

Summary:

West Boylston Municipal Light Department, Massachusetts; Retail Electric

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Credit Profile

West Boylston Mun Ltg Plant ICR

Long Term Rating

A-/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'A-' issuer credit rating on West Boylston Municipal Light Department, Mass. The outlook is stable.

The rating reflects our view of the following factors:

- The utility's status as a distribution system;
- A lack of direct debt;
- Sound fixed-charge coverage of contractual obligations to make capacity payments for power from third parties was nearly 1.2x in 2010;
- The financial flexibility associated with retail rates that exhibited nearly a 20% advantage compared with Massachusetts' 2009 average rates;
- A willingness to implement rate increases in response to rising costs;
- Nuclear and hydroelectric dependence, tempering the utility's exposure to fuel price volatility;
- Strong liquidity;
- A service area economy with wealth levels on par with the national average; and
- A residential customer base that accounts for about 42% of electric revenues, which bodes well for revenue stability. The utility's 51% load factor reflects the absence of meaningful industrial loads.

These factors temper the utility's credit strengths:

- The utility's substantial contractual obligation to service a portion of Massachusetts Municipal Wholesale Electric Co. (MMWEC)'s debt.
- In absolute terms, retail rates are high, although they are favorable compared with state average retail rates.
- The utility depends on nuclear capacity with high fixed costs for about 55% of customers' energy requirements.

West Boylston operates an electric distribution system that purchases electricity from various providers. Several MMWEC projects supply about 64% of the utility's electricity needs. 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 utility does not have direct debt. However, Standard & Poor's treats fixed payments and capacity payments to energy suppliers as having debt service attributes. Consequently, we remove these payments from operating expenses and treat them as debt service. Fixed-charge coverage was nearly 1.2x in 2010, following 1.1x in 2009.

We believe liquidity is sound. At Dec. 31, 2010, the utility reported \$1.8 million of unrestricted cash and investments and \$2.8 million of rate-stabilization funds that provided liquidity equaling about eight months' of operating expenses.

West Boylston (population, 7,700) is about 50 miles west of Boston. Its electric utility serves 3,500 customers, 2,900 of whom are residential customers.

Outlook

The stable outlook reflects our view of the absence of direct debt, sound fixed charge coverage of off-balance-sheet obligations, and the financial flexibility that advantageous rates provide.

Related Criteria And Research

USPF Criteria: Electric Utility Ratings, June 15, 2007

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