

# RatingsDirect®

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## Summary:

# West Boylston Municipal Light Dept., Massachusetts; Retail Electric

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## Table Of Contents

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Rating Action

Stable Outlook

Credit Opinion

Enterprise Risk Profile

Financial Risk Profile

Related Research

## Summary:

# West Boylston Municipal Light Dept., Massachusetts; Retail Electric

### Credit Profile

West Boylston Mun Ltg Plant ICR

*Long Term Rating*

A/Stable

Current

## Rating Action

The long-term rating on West Boylston Municipal Light Department, Mass. is 'A'. The outlook is stable.

The rating reflects our view of West Boylston's strong enterprise and financial risk profiles. Key credit strengths are its mainly residential customer base with high-income levels, competitive rates, and healthy financial metrics (fixed-charge coverage and liquidity). Offsetting factors include the utility's lack of formal capital planning and small service base.

### Credit overview

West Boylston (population, 7,700) is about 50 miles west of Boston. Its electric department serves 3,700 customers, nearly 3,150 of whom are residential. West Boylston operates an electric distribution system that purchases electricity from various providers. Several nuclear projects owned by the Massachusetts Municipal Wholesale Electric Co. (MMWEC) supply about 45% of the utility's electricity needs. We believe the significant contribution of MMWEC's nuclear projects to West Boylston's needs exposes it to the nuclear plants' high fixed costs and operating risks. Through MMWEC, it participates in the Seabrook and Millstone nuclear projects.

The rating reflects our opinion of West Boylston's strong enterprise risk profile, including:

- Strong operational management assessment, highlighted by purchase of electricity from a diverse resource portfolio in terms of number of shafts and fuels;
- Adequate service area economic fundamentals, reflected by West Boylston's primarily residential customer base with a median household effective buying income 22% above the nation's average;
- Extremely strong market position, with rates 23% below the state average as of 2018; and
- Extremely strong industry risk relative to other industries and sectors.

The rating also reflects our view of West Boylston's strong financial risk profile, including:

- Strong coverage metrics, with fixed-charge coverage that has remained at an average of 1.5x over the past three years;
- Extremely strong liquidity and reserves, reflecting the utility's ability to meet expenses for 785 days in fiscal 2018 with available reserves; and

- Strong debt and liabilities profile, marked by a debt-to-capitalization ratio of 34% in 2018.

### **Environmental, social and governance factors**

West Boylston receives electricity from a wide variety of fuels. In 2018, 20% of the utility's electricity tied to specific generating sources came from wind, hydroelectric, and solar resources, which we view as a credit positive. West Boylston does not rely on any coal-fired generation, which does not present any meaningful environmental exposures such as heightened climate change risk and future regulation of carbon emissions. The utility is continuing to investigate energy storage opportunities and expanding its power portfolio to include more diverse, noncarbon-emitting energy sources, which, in our view, mitigates impending environmental regulations related to coal. The utility is already exceeding renewable portfolio standards (RPS) that apply to investor-owned utilities.

We believe the utility's social factors, including health and safety issues related to COVID-19, do not present a significant financial risk at this time. The utility serves a mostly residential community, and management has indicated that there have been no significant cutbacks or closures by any of its top 10 customers. Energy sales for 2020 by rate class to date are approximately 1% higher over the same timeframe last year, with residential sales 4% higher than this time last year. Even if demand were to decline, we do not expect it to materially affect the utility's ability to maintain budgetary balance given its strong coverage, its extremely strong liquidity position, and high income levels in the service area. With this in mind, if rates had to be increased to account for ramifications related to the pandemic, we view the ratepayers as being able to afford higher rates. We believe the utility's governance factors, including its affordable rates and credit-supportive rate-setting practices and management policies, are in line with those of other rated electric utilities.

The stable outlook reflects our view that financial metrics will remain at levels consistent with the rating even as it has contended with economic effects as a result of the pandemic and recent heightened unemployment in the utility's service area. During the outlook period, we anticipate that management will maintain credit-supportive financial policies, and we believe the strong financial profile could withstand a short-term decline in revenue due to reduced demand, while successfully maintaining competitive rates.

## **Stable Outlook**

### **Downside scenario**

Although we are unlikely to do so, we could lower the rating if the light department experiences a significant and sustained decline in coverage levels or liquidity. In addition, if the current economic ramifications of the COVID-19 pandemic deepen and were to materially affect the utility's financial performance, we could lower the rating.

### **Upside scenario**

We do not expect to raise the rating over the next two years given the scale of the light department's operations and service base, and given the likely inhibiting effects of COVID-19 on economic activity in the utility's service area, we do not believe we will raise the rating for the foreseeable future.

## Credit Opinion

### Enterprise Risk Profile

#### Operational Management Assessment (OMA): Strong

The utility owns 56% of its power supply requirements through MMWEC. Eleven percent of power supply purchases are derived from long-term contracts and 19% of power purchases come from short-term contracts. Fourteen percent of power requirements are met from spot or day ahead market purchases. We view the current mix of purchased power contracts and spot market purchases as a healthy balance for minimizing supply and price risk. The system is not exposed to coal generation; therefore, the utility is not exposed to any significant environmental risks such as regulation of carbon emissions.

We view positively the utility's financial policies and long-range financial planning, which ultimately support a stable financial profile. Management policies are highlighted by the maintenance of a robust long-term financial forecast that is sufficient for the extensiveness of the utility's operations. The utility does not maintain a formal long-term capital improvement plan, but it plans for improvement projects, both long and short term, through the budgeting process. During this process, projects are prioritized and funding is identified.

#### Economic fundamentals: Adequate

In 2019, West Boylston served 3,700 customers. Although residential customers made up almost 85% of this group, the customer base's small size limits the department's economies of scale. Residential customers accounted for 45% of the light department's revenue in 2019. Moreover, income levels are 123% of the country's median, which we view as a credit positive. Risks are minimal when considering West Boylston's top-10 customers, which provided 21% of the light department's revenue. The top customer, Worcester County Jail, provided 7.4% of total operating revenue. Customer concentration is minimal, in our view.

#### Market position: Extremely strong

In 2018, West Boylston's average electricity rate was 77% of other electricity providers in Massachusetts based off the most recent year of available comparative information from the U.S. Energy Information Administration (EIA). Residential rates were just 64% of the state's average; commercial rates were 86%, while industrial rates were 98%. Besides fuel price changes, the utility's management has no plans to increase rates in the next five years.

The light department has a purchased power adjustment clause (PPAC) to pass along fuel costs that is evaluated on a monthly basis, though it is discretionary. The PPAC amount can be changed, at management's discretion, when the utility is faced with increased costs in purchased power. From a credit perspective, the PPAC is a credit positive as it allows the light department to pass through fuel cost variability if needed. As mentioned, income levels in West Boylston are high at 123% of the country's median. This provides added rate-raising flexibility to the utility.

## Financial Risk Profile

### Coverage metrics: Strong

The utility's fixed-charge coverage, which treats capacity charges it pays to MMWEC as debt service rather than operating expenses, was 1.4x in fiscal 2018. FCC was 1.8x in fiscal 2017, and 1.4x in fiscal 2016. According to the utility's most recent DPU report, coverage is expected to be at least 1.6x for fiscal 2019 due to MMWEC retiring the bonds associated with a portion of its ownership interests in the Seabrook Station Project No. 5 and Millstone Unit 3 nuclear plants in 2018. West Boylston principally pays these fixed obligations to MMWEC, and we view this portion of operating expenses as funding the suppliers' recovery of capital investments in generation assets. After considering MMWEC's forecast, the utility's projections show a 3% increase in total cost of sales through 2025, combined with 1% annual revenue growth for the utility and no plans to raise rates in the near future. Given increased power costs, we believe coverage will likely decrease. However, given the utility's manageable capital needs, we believe coverage will remain at levels we consider strong over the longer term.

### Liquidity and reserves: Extremely strong

West Boylston's unrestricted cash, rate stabilization fund and depreciation fund (which we consider to be available liquidity) totaled an adequate \$12.6 million, or an extremely strong 785 days' cash, in fiscal 2018. Days' cash has been an average of approximately 700 days since 2016. Unaudited financial reports indicate unrestricted cash and reserves are approximately \$4.6 million as of 2019. Including the depreciation and rate stabilization funds, available liquidity is \$12.5 million as of 2019, or 737 days' cash. As a distribution-only operation, the light department's liquidity provides a substantial cushion, which we view as extremely strong. The department's rate stabilization fund helps the utility maintain stable pricing for ratepayers in spite of occasional acute price volatility.

Based on management's cash-flow projections and its plan to fund a portion of its capital needs with cash, we anticipate draws on internal operating cash to fund future capital projects, but we expect management will maintain sufficient liquidity to meet operations; however, if the utility were to draw on the cash reserves significantly, this could pressure the rating.

### Debt and liabilities profile: Strong

We consider the system's debt burden moderate with a debt-to-capitalization ratio equal to a strong 34% in fiscal 2018. Capital improvements total approximately \$6.5 million through 2024 and are to be funded with excess revenue and reserves of the electric system. Management has indicated that the utility may finance a 2-3 MW solar battery for a total of approximately \$4.0 million; however, in our view, the debt-to-capitalization will likely remain strong over the next few years at just below 40% when considering amortization.

## Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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