

RatingsDirect®

Summary:

Wellesley Municipal Light Plant, Massachusetts; Retail Electric

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Wellesley Mun Light Plant ICR

Long Term Rating

AA/Stable

Current

Rationale

S&P Global Ratings' issuer credit rating (ICR) on Wellesley Municipal Light Plant (WMLP), Mass., is 'AA'. The outlook is stable.

WMLP is a distribution-only system that supported just \$811,800 in notes payable as of June 30, 2020.

Credit overview

WMLP provides electric service to more than 10,100 mostly residential customer meters in the town of Wellesley and other unincorporated areas. WMLP purchases almost all of its power from Energy New England LLC (ENE) and has entered into firm energy purchase commitments through 2023 and 2029 to reduce exposure to higher spot market prices during summer and winter peak periods. Credit strengths include the system's highly competitive electric rates that provide revenue-raising flexibility, extremely strong income indicators above the national average, and 100% fixed-block hedging strategy to reduce its exposure to spot market volatility. Somewhat offsetting these strengths is low nominal value of cash of about \$5 million, which represented 62 days of operating expenses for fiscal 2020, and fixed-charge coverage (FCC) that has declined to about 1.3x on average over the past three fiscal years from over 2.0x in fiscal 2016 due to higher power purchased costs. However, FCC has already begun to rebound as projected, to about 1.6x in fiscal 2020.

We understand that the COVID-19 pandemic has not had a material negative impact on WMLP's financials; the average decline in sales compared to budget for fiscal 2020 was about 5%. Based on current December 2020 fiscal year-to-date figures, revenues have increased by 3.9% due to a partnership with AT&T to install small antennas around the town. Despite the overall increase in megawatt hour sales in the first half of fiscal year 2021, electric revenues were down 3.3% due to a reduction in commercial consumption. Management is using conservative projections, in our view, given this decline.

The enterprise risk profile reflects our view of the system's:

- Robust service area economic fundamentals, as evidenced by its primarily residential customer base with extremely strong income levels and access to Boston's deep employment base;
- Weighted average system rate that was 20% below the state average in 2019, combined with median household effective buying income at 260% of the nation's, which provides further revenue-raising flexibility; and

- Operational management assessment reflecting its limited operating risk as a distribution system; well-managed power supply portfolio that limits exposure to fuel-price volatility; and management's robust financial policies and practices, including credit-supportive rate-setting practices and annual updates of its five-year financial forecasts and capital plans.

The financial risk profile reflects our view of the system's:

- FCC at 1.6x for fiscal 2020, up during the past two fiscal years due to higher capacity payments associated with shortfalls in the northeast Massachusetts load zone, which have already improved as projected and are expected to continue to rebound;
- Low liquidity and investments for fiscal 2020 representing approximately 62 days of operating expenses and \$5.1 million available cash, which, based on our analysis of projections, will rebound during the next five years; and
- Manageable debt and liabilities profile, suggested by very little debt outstanding, coupled with plans to cash fund its capital improvement plan.

The stable outlook reflects our view of the system's primarily residential and affluent customer base, coupled with highly competitive rates, which provide revenue-raising flexibility. In addition, the system does not have additional debt needs, and we expect WMLP will maintain sound financial metrics.

Environmental, social, and governance (ESG) factors

In our opinion, WMLP's overall environmental risks are in line with peers. We consider the system's power supply well managed by entering into fixed-price energy purchase commitments that limit exposure to fuel-price volatility. WMLP has no generation facilities of its own and purchases almost all of its power through ENE with capacity costs based on ISO-New England policies. New England does not have coal exposure, which also mitigates environmental risk, and WMLP continues to address increasing renewable requirements. WMLP additionally has a solar rebate program and a voluntary renewable energy program.

Governance risk factors are in line with peers. Management has exceeded its \$5 million minimum liquidity policy in 2020, and annually makes a \$1 million payment in lieu of taxes to the town of Wellesley. In addition, management updates its five-year capital plan and financial forecast annually.

From a social perspective, the WMLP's social risk is in line with peers. WMLP's rates are well below statewide averages and robust income indicators represent revenue raising flexibility. S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Stable Outlook

Downside scenario

If higher-than-projected power costs cause WMLP's liquidity or FCC levels to decrease and actual financial performance does not improve as projected, we could lower the rating.

Upside scenario

We could raise the rating if FCC continues to rebound and is sustained at higher level and if unrestricted cash and investments substantially rise and become comparable with those of peers at the higher rating level.

This report does not constitute a rating action.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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