FitchRatings

Fitch Rates Mass Muni Wholesale Elec Co Project No. 5 'AA-'; Outlook Stable

Fitch Ratings - New York - 20 November 2019:

Fitch Ratings has assigned the following rating to the Massachusetts Municipal Wholesale Electric Company's (MMWEC) Nuclear Project No. 5:

--Issuer Default Rating (IDR) 'AA-';

The Rating Outlook is Stable.

ANALYTICAL CONCLUSION

The assigned IDR of 'AA-' reflects Fitch's assessment of the credit quality of the project participants, particularly the credit quality of the dominant purchaser, the Town of Braintree Electric Light Division (BELD). Payments from the participants are ultimately used to meet the obligations of the Massachusetts Municipal Wholesale Electric Company's (MMWEC) Project No. 5. Payments from the project participants are made pursuant to identical take-or-pay power sales agreements (PSAs) with MMWEC and are absolute and unconditional. The rating is further capped by the credit quality of BELD as the dominant purchaser with a 56% entitlement share of the project. Notwithstanding provisions in the PSAs that provide for the limited reallocation of costs in the event of a purchaser default, amounts collected from the remaining participants would be insufficient to meet BELD's project obligation, if BELD were to default. The credit quality of BELD is also the current constraint on the rating.

CREDIT PROFILE

MMWEC is a public corporation and political subdivision of the Commonwealth of Massachusetts formed to be a joint action agency to develop power supply for its member Massachusetts cities and towns owning municipal electric systems and other utilities. As of December 31, 2018, 20 Massachusetts cities were members of MMWEC. These members, together with additional nonmember participants, provide retail service to approximately 285,000 customers, mainly in Massachusetts.

MMWEC maintains ownership interests in a variety of electric generating projects, which are part of the company's bulk power supply program. The projects are generally arranged and financed separately, each supported by separate PSAs with MMWEC members and other utilities who are participants in the project. The MMWEC projects include its Project No. 5, which consists of a 1.097% ownership interest in the Seabrook nuclear unit 1. Capacity and energy related to Project No. 5 has been allocated to 28 participants pursuant to project-specific PSAs and entitlement shares.

The Seabrook nuclear unit 1 is a 1,244 MW generating facility located in Seabrook, NH. The Seabrook station is currently majority owned and operated by NextEra Energy Seabrook, LLC, an unregulated indirect subsidiary of NextEra Energy Inc. (IDR: 'A-'/Stable). In aggregate, MMWEC owns an 11.6% share of the nuclear unit through three separate projects, including Project No. 5. The station commenced commercial operation in August 1990.

KEY RATING DRIVERS

Revenue Defensibility:: 'aa'

Strong Contractual Framework; Very Strong Dominant Purchaser

The revenue defensibility assessment of strong reflects the contractual obligations underpinning the project, which are unconditional but only provide for a limited reallocation of costs. The assessment also reflects the project's purchaser credit quality (PCQ) assessment, which is determined by Fitch's evaluation of the aggregate credit quality of the purchasers using Fitch's portfolio stress model and is capped by the credit quality of the dominant purchaser (BELD).

Operating Risk:: 'a'

Low-Cost Nuclear Project

The project's operating risk assessment is driven by the very low operating cost of the nuclear project and the relatively small magnitude of the project costs as a percentage of the purchasers' total costs. The take-or-pay contract structure requires payment on the project bonds whether or not the project is operating, or operable.

Financial Profile:: 'aa'

Very Strong Project Leverage Profile

Project revenues and costs are largely balanced and passed through to the power purchasers. As a result, leverage and the financial profile of the project are less of a consideration in Fitch's determination of the final rating.

Asymmetric Additional Risk Considerations

No asymmetric risk considerations affected this rating

RATING SENSITIVITIES

Purchaser Credit Quality: The Project No. 5 IDR largely reflects the credit quality of the purchasing utilities, and is capped by the credit quality of the largest participant, BELD, which is also the current constraint on the rating. Any change in the credit quality of BELD is likely to result in a corresponding change to the Project No. 5 rating. Further, any meaningful weakening in the credit quality assessment of the pool of purchasing participants could result in downward rating action.

SECURITY

The IDR is an assessment of the project's vulnerability to default on its financial obligations and is supported by the payment obligations outlined in the Project No. 5 PSAs between MMWEC and the 28 project participants.

Revenue Defensibility

MMWEC's Project No. 5 exhibits strong revenue source characteristics driven by the terms of the PSAs that underpin the project's revenue stream, which are unconditional but only provide for a limited reallocation of costs. The PSA's require MMWEC to sell, and each participant to purchase, the project capacity and energy based on their entitlement share of the project. Payments are unconditional and imposed on a take-or-pay basis whether or not the nuclear project is operating, operable or capacity has been interrupted or suspended. However, although participants may be reallocated the payment obligation of defaulting participants, such reallocation or "step-up" is limited to 25% of each participant's original entitlement share of the project.

Each of the participants and MMWEC have covenanted to maintain rates sufficient to repay their obligations under the respective agreements. The PSA obligations are payable by the project participants from utility revenues as an operating expense. MMWEC has covenanted to collect charges related to nuclear project that are sufficient to meet all requirements and provide 1.1x debt service coverage.

The PSAs remain in effect at least until all project obligations have been paid or provided for.

Project rate flexibility is assessed as very strong as MMWEC's charges under the PSAs are not subject to the approval of the Massachusetts Department of Public Utilities (MDPU) or any external party. Rates charged by each of the project participants are determined by each utility's governing board and are not subject to approval of the MDPU or any other external party.

Very Strong Purchaser Credit Quality

Fitch has assessed the project's purchaser credit quality at 'aa' reflecting the aggregate credit quality of the purchaser pool as evaluated using Fitch's portfolio stress model (PSM), as well as the limiting effect of the credit quality of the largest individual purchaser, BELD. Using the PSM, Fitch calculates the available enhancement and loss absorption afforded by the 25% step-up provision included in the purchaser PSAs. This amount exceeds the expected loss at the AAA liability hurdle, suggesting a very strong aggregate credit quality of the purchaser pool. However, Fitch's purchaser credit quality assessment is capped by the credit quality of the largest individual purchaser, as payments available as a result of the step-up provision would be insufficient to cover BELD's obligations to the project.

Braintree Electric Light Division

BELD's very strong revenue defensibility is supported by its core utility operations, which offer very competitive rates and affordable services throughout a service area that exhibits demand characteristics and demographics that are much stronger than national averages. Electric rates at BELD are very competitive. Average retail rates approximated 78% of the state average in 2017, and average residential rates were even lower at 68% of the state average. The utility's midrange operating risk reflects an operating cost burden that has remained somewhat elevated in recent years, driven in large part by the cost of the utility's owned and purchased resources and reasonable transfers that account for only 2.4% of total revenue. Capital planning and management at the utility has been adequate as evidenced by its average age of plant and reasonable levels of capital expenditure.

BELD's financial performance has remained relatively stable over the last five years, but weakened slightly in 2017 and 2018. The utility's coverage of full obligations and liquidity cushion are both adequate and neutral in Fitch's assessment. Leverage, measured as net adjusted debt to adjusted funds available for debt service (FADS), has varied slightly in recent years, but remains very low in the context of its key rating factor assessments. Going forward, Fitch expects BELD's performance to remain very strong and stable.

Operating Risk

Project No. 5 is a very low-cost, nuclear generating facility. The generating facility commenced commercial operations in 1990 and has reported solid operating performance since being acquired by NextEra Energy in 2002. Since the acquisition, the average unit capacity factor for the period 2003 through 2017 is 90.2%. For 2018, the unit reported a capacity factor of 91.2%.

The Fitch-calculated cost of energy produced by the project has been very low, ranging between 3.8 and 4.9 cents/kwh since 2014. These figures reflect the project's direct operating costs; including depreciation, but excluding debt service. Actual project costs for each of the participants are expected to be similarly very low as debt related to the original purchase of Project No. 5's share of the unit was repaid in full during 2018.

Fitch assesses Project No. 5's operating cost flexibility as weaker given the single source of energy supplied by the nuclear project.

Fitch assesses the lifecycle needs of the project as elevated given the current age of plant. On-going maintenance and capital expenditure requirements have been completed at the project level. MMWEC's share of capital expenditures is expected to range from $3.5 to $7.2 million over the next five years and be funded with project cash flow. No new project debt is anticipated.

Financial Profile

Project No. 5's financial profile has steadily improved, tracking the amortization of the project-related debt. At yearend 2018, net leverage, as measured by the ratio of net adjusted debt to adjusted funds available for debt service (FADS), was (.68x) reflecting the project's modest cash balances and the full repayment of outstanding debt. The project's leverage profile is consistent with a 'aa' assessment in the context of the its strong revenue defensibility and very low operating risk assessment. Nonetheless, the project's leverage profile is less of a consideration in Fitch's determination of the rating as Project No. 5 is a project financing conduit, whose revenues and payment obligations are largely balanced, and passed through to the project participants through the PSA's with MMWEC.

The project's liquidity profile is weaker despite Fitch-calculated coverage of full obligations ratios that have been above 1.0x. At yearend 2018, unrestricted cash totaled $565,000 or 77 days. Other designated funds available to the project totaled $6.8 million in 2018, but these funds are excluded from the liquidity metric. Prior to the repayment of the project debt all cash balances were reported as restricted under the project debt resolution.

No scenario analysis was completed, or necessary, in the determination of the rating.

Project No. 5 maintained no debt obligations at yearend 2018. All of the Project No. 5 debt was repaid during 2018 and no adjustments were necessary or made by Fitch related to purchased power or pension obligations.

Asymmetric Additional Risk Considerations

No asymmetric risks were factored in the rating.

Date of Relevant Committee

31-Oct-2019

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING		
Massachusetts Municipal Wholesale Electric Co. (MA) [Project 5]	LT IDR AA- ⊙ New Rating		
Massachusetts Municipal Wholesale Electric Co. (MA) /Issuer Default Rating - Electric/1 LT	LT AA- ⊙ New Rating		

Additional information is available on www.fitchratings.com

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Applicable Criteria

Public Sector, Revenue-Supported Entities Rating Criteria – Effective May 28, 2019 to November 7, 2019 (pub. 28 May 2019)

U.S. Public Power Rating Criteria (pub. 03 Apr 2019)

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