

# RatingsDirect®

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## Summary:

# West Boylston Municipal Light Plant, Massachusetts; Retail Electric

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## Summary:

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### Credit Profile

West Boylston Mun Ltg Plant ICR

*Long Term Rating*

A/Stable

Current

## Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) on West Boylston Municipal Light Plant (WBMLP), Mass. is 'A'.
- The outlook is stable.

## Security

The ICR reflects our view of the electric utility's capacity and willingness to meet financial commitments as they come due and does not apply to any specific financial obligation. As of Dec. 31, 2022, WBMLP had \$530,000 of series 2013 obligations outstanding. We also note that WBMLP has an additional \$2.5 million obligation outstanding from a 2016 secured pool loan financing to mature in 2032. The bonds outstanding are secured by net revenues of the electric system.

## Credit overview

The rating reflects WBMLP's robust financial profile, supported by a strong three-year, fixed-charge coverage (FCC) average and more-than-ample liquidity reserves. We note, however, that the rating is ultimately restricted by the limited customer growth expectations, small service area, and expectation that FCC will decline slightly due to heightened purchased power cost forecasts.

WBMLP's credit strengths include:

- Significant rate-raising flexibility by way of competitive rates more than 30% below the weighted-average rate of the state, paired with median household incomes more than 20% stronger than the national median figure;
- Diverse portfolio of purchase power agreements (PPAs) with tenures of more than 10 years and a focus on noncarbon-emitting resources (77%), mainly sourced through Massachusetts Municipal Wholesale Electric Co.'s (MMWEC) nuclear entitlements;
- More than \$11 million in reserves equivalent to nearly 600 days' worth of operating expenses; and
- No plans for additional debt issuances in the next few years because management staggers projects to avoid a heavy leverage position or depletion of liquidity reserves.

Offsetting these strengths, in our view, are the following exposures:

- Limited economies of scale as evidenced by nominal customer growth expectations and revenue concentration in

the leading customer, Worcester County Jail (8% of total revenues in 2022), especially when considering the nominally low meter counts (3,745 customer accounts); and

- An expected decline in FCC below the 1.4x mark because of increases to purchased power expense; although, in recent years FCC has averaged 1.5x. Our FCC calculation treats forward capacity charges as well as 50% of costs associated with bilateral contracts as debtlike.

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

We consider WBMLP's environmental factors, including energy transition risk, to be credit neutral. The utility's portfolio makeup is compliant with the Municipal Lighting Plant Greenhouse Gas Emissions Standards (GGES) of Massachusetts with noncarbon-emitting resources composed of a substantial portion of the system's annual load requirements: nuclear (45%), hydro (18%), wind (7%), and solar (7%); the remaining consists of unidentifiable fuel types.

We believe that WBMLP's social factors are mitigated, given the service area's high incomes and comparably low rates, affording the system rate-raising flexibility. S&P Global Ratings believes that unsustainably strong business and consumer economic activity, which is driving inflation, will likely lead to further interest rate increases and ultimately produce an economic slowdown. Although S&P Global Market Intelligence sees an economic weakening on the horizon, it no longer foresees imminent recession risk. (See "Economic Outlook U.S. Q3 2023: A Sticky Slowdown Means Higher For Longer," published June 26, 2023, on RatingsDirect.) Consequently, we will continue to monitor the strength and stability of public power/cooperative electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion because elevated consumer prices and interest rates will likely continue whittling discretionary incomes.

We consider the utility's governance factors to be credit neutral because of WBMLP's robust financial forecasts, focus on noncarbon-emitting PPAs, and deployment of discretionary power cost adjustment (PCA) mechanism during a markedly volatile market environment.

## **Outlook**

The stable outlook reflects the utility's robust financial cushion, with reserves equivalent to more than one year's worth of operating expenses and the lack of additional debt plans. Furthermore, the outlook reflects the credit-supportive residential makeup and median household incomes from the service area's proximity to the Boston-Cambridge-Newton metropolitan statistical area.

### **Downside scenario**

We could consider lowering the rating if WBMLP's coverage and/or liquidity falter significantly, absent appropriate cost recovery measures as a function of increased natural gas market volatility that directly affects its Independent System Operator-New England (ISO-NE) market purchases or other additional unbudgeted expenses resulting from new and costly additional noncarbon-emitting PPAs.

## Upside scenario

A higher rating is unlikely over the next two years, considering WBMLP's expected customer growth stagnation, limiting the utility's economies of scale. Although WBMLP forecasts lower FCC figures, if it overperforms and we believe the improvement is sustainable, we could raise the rating.

## Credit Opinion

WBMLP receives 64% of its supply requirements through MMWEC-sourced nuclear entitlements from the Millstone and Seabrook plants set to last through 2050. The management team is focusing on new noncarbon-emitting PPAs to further ensure their environmental regulation compliance and efforts to reach carbon neutrality. Currently, management is actively monitoring its power portfolio to ensure an approximate 80%-20% mix of committed PPAs and market purchases while keeping rates steady.

With the last rate increase in 2009, WBMLP has reaped the benefits of its longer-term agreements; however, with its exposure to market purchases, cost recovery is still a priority. That said, management is planning to run a cost-of-service study in 2023 to support any potential rate increases in the following years to keep up with rising costs especially considering the near-full customer saturation in the service area. Nevertheless, the high median household incomes and residential concentration mollify the issues regarding affordability and revenue stream stability.

### West Bolyston Municipal Light Plant, Massachusetts--Key credit metrics

	--Fiscal year ended Dec 31--		
	2022	2021	2020
<b>Operational metrics</b>			
Electric customer accounts	3,745	3,732	3,724
% of electric retail revenues from residential customers	45.4	45.3	46
Top 10 electric customers' revenues as % of total electric operating revenue	24.3	24.5	N.A.
Service area median household effective buying income as % of U.S.	N.A.	125	123
Weighted average retail electric rate as % of state	65.6	65.6	71.7
<b>Financial metrics</b>			
Gross revenues (\$000s)	8,148	8,120	7,860
Total operating expenses less depreciation and amortization (\$000s)	7,050	6,182	6,121
Debt service (\$000s)	556	579	669
Debt service coverage (x)	2.0	3.4	2.6
Fixed-charge coverage (x)	1.4	1.6	1.4
Total available liquidity (\$000s)*	11,542	12,626	13,070
Days' liquidity	597.6	745.5	779.4
Total on-balance-sheet debt (\$000s)	3,493	3,968	4,829
Debt-to-capitalization (%)	18.4	20.8	25.8

\*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.

## **Related Research**

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

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