S&P Global Ratings

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Rowley Municipal Lighting Plant, Massachusetts; Retail Electric

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Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'A+' issuer credit rating on Rowley Municipal Lighting Plant (RMLP), Mass. The outlook is stable.

The rating reflects the application of our "U.S. Municipal Retail Electric And Gas Utilities Methodology And Assumptions" criteria, published Sept. 27, 2018.

The rating reflects our opinion of a very strong enterprise risk profile and strong financial risk profile.

The enterprise risk profile reflects our view of RMLP's:

- Very strong service area economic fundamentals, reflecting a residential base with high income levels;
- Strong operational and management assessment, highlighted by sound rate-setting practices and a diverse power supply portfolio, offset somewhat by the plant's power supply recontracting risk;
- Very strong market position, due to rates that are slightly below the state average, combined with the service area's above-average incomes, which provide ratemaking flexibility; and
- Extremely strong industry risk relative to that of other industries and sectors.

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

- Vulnerable coverage metrics, as evidenced by fixed cost coverage (FCC) that has averaged 1.07x over the past three years;
- Very strong liquidity and reserves, reflecting available unrestricted cash and investments measuring 242 days of operating expenses in 2018; and
- Extremely strong debt and liabilities profile, reflecting the plant's debt-free position.

Outlook

The stable outlook reflects our opinion of RMLP's robust demographic profile, competitive electric rates, and lack of direct system debt, which should allow the utility to maintain a financial profile commensurate with the rating.

Downside scenario

We could lower the rating if 2018 coverage metrics are replicated or liquidity deteriorates, which could occur if management fails to pass through any unexpected escalation in power supply or other expenses.

Upside scenario

While unlikely due to RMLP's small customer base and recontracting risk, we could raise the rating if coverage metrics improve significantly without deterioration of liquidity or the utility's competitive position.

Utility Description And Credit Overview

RMLP is a distribution-only system. The utility serves a primarily residential customer base of approximately 3,000 in the town of Rowley (population 6,300), with easy access to Boston, which is about 30 miles away via Interstate 95 and Route 1.

Enterprise Risk

Economic fundamentals--Very strong

We believe RMLP's customer base provides stability to the utility's credit profile. Residential customers account for over 50% of revenue. Leading customers account for just 13% of revenue, and the largest customer accounts for just 9%. Median household effective buying incomes are 64% above the U.S. average, providing the utility with rate-raising flexibility. The utility's small size--serving just 3,021 customers in 2017--tempers our view of its economic fundamentals.

Operational management assessment--Strong

RMLP relies on a contracted power supply, albeit from system power from a diverse mix of assets. In 2018, the utility obtained 38% of its power from NextEra Inc., 25% from Shell Energy, and 17% from a variety of short- to mid-term renewable purchase power contracts. The utility purchased the balance of power on the spot market. Management maintains a rolling hedge, which reduces the risk of potential volatility in the spot market. The plant's power supply suggests a controllable carbon footprint, so environmental costs should be manageable, borne by power suppliers and passed through to the utility via cost of purchased power.

The utility does not produce formal strategic plans or five-year financial forecasts. We view this as a credit risk because of a lack of written plans or forecasts to guide RMLP. Moreover, developing these plans and forecasts could help illuminate potential problems. Even so, we view management as generally capable stewards of a distribution electric system with limited operating issues.

Although RMLP monitors budget-to-actual variances monthly, management exercises its power cost adjustment (PCA) mechanism at its discretion, with costs generally recovered quarterly. In our opinion, the PCA is just adequate in this regard.

Market position--Very strong

We consider RMLP's market position a credit strength, affording the utility revenue-raising flexibility. Based on our calculations and data from the U.S. Department of Energy's Energy Information Administration, the weighted average system rate was 98% of the state average in 2017, the most recent year of available comparative information. The town's above-average incomes provide RMLP with additional rate-raising flexibility, in our view. Management does not anticipate raising rates in the next three years, so we expect the utility to maintain its competitive advantage.

Industry risk--Extremely strong

Consistent with "Methodology: Industry Risk", published Nov. 19, 2013, we consider industry risk for municipal retail electric and gas utilities covered under these criteria very low, and therefore extremely strong compared with other industries and sectors.

Financial Risk

Coverage metrics--Vulnerable

In our view, FCC, which includes RMLP's demand costs from power purchases, has been historically uneven. FCC has ranged from 0.93x-1.2x for the past three years. Coverage declined to 0.93x in 2018 due to a one-time increase in purchased power expenses. RMLP's budget indicates a return to 1.12x FCC as purchased power expenses return to historical levels. We could lower our assessment if 2018 coverage levels are replicated in the future.

Liquidity and reserves--Very strong

RMLP ended fiscal 2018 with a combined $5 million of unrestricted cash and investments, or a very strong 242 days' cash on hand. Given that RMLP is exposed to limited operational risks as a distribution utility, we consider these liquidity levels robust for a system this size.

Debt and liabilities--Extremely strong

The utility does not have any debt outstanding, nor does it expect to issue any debt in the next five years. Given its modest capital requirements and lack of debt, we view RMLP's debt and liabilities profile as extremely strong.