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Ratings

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Summary:

West Boylston Municipal Light Plant, Massachusetts; Retail Electric

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Credit Profile		
West Boylston Mun Ltg Plant ICR		
Long Term Rating	A/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'A' issuer credit rating on West Boylston Municipal Light Plant, Mass. The outlook is stable.

In our view, the rating reflects the general creditworthiness of West Boylston, and includes the following credit characteristics:

- Solid fixed-charge coverage of debt service and contractual obligations to make capacity payments for power from third parties, which has been at least 1.14x since 2013 and was 1.36x in 2015;
- A very strong $4.2 million of unrestricted cash and investments, together with more than $3.3 million of rate stabilization funds. These provided what we consider to be strong liquidity, equal to more than 222 days' operating expenses at fiscal year-end 2015 (Dec. 31);
- The utility's status as a distribution system;
- The financial flexibility associated with residential retail rates that were 21% more favorable that Massachusetts' 2015 average rates. Commercial and industrial customers' rates were comparable to the state averages for those sectors. In 2015, residential customers contributed 44% of operating revenues;
- The largely residential customer base, which we believe bodes well for revenue stability. The utility's 44% 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 plant's exposure to fuel price volatility; and
- A service area economy with 2015 household income levels that were 35% above the national median and per capita effective buying income 9% 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.
- 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 (population, 7,700) is about 50 miles west of Boston. Its electric department serves 3,566 customers, nearly 3,000 of which are residential.

West Boylston operates an electric distribution system that purchases electricity from various providers. Several

MMWEC projects supply about 44% 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.

West Boylston added $2 million of debt in 2012 to finance the construction of a new substation. Overall debt-to-capitalization is about 26%, which we consider low. Although the plant expects to issue an additional $4.3 million debt in the next few years to finance the remainder of the substation project, we expect West Boylston's debt burden, which was about $665 per customer in fiscal 2016, to remain low.

We believe the system has a track record of solid financial performance. Coverage of minimal debt service requirements has been very strong, at more than 2.1x in each of the past three years, a trend that management forecasts will be maintained and we believe is attainable given the utility's manageable capital needs. We also take into account the implied obligation of electric distribution systems to pay their share of the power supplier's debt service. The demand charge included in purchased power costs represents this cost. Fixed-charge coverage (FCC) is our adjusted debt service coverage metric that treats the demand charge as if it were debt and net transfers out as if they were operating expenses. Even this more stringent view of coverage has been what we consider to be solid at more than 1.14x over the past three years. The district ended fiscal 2015 with FCC of 1.36x.

Outlook

The stable outlook reflects our view of the plant's limited direct debt, sound fixed charge coverage of limited direct debt (including a portion of which that matures in 2018), and the financial flexibility that advantageous rates provide.

Upside scenario

A higher rating is unlikely over the next two years, as we believe the plant's FCC is constrained at current levels as new debt plans offset the benefits of the maturity of the MMWEC nuclear debt.

Downside scenario

Given our expectations that DSC, FCC, and liquidity will be maintained near current levels, we do not anticipate lowering the rating over the next two years.