STANDARD & POOR'S RATINGS SERVICES

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Summary:

# West Boylston Municipal Light Department, Massachusetts; Retail Electric

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## Summary:

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| 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 limited $1 million of debt associated with a 370 kilowatt (kW) solar project added in 2010;
- Sound fixed-charge coverage of contractual obligations to make capacity payments for power from third parties of 1.2x in 2010-2011;
- The financial flexibility associated with retail rates that exhibited competitive advantages compared with Massachusetts' 2010 average rates for the residential (15%), commercial (6%), and industrial (9%) customer classes ;
- Nuclear and hydroelectric resources that provide about two-thirds of energy requirements and whose price stability temper the department's exposure to fuel price volatility;
- A strong $2 million of unrestricted cash and investments, together with more than $3 million of rate stabilization funds. These provided strong liquidity equivalent to about nine months' operating expenses at fiscal year-end 2011 (Dec. 31);
- A service area economy with wealth levels on par with the national average; and
- A residential customer base that accounts for about 40% of operating revenues, which bodes well for revenue stability. The utility's 50% load factor reflects the absence of meaningful industrial loads.

We believe these factors temper the utility's credit strengths:

- The department has substantial contractual obligation to service a portion of Massachusetts Municipal Wholesale Electric Co.'s (MMWEC) nuclear debt through 2018.
- 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 50% of customers' energy requirements. However, the Seabrook and Millstone debt matures in 2018.

West Boylston operates an electric distribution system that purchases electricity from various providers. Several MMWEC projects supply about 60% 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.

Although not subject to renewable portfolio standards, the utility has added wind and solar resources to its portfolio. The wind project contributed to nearly 3% of 2011's power supply. The solar project's nearly $1.2 million of acquisition debt translated into a very high $3,100 per kW. In 2011, the solar project's 445 megawatt-hours (MWh) represented less than 1% of the department energy supply. Amortizing the solar project's 2011 debt service of $91 million over the year's 445 MWh yields an expensive 20 cents of debt service per kilowatt-hour.

The utility is the obligor on the remaining $1 million of debt issued in 2010 by the Massachusetts Municipal Light Department Solar Energy Cooperative Corp. to finance the solar project. Debt service coverage on these Clean Renewable Energy Bonds was very strong, in our view, at more than 7.0x in 2010 and 2011.

Standard & Poor's treats fixed payments and capacity payments to energy suppliers as having debt service attributes. Consequently, we remove payments to MMWEC and other suppliers from operating expenses and treat them as debt service. Fixed-charge coverage was 1.2x in 2010 and 2011.

We believe liquidity is strong. At Dec. 31, 2011, the department reported $2.0 million of unrestricted cash and investments and $3.2 million of rate-stabilization funds that provided liquidity equaling about nine months' 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 limited direct debt, sound fixed charge coverage of off-balance-sheet obligations that mature in 2018, and the financial flexibility that advantageous rates provide. We do not expect to raise or lower the rating during our two-year outlook horizon.

## Related Criteria And Research

USPF Criteria: Electric Utility Ratings, June 15, 2007

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