

RatingsDirect®

Summary:

Wellesley Municipal Light Plant, Massachusetts; Retail Electric

Primary Credit Analyst:

Alexandra Rozgonyi, Centennial + 1 (303) 721 4824; alexandra.rozgonyi@spglobal.com

Secondary Contact:

Victor M Medeiros, Boston + 1 (617) 530 8305; victor.medeiros@spglobal.com

Table Of Contents

Rationale

Stable Outlook

Related Research

Summary:

Wellesley Municipal Light Plant, Massachusetts; Retail Electric

Credit Profile

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGS DIRECT are registered trademarks of Standard & Poor's Financial Services LLC.