

# RatingsDirect®

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## Summary:

# West Boylston Municipal Light Department, 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

Upgraded

## Rationale

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

The upgrade reflects our view of the following factors:

- Sound fixed-charge coverage of debt service and contractual obligations to make capacity payments for power from third parties, which has been at least 1.2x since 2010 and was 1.3x in 2012;
- A very strong \$4.6 million of unrestricted cash and investments, together with more than \$800,000 of rate stabilization funds. These provided what we consider to be strong liquidity, equal to more than eight months' operating expenses at fiscal year-end 2012 (Dec. 31);
- The utility's status as a distribution system;
- A moderate \$3 million of debt consisting of about \$900 million for a 370 kilowatt (kW) solar project added in 2010 and \$1.9 million for a 2012 substation project;
- The financial flexibility associated with residential retail rates that were 10% more favorable than Massachusetts' 2011 average rates. Commercial and industrial customers' rates were comparable to the state averages for those sectors. In 2012, residential customers contributed 41% of operating revenues;
- The largely residential customer base, which we believe bodes well for revenue stability. The utility's 50% load factor reflects the absence of meaningful industrial loads;
- Nuclear and hydroelectric resources that provide about half of energy requirements and whose price stability temper the department's exposure to fuel price volatility; and
- A service area economy with 2012 household income levels that were 31% above the national median and per capita effective buying income 12% above the nation's average.

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 54% 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.

Although not subject to renewable portfolio standards, the utility has added wind and solar resources to its portfolio. Wind resources contributed to about 5% of 2012'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 about 1% of the department energy supply. Amortizing the solar project's 2011 debt service of \$91,000 over the year's 445 MWh yields an expensive 20 cents of debt service per kilowatt-hour. However, sales of renewable energy credits enhance revenue streams and more than compensate for the project's debt service.

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. The department also added about \$2 million of debt in 2012 for a substation project.

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, and 1.3x in 2012.

West Boylston (population, 7,700) is about 50 miles west of Boston. Its electric utility serves 3,500 customers, nearly 3,000 of whom are residential.

## **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**

### **Related Criteria**

USPF Criteria: Electric Utility Ratings, June 15, 2007

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