S&P Global
Ratings

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Summary:

Azusa, California; Retail Electric

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Summary:

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Credit Profile		
Azusa elec rfdg rev bnds		
Long Term Rating	A+/Stable	Upgraded
California Resource Efficiency Fin Auth, California		
Azusa, California		
California Fincg Auth For Res Efficienty (Azusa) Elec		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its rating on Azusa, Calif.'s electric system revenue bonds to 'A+' from 'A'. At the same time, S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on the California Resource Efficiency Finance Authority's (FARECal) series 2003 certificates of participation, issued on behalf of Azusa, to 'A+' from 'A'. The outlook is stable.

The rating action reflects the application of our "U.S. Municipal Retail Electric And Gas Utilities: Methodology And Assumptions" criteria, published Sept. 27, 2018, as well as the utility's strengthening financial profile, as demonstrated by its improving fixed-cost coverage levels. The rating further reflects our opinion of the electric system's strong enterprise risk profile and very strong financial risk profile.

The enterprise risk profile reflects our view of the system's:

- Strong service area economic fundamentals, reflecting a stable and diverse customer base with strong income levels;
- Extremely strong industry risk relative to other industries and sectors;
- Strong market position, with average electric system rates below those of the state; and
- Strong operational management assessment, reflecting the system's robust financial management practices and policies and diverse power supply portfolio, tempered by its exposure to California's stringent regulatory environment.

The financial risk profile reflects our view of the system's:

- Very strong coverage metrics that we anticipate will be maintained at or above historical levels in the future;
- Extremely strong liquidity and reserves for a distribution system, with 242 days of total liquidity on hand in fiscal 2017, which is projected to improve over the financial forecast as cash grows and operating expenses decline somewhat; and

- Extremely strong debt and liabilities profile, suggested by an 11.5% debt-to-capitalization ratio in fiscal 2017, with no plans to issue debt in the next three years.

Outlook

The stable outlook reflects our view of the system's strong financial performance that we expect will continue due to declining fixed obligations and, on a more temporary basis, purchased power expenses. Also supporting the outlook is our view of the utility's proactive management team that has adopted myriad credit-supportive financial policies.

Upside scenario

We could raise the rating if the utility achieves and sustains fixed-cost coverage we consider extremely strong, while maintaining its robust liquidity and stable operational profile

Downside scenario

We could lower the rating if the utility's fixed-cost coverage falls materially short of forecast levels, which could occur if management fails to pass through costs via base-rate changes or through its power cost adjustment mechanism.

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.