

RatingsDirect®

Summary:

Rowley Municipal Lighting Plant, Massachusetts; Retail Electric

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Credit Profile

Rowley Mun Lighting Plant ICR

Long Term Rating

A+/Stable

Current

Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) on Rowley Municipal Lighting Plant (RMLP, or the lighting plant), Mass., is 'A+'.
- The outlook is stable.

Security

The ICR represents our view of RMLP's capacity and willingness to meet its financial commitments as they come due and does not apply to any specific financial obligation.

Credit overview

The rating reflects RMLP's robust financial profile, highlighted by the three-year, fixed-charge coverage (FCC) averaging 1.4x, and robust reserves of 349 days' cash on hand that include the rate stabilization fund and depreciation cash fund. Residential customers, which we view as having consistent demand for power, account for 52% of the light department's revenue. We note, however, that the light department does not produce long-term formal financial forecasts and capital plans on a regular basis.

The rating further reflects our view of RMLP's:

- Low concentration in the top 10 and top individual customers which account for 14.6% and 7.3% of revenues, respectively;
- Robust fuel mix diversity and strong hedging practices through power purchase agreements (PPAs), which temper exposure to any one fuel type or the spot market; and
- Competitive rates below the state average, resulting in rate-raising flexibility for the light plant, particularly given the median household effective buying income (MHHEBI) is 69% higher than the U.S. average.

Partly offsetting the above strengths, in our view, are RMLP's:

- Small overall customer base of 3,189 customers in 2022, and
- Market purchases that make up about 11% of the light department's electric demand, which could translate into significant expense if market prices spiked, though we recognize that the light department has a purchased power cost adjustment (PCA) mechanism, allowing it to pass through power cost variability.

Environmental, social, and governance

In our opinion, RMLP's overall environmental risks are credit neutral given its diverse power supply, full compliance with all environmental regulations, and procurement of a portion of its power supply from renewable resources. Massachusetts Climate Policy outlines "net zero" emissions by 2050 and 50% non-carbon emitting by 2030. In 2021, 24% of the utility's electricity came from wind, hydroelectric, and solar. Additionally, 18% of its energy in 2021 was nuclear, and RMLP plans to increase its use of nuclear power to 38% by 2025. RMLP plans to meet the 50% non-carbon emitting checkpoint by 2030.

RMLP's social risk is credit neutral; we note that rates are less than the state average and incomes are significantly higher than the national average. However, this is somewhat offset by the utility's small size given limited economies of scale. Following stronger-than-expected U.S. economic growth through the third quarter of 2023, S&P Global Economics believes that recent business and consumer activity are not sustainable and projects slowing economic activity in the fourth quarter of 2023, along with tepid economic growth of 1.3%-1.4%, respectively, in 2024-2025. (See "Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted," published Sept. 25, 2023, on RatingsDirect.) Although inflation is softening, S&P Global Economics projects elevated interest rates through 2024. Consequently, we continue to monitor the strength and stability of utilities' revenue streams for evidence of delinquent payments or other revenue erosion.

RMLP's governance credit factors are moderately negative. The lighting plant doesn't produce multiyear financial forecasts or long-term capital improvement plans, and we believe these planning documents can identify problems and provide guidance to management. We note that the light department has sound cyber security processes. We also note that management does produce 10-year power supply peak load and annual budgets.

Outlook

The stable outlook reflects our anticipation that RMLP's robust financial cushion, predictable revenue streams, and timely PCA mechanism, when needed, will provide stability to the utility's operations and financials during the two-year outlook time frame.

Downside scenario

We could lower the rating if RMLP's rate recovery is insufficient and the department experiences a significant and sustained decline in FCC or liquidity stemming from economic pressures and higher power costs.

Upside scenario

We do not expect to raise the rating over the next two years given the scale of the light department's operations and service base, as well as a lack of formal financial forecasting and long-range capital improvement planning.

Credit Opinion

Enterprise risk

We view RMLP's largely residential customer base as providing stability to the lighting plant. Residential customers have more predictable demand compared to commercial and industrial customers. Moreover, MHHEBI is 169% of the

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national level, which we view as a credit positive.

The utility purchases all of its power through Energy New England (ENE), which performs the forecasting for RMLP's power supply. ENE manages the power supplies of over 20 municipal electric systems in New England, serving more than 1,100 megawatts of load and conducting more than 1 billion kilowatt-hours in wholesale power transactions annually.

The utility produces annually updated budgets (financial and capital) but no other forward-looking financial forecasts. We recognize its extensive planning to decarbonize and its procurement of future PPAs in renewable resources. We view management as generally capable stewards of a distribution electric system with limited operating issues. RMLP monitors budget-to-actual variances monthly, and management exercises its PCA mechanism at its discretion, with costs generally recovered on a quarterly basis.

Financial risk

In our view, FCC, which includes RMLP's demand costs from power purchases, has been robust in the last three years. FCC is our internally adjusted debt service coverage metric that tracks the use of total utility operating revenues. It also incorporates our recognition of fixed costs associated with demand costs from power purchases, which we define as a long-term recurring item that is debtlike, even if legally treated as an operating expense. We have imputed 50% of RMLP's purchase power expense as a proxy for these charges. Management does not provide financial projections, and FCC could potentially decline due to higher power costs incurred by the utility in 2023.

We view the days' liquidity as healthy but believe that the nominal amount is somewhat low, particularly given RMLP's purchases from the spot market during periods of peak demand. Management had to use unrestricted reserves to cover expenses in 2022 due to higher costs associated with acquiring power on the spot market, and plans to maintain a rate stabilization fund between \$1.5 million and \$1.7 million. It expects to maintain unrestricted reserves near existing levels in the coming years. RMLP reported no debt and currently has no plans to add any debt to the plant's operations in the next five years.

This report does not constitute a rating action.

Rowley Municipal Lighting Plant, Massachusetts--key credit metrics

	--Fiscal year ended Dec. 31--		
	2022	2021	2020
Operational metrics			
Electric customer accounts	3,189	3,130	3,102
% of electric retail revenues from residential customers	52	52	52
Top 10 electric customers' revenues as % of total electric operating revenue	15	14	15
Service area median household effective buying income as % of U.S.	169	167	152
Weighted average retail electric rate as % of state	86	98	98
Financial metrics			
Gross revenues (\$000s)	8,437	8,059	8,047

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Rowley Municipal Lighting Plant, Massachusetts--key credit metrics (cont.)

	--Fiscal year ended Dec. 31--		
	2022	2021	2020
Total operating expenses less depreciation and amortization (\$000s)	7,530	7,041	6,839
Debt service (\$000s)	0	0	0
Debt service coverage (x)	--	--	--
Fixed-charge coverage (x)	1.3	1.4	1.5
Total available liquidity (\$000s)*	7,209	6,977	6,387
Days' liquidity	349	362	341
Total on-balance-sheet debt (\$000s)	0	0	0
Debt-to-capitalization (%)	0	0	0

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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