



Fitch Upgrades Mass Muni Wholesale Elect to 'A+'; Outlook Stable [Ratings](#)

21 Sep 2010 5:40 PM (EDT)

Fitch Ratings-New York-21 September 2010: Fitch Ratings has assigned an 'A+' rating to the following bonds to be issued by Massachusetts Municipal Wholesale Electric Company (MMWEC):

- \$11.3 million Nuclear Mix No. 1 Issue, Series 2010;
- \$63 million Nuclear Project No. 3 Issue, Series 2010;
- \$35.2 million Nuclear Project No. 4 Issue, Series 2010;
- \$9 million Nuclear Project No. 5 Issue, Series 2010;
- \$52.1 million Project No. 6 Issue, Series 2010.

The bonds are expected to price late October 2010 and would finance a tender offer for its variable rate power supply project revenue bonds, which are currently in auction mode.

In addition, Fitch upgrades to 'A+' from 'A' its ratings on the following issues:

- \$33 million Nuclear Mix No. 1 Issue;
- \$88.8 million Nuclear Project No. 3 Issue;
- \$92.6 million Nuclear Project No. 4 Issue;
- \$26.7 million Nuclear Project No. 5 Issue;
- \$203.1 million Project No. 6 Issue.

The Rating Outlook is Stable.

RATING RATIONALE:

- The rating upgrade to 'A+' from 'A' on MMWEC's separately secured projects (Nuclear Mix No 1, Nuclear Project No. 3, Nuclear Project No. 4, Nuclear Project No. 5, and Project No. 6) is based on the continued strong performance and license extensions for the generating units and the expectation that the agency will make a tender offer for its auction-rate securities, to be funded by the issuance of fixed-rate bonds.
- The municipal electric systems, whose payments secure the bonds, exhibit credit characteristics consistent with the 'A' category or better.
- The project participant's strong credit characteristics include highly rated general obligation (GO) debt of the cities they serve, full rate setting authority, below-average rates and low-to-zero electric system debt.
- The long-term take-or-pay contracts require project participants to pay for debt service costs regardless of each project's energy and capacity output, and the contract's 25% step-up requirement (or reserves) mitigates the risk of a default by individual participants.
- The license extensions for nuclear Millstone Unit No. 3 and Seabrook Station increase the likelihood that the units, which had early construction and operating problems, will continue to produce energy and value for the participants long after the respective debt is retired.

KEY RATING DRIVERS:

- Continued performance of the units at or better than currently satisfactory levels.
- Project participants' ability to maintain currently strong credit profiles.

SECURITY:

The projects are separately secured by revenues associated with take-or-pay contracts with participating municipal electric systems.

CREDIT SUMMARY:

MMWEC is a project-based joint action agency for municipal electric utilities in the Commonwealth of Massachusetts, providing power supply services, including risk management, purchase power agreements and ownership interests in certain generating facilities. The project participants own and operate electric distribution systems throughout the Commonwealth of Massachusetts.

The rating on the bonds is supported by the strong credit quality of the roughly 25 underlying participants in each project. While most participants do not have outstanding electric system debt, the general obligation debt of most participating cities and towns is consistent with the 'AA' category. The credit quality of the respective municipal light systems is generally equal to or slightly weaker than the corresponding general obligation securities, founded on the credit strength of each system's rate setting authority. Rates are set by each system's board and are not subject to approval by the Massachusetts Department of Public Utilities. The project participants provide retail service to towns and cities in the Commonwealth, servicing an estimated customer base of 280,902 as of Dec. 31, 2009.

MMWEC has interests in five electric generating units, each of which has been in operation over 20 years. MMWEC's interests were financed through eight different projects, five of which, all related to nuclear generating facilities, still have debt outstanding. Based on the terms of each project, capacity and energy are sold to participants based on a 'take-or-pay' power sales agreement, which requires participants to make a payment that corresponds with debt service requirements whether or not power is delivered. While each project is separately secured, there is enough participant and unit overlap in each project that together with the combined billing system leads Fitch to assign bonds the same ratings.

All projects except Project No. 6 maintain a 25% step-up obligation that mitigates the risk of a default by individual participants. The step-up obligation of the participants in Project 6 has been exhausted save 1.7% due to the default of Vermont participants in 1998. However, Project 6 maintains a \$30.5 million debt service reserve fund (equal to 15% of debt outstanding), which together with the 1.7% step-up, mitigates default risk up to the 'AA-' level.

The agency runs close to 1.0x coverage on each of its projects, consistent with the joint action agency model. All non-nuclear project debt has been paid off and the nuclear project debt will be paid of in 2019, although licenses run until 2030 (expected to be extended to 2050) for Seabrook Station and 2045 for Millstone Unit No. 3. Future financings are limited compared with MMWEC's current generating portfolio. The agency anticipates issuing debt related to a gas fired 280 megawatt (MW) combined cycle generating unit in 2014 and is a member of a cooperative that will issue debt for the Berkshire Wind Power Project this fall.

Contact:

Primary Analyst
Drake Richey
Associate Director
+1-212-908-0325
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Christopher Jumper
Senior Director
+1-212-908-0516

Committee Chairperson

Jeff Schaub
Managing Director
+1-212-908-0680

Media Relations: Cindy Stoller, New York, Tel: +1 212 908 0526, Email: cindy.stoller@fitchratings.com.

Additional information is available at 'www.fitchratings.com'

In addition to the sources of information identified in the U.S. Municipal Revenue-Supported Rating Criteria, this action was additionally informed by information from Creditscope.

Applicable Criteria and Related Research:
'Public Power Rating Guidelines', June 11, 2009.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:
Public Power Rating Guidelines

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.

Copyright © 2010 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries.