

Rating Action

Moody's Ratings upgrades Vernon (City of) CA Electric Enterprise to A3 from Baa1; outlook stable

New York, March 24, 2026 -- Moody's Ratings (Moody's) upgraded the City of Vernon, California Electric Enterprise's (Vernon) revenue bond ratings to A3 from Baa1 and revised the outlook to stable from positive. The rating actions affect approximately \$214 million of revenue bonds outstanding.

RATINGS RATIONALE

The upgrade reflect the utility's strong operating and financial performance in fiscal 2025 and our expectations that management will continue to deliver strong performance over the near-term. Fiscal 2025 financial results showed material improvements over the prior year, with fixed obligation charge coverage (FOCC) increasing to 2.11x from 1.76x and days cash on hand (DCOH) increasing to 614 from 523. Unaudited financial results through February 2026 suggest the utility continues to deliver strong margins.

The rating incorporates the concentrated nature of Vernon's customer base, which is almost exclusively commercial and industrial and concentration as its top 20 customers account for approximately 50% of annual revenue. The electric utility lost one of its major, long-time customers in 2023, but management appears to have managed the transition to replacement customers well, with limited load or revenue impact. Over time, the utility expects to see a transition from some of its more legacy industrial customers such as food processing to more energy-intensive customers such as data centers, electrification depots, and clean hydrogen production, which we expect will generate future load growth. The electric enterprise has taken steps to mitigate the risks from its customer concentration exposure, including having customers pay for new capital expenditures up front and charging capacity reservation fees.

Vernon's power supply is a mix of committed resources and short-term contracts, with the largest single source being the Malburg Generating Station (MGS), a 139 MW baseload gas-fired combined cycle power generating station. Vernon continues to benefit from its strategic approach to MGS, taking advantage of lower daytime renewable prices and capitalizing on growing demand for dispatchable resources by selling excess capacity into the high-demand California resource adequacy (RA) market. Management is currently evaluating Vernon's rate and capital improvement plans to best position the utility as MGS approaches the end of its useful life in the mid-late 2030s.

Like most California utilities, Vernon will be challenged to meet the state's renewable portfolio standards moving forward while maintaining reliability and meeting resource adequacy obligations. Nonetheless, the utility has thus far managed it well, adeptly down-shifting its reliance on MGS while continuing to develop plans to meet future needs of the system.

RATING OUTLOOK

The stable outlook reflects our expectation that management will continue to deliver strong operating and financial results over the next several years. Although the utility is still developing its longer-term financial and capital plans, balance sheet deleveraging over the near-term provides significant optionality for management.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sustained FOCC of 2x or higher and liquidity above 250 DCOH
- Meeting or exceeding regulatory requirements, including meeting state renewable portfolio standards (RPS) and RA obligations
- Managing its customer transitions without meaningful interruptions to financial performance

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- FOCC that is chronically below 1.5x or liquidity declines such that DCOH falls below 150 days on a sustained basis

- Failure to meet regulatory requirements, including state RPS or RA obligations

PROFILE

Vernon (unrated) is a small city located just five miles south of downtown Los Angeles. It is almost exclusively industrial, with a private sector labor force of 55,000 and a residential population of approximately 300. Demand for public utilities comes almost entirely from the business sector, with substantively all retail energy sales revenue attributable to industrial and commercial customers; at the end of fiscal 2025, the City provided electric service to 1,117 small industrial, 445 large industrial and 149 commercial, residential and other customers. Vernon's customers have heavy concentration in the food processing, chemical processing, and container packaging sectors. The electric enterprise is part of the city's Public Utility, which also oversees water, gas and fiber optic funds. The electric system is comprised of generation, transmission, and distribution facilities and includes approximately 4,000 poles, 10 electric substations and a peak load of 175.5 megawatts.

In 2021, the city repurchased the Malburg Generating Station, a 139 MW baseload gas-fired combined cycle power generating station that was constructed by Vernon Electric and commissioned in October 2005 before being sold to Bicent Power in 2008. MGS represented less than 36% of the system's total energy in 2025, with the remainder coming from short-term contracts (20%) from the CAISO and non-carbon resources.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities with Generation Ownership Exposure published in January 2023 and available at <https://ratings.moodys.com/rmc-documents/398041>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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