S&P Global
Ratings

RatingsDirect®

Summary:

Middleton Electric Light Department, Massachusetts; Retail Electric

Primary Credit Analyst:
Mike Lensky, Englewood +1 303 721 4138; mike.lensky@spglobal.com

Secondary Contact:
Doug Snider, Englewood + 1 (303) 721 4709; doug.snider@spglobal.com

Table Of Contents

Summary:

Middleton Electric Light Department, Massachusetts; Retail Electric

Credit Profile		
Middleton Elec Light Dept ICR		
Long Term Rating	A+/Stable	Current

Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) on Middleton Electric Light Department (MELD, or the light department), Mass., is 'A+'.
- The outlook is stable.

Security

The ICR represents our view of MELD'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 MELD's robust financial profile, highlighted by the three-year, fixed-charge coverage (FCC) averaging 1.93x, and robust reserves of 407 days' cash on hand that include the rate stabilization fund and depreciation cash fund.

The rating further reflects our view of MELD's:

- Stable customer base, with residential customers accounting for 40% of revenues;
- Diverse fuel mix from multiple power purchase agreements, which tempers exposure to natural gas and power price volatility; and
- Competitive rates below the state average, resulting in rate-raising flexibility for the light department, particularly given the median household effective buying income (MHHEBI) is 86% higher than the U.S. average.

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

- Small overall customer base of 3,983 customers in 2022, limiting economies of scale;
- High revenue concentration in which the top 10 customers make up 36% of total revenues and the top individual customers account for 9.5% of revenues, which exposes MELD to potential load loss; and
- Market purchases that make up about 26% of the light department's electric demand, which could translate into significant exposure to market prices, though we recognize that the light department has adequate power cost recovery mechanisms in place, allowing it to pass through power cost variability.

Environmental, social, and governance

In our opinion, MELD'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 2022, 17.9% of the utility's electricity came from wind and solar, and 10.5% from hydro. Additionally, 39% of its energy in 2022 was nuclear, and MELD obtains around 26% from ISO/Market, which could expose the light department to regulations regarding natural gas. MELD plans to meet the 50% non-carbon emitting state requirement by 2030.

MELD's social risk is credit neutral; we note that rates are below the state average and incomes are significantly higher than the national average. However, in our view, utilities small size and scale and limited service area economy are limiting credit factors. 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, along with tepid economic growth of 1.5% in 2024 and 1.4% in 2025. (See "Economic Outlook U.S. Q1 2024: Cooling Off But Not Breaking," published Nov. 27, 2023, on RatingsDirect.) Although inflation is softening, S&P Global Economics projects elevated interest rates through much of 2024. The amalgam of material increases in delinquent consumer, credit card, and auto loans, along with October's resumption of student loan payments and drawdowns of household savings garnered during the pandemic, will likely compound the financial pressures facing consumers. Consequently, we continue to monitor the strength and stability of public power utilities' revenue streams for evidence of delinquent payments or other revenue erosion.

MELD's governance credit factors are credit neutral in our analysis. The light department produces multiyear financial forecasts. 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. However, we note that there is limited depth within the structure of the light department's management team.

Outlook

The stable outlook reflects our anticipation that MELD's robust financial cushion and predictable revenue streams provide stability to the utility's operations and financials during the two-year outlook time frame.

Downside scenario

We could lower the rating if MELD's cost 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 light department's limited operations and service area, highlighted by customer concentration.

Credit Opinion

Enterprise risk

MELD is a small electric distribution utility located north of Boston. The utility services about 3,900 customers and sources power through project ownership of nuclear facilities partially owned by the Massachusetts Municipal Wholesale Electric Co. (MMWEC), several bilateral contracts, and market purchases from ISO New England. We view MELD's largely residential customer base as providing stability to the light department. Residential customers have more predictable demand compared to commercial and industrial customers. Moreover, MHHEBI is 186% of the national level, which we view as a credit positive.

MELD relies on a contracted power supply, albeit from a diverse mix of assets. The counterparties providing purchased power include NextEra (which we view as having extraordinarily diverse assets) and MMWEC. MELD holds partial ownership in the Millstone Unit 3 and Seabrook Unit No. 1 nuclear facilities, as well as in Stonybrook's intermediate and peaking facilities. The remaining energy comes primarily from several bilateral agreements and purchases from ISO New England on the spot market which accounted for 26% of purchased power in fiscal 2022.

Financial risk

In our view, FCC, which includes MELD's demand costs from power purchases, has been robust in the last three years, averaging 1.9x. 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, capacity charges, and energy charges, which we define as a long-term recurring item that is debtlike, even if treated as an operating expense.

We view the days' liquidity as robust but believe that the nominal amount of $14 million is adequate, particularly given MELD's purchases from the spot market during periods of peak demand. It expects to maintain unrestricted reserves near existing levels in the coming years. MELD reported no debt and currently has no plans to add any debt to the department's operations in the next five years.

Middleton Electric Light Department, Massachusetts--key credit metrics

	--Fiscal year ended Dec. 31--		
	2022	**2021**	**2020**
Operational metrics			
Electric customer accounts	3,983	3,940	3,898
% of electric retail revenues from residential customers	39	40	41
Top 10 electric customers' revenues as % of total electric operating revenue	36	36	37
Service area median household effective buying income as % of U.S.	186	163	167
Weighted average retail electric rate as % of state	74	86	86
Financial metrics			
Gross revenues ($000s)	15,098	14,503	14,617
Total operating expenses less depreciation and amortization ($000s)	13,230	11,375	11,670
Debt service ($000s)	--	--	--
Debt service coverage (x)	N.M.	N.M.	N.M.
Fixed-charge coverage (x)	1.7	2.0	2.1
Total available liquidity ($000s)*	14,761	16,474	13,995

Middleton Electric Light Department, Massachusetts--key credit metrics (cont.)			
	--Fiscal year ended Dec. 31--		
	2022	**2021**	**2020**
Days' liquidity	407	529	438
Total on-balance-sheet debt ($000s)	N.A.	N.A.	N.A.
Debt-to-capitalization (%)	N.A.	N.A.	N.A.

*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.

This report does not constitute a rating action.

Related Research

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

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.