S&P Global Ratings

RatingsDirect®

Summary:

Anaheim, California; CP; Joint Criteria; Retail Electric; Wholesale Electric

Primary Credit Analyst:
Doug Snider, Englewood + 1 (303) 721 4709; doug.snider@spglobal.com

Secondary Contact:
Mike Lensky, Englewood +1 303 721 4138; mike.lensky@spglobal.com

Table Of Contents

Summary:

Anaheim, California; CP; Joint Criteria; Retail Electric; Wholesale Electric

Credit Profile		
Anaheim Public Financing Authority, California		
Anaheim, California		
Anaheim Pub Fincg Auth (Anaheim) RETELEC		
Long Term Rating	AA-/Stable	Current

Credit Highlights

- S&P Global Ratings' long-term ratings on the City of Anaheim, Calif.'s electric utility (doing business as Anaheim Public Utilities or APU), and its long-term ratings on the various debt, issued for the utility by the Southern California Public Power Authority (SCPPA), the Anaheim Public Financing Authority, and the California Municipal Finance Authority, are 'AA-'.
- The outlook is stable.

Security

The various bonds are secured by net revenue payments of APU's electric system. The utility had $679 million in long-term debt outstanding as of June 30, 2023.

Credit overview

The rating reflects our view of the utility's financial performance, which has continually improved over the past three years, and is projected to strengthen further. APU has historically met or exceeded its forecast results, indicative of its generally conservative budgetary practices. The rating is also underpinned by the utility's significant cash reserves, which provide cushion against potential short-term disruptions in load, energy supply, or power prices.

The rating further reflects the following credit strengths:

- The depth and breadth of the service area, with income levels that are above the U.S. average; however, while not significantly concentrated in any single customer, APU is still exposed to economic disruptions given the dependence on travel, entertainment, and tourism;
- Rates that are below the state average, affording management with rate-raising flexibility. Despite facing the confluence of elevated energy, fuel, and transmission prices in 2022, APU reported it was able to adjust its budget in lieu of rate increases, which should contribute to further improvement in the utility's competitive position;
- Credit-supportive enterprise risk management practices and oversight, including power and environmental cost trackers that APU runs through its rate stabilization reserve and a comprehensive integrated resource plan that helps guide strategic planning and power procurement;
- Robust liquidity, with $331 million of available reserves, measuring one year of fiscal 2022 operating expenses. Liquidity is projected to decline to a trough of about 280 days, before rebounding to more than 350 days as APU

progresses through its capital plan; and

- A diversifying power supply, with expected phase-out of coal-fired generation by 2025, and increasing renewables to address California's decarbonization requirements.

The rating reflects the following credit weaknesses:

- APU faces some uncertainty regarding its future power supply. Although the utility is actively engaging with counterparties to determine the most economical and efficient manner by which to comply with these mandates, it has not yet procured the resources necessary to backfill the anticipated loss of its large coal asset, which does pose some uncertainty moving forward, especially given ongoing volatility in fuel, energy, and transmission pricing; and
- The utility is a moderately leveraged, as evidenced by its debt-to-capitalization ratio of 61%. We anticipate that this ratio will improve over the next five years, as principal amortization and growth in equity outpaces planned debt issuance. However, our view of APU's debt burden also reflects the utility's responsibility for servicing off-balance-sheet debt issued on APU's behalf.

Environmental, social, and governance

Environmental risks are moderately negative relative to those of national peers due to state mandates that require rapid renewable acquisition and have resulted in some intermittency risks throughout California associated with compliance. However, APU's power supply planning considers the risks of this intermittency, and the utility's integrated resource plan anticipates the acquisition of a variety of firm resources. Separately, APU is better positioned than many other power utilities in the state with respect to wildfire risk, given that most assets in high fire-threat zones are underground, limiting risk of ignition.

From a social perspective, APU's risks are credit neutral and largely in line with those of peers given rates that are lower than the state average. However, following stronger-than-expected U.S. economic growth through the third quarter of 2023, S&P Global Economics believes that recent business and consumer activity is not sustainable and projects slowing economic activity in the fourth quarter of 2023, along with tepid of 1.3% and 1.4% economic growth in 2024 and 2025, respectively. (See"Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted," published Sept. 25, 2023, on RatingsDirect). Although inflation is softening, S&P Global Economics projects elevated interest rates through 2024. Consequently, we will monitor the strength and stability of public power utilities' revenue streams for evidence of delinquent payments or other revenue erosion.

We view governance factors are credit neutral--management maintains a robust set of policies and procedures that we believe provide stability, including long-term financial and capital planning and dynamic and robust rate-setting practices.

Outlook

The stable outlook reflects our view of APU's track record of resiliency through challenging economic conditions, coupled with the utility's strong rate-setting practices, which together should allow APU to continue to meet or exceed its financial projections.

Downside scenario

If liquidity or fixed-charge coverage (FCC) is impaired and sustained materially below forecast levels, which could occur if APU faces unbudgeted cost pressures associated with transitioning its power supply to comply with the state's continually evolving renewable portfolio mandates, we could lower the rating.

Upside scenario

We are unlikely to raise the rating during the outlook period, given the uncertainty surrounding APU's future power supply, coupled with coverage levels that are projected to remain at levels not commensurate with a higher rating.

Credit Opinion

APU provides electricity to about 121,000 customers. Income levels are almost 15% above the national average, but we note that this is below the average for Orange County. The utility's retail electric rates were about 13% below the state average in 2021, according to data from the Energy Information Administration. In our view, this profile suggests APU has rate-raising flexibility. About 20% of revenues is derived from the utility's top 10 customers, with more than 70% of revenues derived from commercial and industrial customers, especially concentrated in the hospitality and tourism sectors. This concentration translated into material financial pressures stemming from load disruption during the pandemic. However, APU weathered the economic downturn through increases to its cost-adjustment mechanisms, prudent procurement of a credit line for external liquidity (which ultimately was not needed), the use of the rate stabilization fund, and the help of supplemental sales revenues associated with surplus energy sales. Ultimately, these factors allowed for a rapid recovery of APU's financial metrics.

For fiscal 2022, the utility's FCC was 1.39x (up from 1.29x in 2021), with unaudited results suggesting similar performance in fiscal 2023 despite elevated fuel and energy prices. FCC is S&P Global Ratings' primary coverage metric, and treats transfers out of the electric system as an operating expense and APU's obligation to support its share of SCPPA and Intermountain Power Agency debt service as debt-like, rather than as an operating expense. Finally, a portion (50%) of purchased power costs associated with renewables are similarly imputed.

APU's reserves totaled $231 million or 265 days of operating expenses in 2022. Undrawn capacity on APU's $100 million of line of credit available to the electric system boosted total liquidity to $331 million, or 380 days of operating expenses. Unaudited fiscal 2023 results suggest a slight improvement in nominal amounts ($334 million) but a downturn in days' liquidity (343 days) due to higher expenses. Based on management's financial forecast, we expect days' liquidity will range from 280 days to 351 days of operating expenses over fiscal years 2024-2028. We view APU's liquidity as sufficient, given the utility's risk profile and meaningful market access due to the rating levels and banking relationships.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of November 2, 2023)		
Intermountain Pwr Agy CP		
Short Term Rating	A-1	Current
Southern California Pub Pwr Auth rfdg rev bnds magnolia pwr proj A		
Long Term Rating	AA-/Stable	Current
Southern California Pub Pwr Auth subord (Southern Transmission Proj)		
Long Term Rating	AA-/Stable	Current
Southern California Pub Pwr Auth ICR		
Long Term Rating	AA-/Stable	Current
Southern California Pub Pwr Auth WHLELC (AGM) (Southern Transmission Proj)		
Unenhanced Rating	AA-(SPUR)/Stable	Current
Southern California Pub Pwr Auth (Canyon Pwr Proj)		
Long Term Rating	AA-/Stable	Current
Southern California Pub Pwr Auth (Canyon Pwr Proj)		
Long Term Rating	AA-/Stable	Current
Southern California Pub Pwr Auth (Canyon Pwr Proj)		
Long Term Rating	AA-/Stable	Current
Southern California Pub Pwr Auth (Magnolia Power Project A)		
Long Term Rating	AA-/Stable	Current
Southern California Pub Pwr Auth (Magnolia Pwr Proj A)		
Long Term Rating	AA-/A-1/Stable	Current
Unenhanced Rating	NR(SPUR)	Current
Anaheim Housing and Public Improvement Authority, California		
Anaheim, California		
Anaheim Hsg and Pub Imp Auth (Anaheim) rev bnds (elec util distribution sys imp) (Anaheim) ser 2020-A due 10/01/2050		
Long Term Rating	AA-/Stable	Current
Anaheim Hsg and Pub Imp Auth (Anaheim) rev rfdg bnds (elec util distribution sys rfdg) taxable (Anaheim) ser 2020-B due 10/01/2034		
Long Term Rating	AA-/Stable	Current
Anaheim Hsg and Pub Imp Auth (Anaheim) rev rfdg bnds (elec util distribution sys rfdg) (Anaheim) ser 2020-C due 10/01/2045		
Long Term Rating	AA-/Stable	Current
Anaheim Hsg and Pub Imp Auth (Anaheim) RETELEC		
Long Term Rating	AA-/Stable	Current
Anaheim Hsg and Pub Imp Auth (Anaheim) RETELEC		
Long Term Rating	AA-/Stable	Current
Anaheim Public Financing Authority, California		
Anaheim, California		
Anaheim Pub Fincg Auth (Anaheim) RETELEC (AMBAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Current
California Municipal Finance Authority, California		
Anaheim, California		
California Municipal Finance Authority (Anaheim) RETELEC		
Long Term Rating	AA-/Stable	Current

Ratings Detail (As Of November 2, 2023) (cont.)		
Southern California Public Power Authority, California		
Anaheim, California		
Southern California Pub Pwr Auth (Anaheim) rfdg rev bnds (Anaheim) ser 2022A due 07/01/2029		
Long Term Rating	AA-/Stable	Current
Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.