

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

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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 overall creditworthiness and its capacity and willingness to meet financial commitments in full as they come due. It does not apply to any specific financial obligations.

Credit overview

Located in northern Massachusetts, MELD is a small distribution-only utility, servicing about 4,000 customers. The rating reflects MELD's solid financial profile, supported by robust fixed-charge coverage (FCC) ratio, and significant cash reserves. MELD's financial metrics are expected to remain stable based on forecasts provided by management. However, as MELD invests in capital projects, which include a new generator and building additions that will require the use of cash reserves, the department's liquidity metrics may decline, but remain at levels that are supportive of the rating.

The rating further reflects our view of MELD's:

- Stable customer base, with residential customers accounting for 40% of revenues;
- A diverse fuel mix from multiple power purchase agreements, which tempers exposure to natural gas and power price volatility;
- Competitive rates below the state average, resulting in flexibility for the light department to raise rates, particularly given the median household effective buying income (MHHEBI) is 97% higher than the national average; and
- Robust financial metrics, as highlighted by the three-year, fixed-charge coverage (FCC) averaging 2.09x, and robust reserves of 550 days' cash on hand (DCOH) that include the rate stabilization fund and depreciation cash fund.

Partly offsetting the above strengths, are MELD's:

- Small customer base of 4,014 in 2024, limiting economies of scale and operational and financial flexibility;
- High revenue concentration in which the top 10 customers make up 33% of total revenues and the top individual

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customer accounts for 8% of revenues, which exposes MELD to potential load disruption; and

- Market purchases from the independent system operators (ISO) market make up about 17.4% of MELD's electric demand, which could translate into meaningful exposure to market prices.

Environmental, social, and governance

MELD's overall environmental risk factors are credit neutral given its diverse power supply and compliance with all environmental regulations. Massachusetts' climate policy outlines its goal of "net zero" emissions by 2050 and 50% non-carbon emitting by 2030. In 2024, 44% of MELD's electricity came from nuclear, 16% from wind and solar, and 9% from hydropower. MELD already meets 50% of Massachusetts's non-carbon emissions requirement by 2030, and plans to meet future goals in 2040 and 2050 with the purchases of additional nuclear-powered electricity and other renewables over the next several years.

MELD's social risk factors are also credit neutral given that its rates are below the state average and incomes are significantly higher than the national average, indicating the absence of affordability challenges.

We continue to monitor the strength and stability of electric utilities' revenue streams for evidence of delinquent payments or other revenue erosion. Along with a rate of inflation, as measured by the Consumer Price Index (CPI), that has persisted above 2% for longer than anticipated, Bureau of Labor Statistics data shows that the trailing 12 months' electricity price inflation continued to outpace the broader CPI by an average of 140 basis points during January-December 2024. The increases in delinquency rates and debt balances among household, credit card, and auto loan debt, along with household savings rates that are tracking below pre-pandemic levels, compound the financial pressures electricity consumers face as utilities invest in the hardening of existing assets to withstand more frequent and severe climate events while also investing in emissions reductions. Potentially exacerbating issues of energy affordability are S&P Global Economics' forecast of weakening GDP, and the uncertainty surrounding whether and when the president will implement economic initiatives proposed as a candidate, including imposing tariffs. The potential for the president's proposals to add to inflation and weaken GDP growth might add to the economic headwinds facing utility customers, which can negatively influence capacity to make timely utility bill payments. (See "Economic Outlook U.S. Q1 2025: Steady Growth, Significant Policy Uncertainty," published Nov. 26, 2024, on RatingsDirect).

MELD's governance credit factors are credit neutral in our analysis. The light department produces multi-year financial forecasts, five-year capital plans, and annual budgets. We note that MELD has sound cyber security processes. However, there is limited depth within the structure of its management team.

Outlook

The stable outlook reflects our view that MELD's robust financial cushion and predictable revenue streams provide stability to its operations and financials during the two-year outlook period.

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.

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Upside scenario

We do not expect to raise the rating during the next two years given MELD's limited operations and service area, highlighted by a small and concentrated customer base.

Middleton Electric Light Department, Massachusetts--key credit metrics			
	--Fiscal year ended Dec. 31--		
	2023	2022	2021
Operational metrics			
Electric customer accounts	4,014	3,983	3,940
% of electric retail revenues from residential customers	40	39	40
Top 10 electric customers' revenues as % of total electric operating revenue	33	36	36
Service area median household effective buying income as % of U.S.	197	186	163
Weighted average retail electric rate as % of state	79	79	87
Financial metrics			
Gross revenues (\$000s)	15,655	15,098	14,503
Total operating expenses less depreciation and amortization (\$000s)	11,618	13,230	11,375
Debt service (\$000s)	N.A.	N.A.	N.A.
Debt service coverage (x)	N.M.	N.M.	N.M.
Fixed-charge coverage (x)	2.6	1.7	2.0
Total available liquidity (\$000s)*	17,807	14,761	16,474
Days' liquidity	550	399	518
Total on-balance-sheet debt (\$000s)	0.0	0.0	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.

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