of energy to customers, which, of the entire power portfolio makes up about 60% of total purchase power agreements. However, other financial risks associated with the power portfolio including short-term contracts that have exposure to recontacting, unrated counterparties, and potential for nonperformance from suppliers. Somewhat mitigating this risk is SCP's risk oversight committee, which assesses counterparty exposure.

Management's contracted annual energy supply versus the projected load forecast is sufficient at 104% (2026), 103% (2027), and 76% (2028), 76% (2029), 74% (2030), and will drop down to 53% thereafter (which includes index-plus Renewable Portfolio Standard and Carbon Free Contract). SCP is a winter peaking provider, and SCP looks at physical and financial hedges annually to hedge about 80% of power supply annually. As market power prices rise, the PCIA declines, somewhat allowing existing retail rates to absorb higher market prices without the need for rate increases. Additionally, management plans to incorporate various protections including the RSF, recognizing deferred revenue and increasing rates.

Finally, we view SCP's governance factors as generally credit supportive, with regularly updated long-range financial forecasting, strong policies and planning, and evolving risk and financial management practices. Management has a minimum reserve target of 180 days of operating expenses, but targets 365 days. Nevertheless, the potential for retail customer opt-out is beyond management's control and somewhat tempers our view of the CCA's governance factors.

Financial profile

SCP has no debt; however, we calculate FCC to reflect our view that SCP is funding its contracted power suppliers' recovery of investments in generation capacity. Applying that adjustment, FCC was at 1.74x, 1.34x, and 1.02x for fiscal years 2023 through 2025, respectively; these metrics include the transfer out to the RSF fund. Without the transfer to the RSF fund, metrics were above 1.7x in the most recent three fiscal years. Based on unaudited fiscal 2026, FCC is robust at 1.7x but management is expecting to transfer out about \$57.5 million to the RSF, which would result in weaker FCC at 1.0x. Additionally, based on our analysis of management forecasts, we project a decline in net margins and the use of RSF funds to bridge this gap, which would result in FCC at about 1.0x through 2029. In our opinion, management is using this strategy to mitigate larger-than-needed rate increases and as a strategy to manage the volatile PCIA. We would view frequent use of RSF fund as a credit negative but recognize CCAs operate in an environment that is exposed to volatile and variable PCIA.

Cash and investment are a credit strength and have grown to more than 3x from 2021 levels to fiscal 2025. This is due to a combination of CCA growth since its inception in 2014, management strategy, and the addition of a \$100 million line of credit. Based on unaudited fiscal 2026, SCP had \$493 million of unrestricted cash and investments (including the committed and undrawn capacity under its new line of credit), which equates to about 929 days of operating expenses. The amount in the RSF as of fiscal 2026 is about \$195 million. In our opinion, this level of liquidity is credit supportive as SCP plans to draw down on its RSF fund at times when expenses and the PCIA are elevated in order to minimize rate impact. Additionally, SCP has a minimum reserve target of 180 days and a target of 365 days. Once reserves reach this level, management sets aside a portion of this into the RSF.

Climate And Other Evolving Factors

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We believe SCP's climate transition risk exposure is low, based on its predominantly carbon-free resource portfolio. SCP is well positioned to meet California's stringent renewable portfolio mandates, as well as evolving federal requirements, given its predominantly renewable power portfolio (over 50% eligible renewable and 90% noncarbon emitting). However, the intermittency of renewable resources might impair the CCA from achieving California's ambitious greenhouse gas emission goals in the absence of advances in long-duration storage technology. SCP has added solar plus storage to its portfolio and is looking into potential geothermal projects for long-term base load. SCP faces indirect exposure to wildfire risk because it relies on PG&E's transmission and distribution assets, although SCP does not have direct asset ownership, which tempers the potential wildfire exposure relative to other asset-owning utilities. PG&E's need to fund wildfire liabilities or mitigation could lead it to socialize these costs among all users of its transmission and distribution systems. In turn, higher delivery charges could negatively affect overall rate affordability, and limit SCP's ability to increase rates without precipitating demand deterioration.

Sonoma Clean Power, California--key credit metrics

	--Fiscal year ended June 30--		
	2025	2024	2023
Operational metrics			
Electric customer accounts	237,625	231,765	230,868
% of electric retail revenues from residential customers	48	N.A.	50
Top 10 electric customers' revenues as % of total electric operating revenue	6	N.A.	7
Service area median household effective buying income as % of U.S.	119	124	123
Financial metrics			
Gross revenues (\$000s)	200,536	230,255	277,933
Total operating expenses less depreciation and amortization (\$000s)	198,775	200,196	208,764
Debt service (\$000s)	N.A.	N.A.	N.A.
Debt service coverage (x)	N.M.	N.M.	N.M.
Fixed-charge coverage (x)	1	1.3	1.7
Total available liquidity (\$000s)*	337,020	244,656	151,704
Days' liquidity	619	446	265
Total on-balance-sheet debt (\$000s)	0	0	0
Debt-to-capitalization (%)	N.A.	N.A.	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

Outlook Action		
	To	From
Sonoma Clean Pwr, CA Issuer Credit Rating	A/Positive	A/Stable
Public Power		
Sonoma Clean Power, CA Retail Electric System	A/Positive	A/Stable

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