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MMWEC gains 'A' level upgrades from three major credit rating agencies

LUDLOW, Mass. – September 24, 2010 – Three major credit rating agencies this week upgraded Massachusetts Municipal Wholesale Electric Company (MMWEC) power supply projects, citing the financial and competitive strength of MMWEC and its municipal utility project participants.

MMWEC project ratings are now all in the “A” category, reflecting a strong and improving financial profile as the public power organization moves to refund a portion of its approximate \$444 million in outstanding debt.

“These upgrades verify that the MMWEC organization is in sound financial shape and that MMWEC and its project participants are managing their assets wisely,” said MMWEC Chief Executive Officer Ronald C. DeCurzio. “We’re also taking the steps needed to stay competitive in the future,” he said.

MMWEC has achieved a number of important milestones in recent years, including the retirement of debt on three power supply projects. It also has elevated its energy portfolio and risk management services, bringing even greater value to its municipal utilities and the consumers they serve.

In decisions announced this week:

- Fitch Ratings upgraded the ratings on all MMWEC projects to “A+” from “A”;
- Standard & Poor’s upgraded three projects to “A+” from “A” and another to “A-“ from “BBB+”; and
- Moody’s Investors Service upgraded four projects to “A3” from “Baa1”.

All of MMWEC’s outstanding debt is related to the organization’s ownership in the Millstone Unit No. 3 and Seabrook Station nuclear plants, which are licensed to operate until 2045 and 2030, respectively, although Seabrook Station recently applied for a license extension until 2050. MMWEC’s nuclear project debt is scheduled for retirement no later than 2019.

“The long operating life and relatively short life of related debt brings significant value to these resources,” DeCurzio said. “In the marketplace, carbon-free, nuclear assets have additional value as a hedge against volatile fossil fuel prices as well as various initiatives to price carbon emissions,” he said.

In reviewing MMWEC’s credit standing, the rating agencies examine numerous factors, including project operations and the ability of project participants to pay their share of MMWEC’s debt service. MMWEC sells the output of its projects to 28 Massachusetts municipal utilities and one Rhode Island utility under contracts that require the utilities to pay their share of project costs, including the debt service on MMWEC bonds.

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The rating agencies found strength in the financial positions of MMWEC's project participants, including low retail rates, local rate-setting authority, strong liquidity, limited capital requirements and a supportive regulatory environment.

"Beyond the immediate credit and financial benefits, the upgrades validate MMWEC's joint action system of financing energy resources for municipal utilities," DeCurzio said. "It shows the value in working together to achieve common goals, which have included the establishment of an independent power supply for Massachusetts municipal utilities," he said.

Joint action also gives MMWEC unique capabilities to manage the counterparty risks associated with bulk power purchases, an essential and valuable component of energy portfolio management.

According to Moody's, "given MMWEC's active role in managing many of the participants' power supply needs as members of MMWEC, the effectiveness of MMWEC's enterprise risk management program with regards to energy price hedging, contract negotiation, and the ongoing monitoring of member supply needs also remains a key rating consideration."

In addition to the upgrades on existing MMWEC projects, the rating agencies also assigned A-level ratings to a bond issue being considered by MMWEC to refund all or a portion of the organization's outstanding, variable-rate debt.

MMWEC this week released notice of a "potential tender offer" to holders of its variable-rate bonds to determine bondholder interest in selling their bonds to MMWEC. MMWEC has approximately \$170 million in variable-rate bonds outstanding. While the interest rate on these bonds has been extremely low due to various financial market conditions, MMWEC is interested in refunding its variable-rate debt with fixed-rate bonds due to uncertainties over future interest rates.

"The purpose of a refunding would be to limit MMWEC's exposure to higher interest rates and bring greater stability to the projects and MMWEC's project participants," DeCurzio said. "With the compression of fixed and variable interest rates, the timing is right for this refunding initiative," he said. Depending on the response to the tender and other factors, a mid-October bond issue is possible, he said.

MMWEC's project participants include Massachusetts municipal utilities based in the communities of Ashburnham, Boylston, Braintree, Danvers, Georgetown, Groton, Hingham, Holden, Holyoke, Hudson, Hull, Ipswich, Littleton, Mansfield, Marblehead, Middleborough, Middleton, North Attleborough, Paxton, Peabody, Reading, Shrewsbury, South Hadley, Sterling, Templeton, Wakefield, West Boylston and Westfield as well as the Pascoag (RI) Utility District.

MMWEC is a non-profit, public corporation and political subdivision of the Commonwealth of Massachusetts that provides a variety of power supply, financial, risk management and other services to the state's consumer-owned, municipal utilities.