

MOODY'S

RATINGS

Rating Action: Moody's Ratings revises Vermont Public Power Supply Authority's Swanton Project outlook to negative from stable; affirms rating

13 May 2024

New York, May 13, 2024 -- Moody's Ratings (Moody's) has affirmed the Baa1 rating on Vermont Public Power Supply Authority's (VPPSA) Swanton Project revenue bonds of approximately \$8 million and has revised the outlook to negative from stable.

RATINGS RATIONALE

Today's rating action reflects the declining credit quality of the project's participants owing to two members that currently have overdue balances, including the project's largest member, Village of Lyndonville Electric Department (Lyndonville Electric). Lyndonville Electric has been unable to keep up with payments because of significant cash flow issues owing to higher than expected power costs in 2023 and large capital expenditures funded with cash on hand, and delayed rate increases. Lyndonville Electric has struggled to make payments to the project since June 2023 and its overdue balance currently sits at \$105,280. Lyndonville Electric is expected to take out a loan, which we understand has been approved, in order to pay its overdue obligations. Furthermore, the utility is working in conjunction with VPPSA on another rate case with the Vermont Public Utility Commission (VPUC) in 2024 after receiving a rate increase of almost 10% during 2023. Jacksonville Electric Department (Jacksonville Electric), who represents a smaller share of the project, is under new management and has already begun making payments on its overdue balances that is currently at approximately \$33,013, down from a high of \$70,518. The overdue balances of these two members are partially mitigated by the project's consistently strong liquidity numbers (almost 1,000 days cash on hand) and VPPSA's \$7.5 million line of credit with KeyBank National Association (Baa1/negative). To cover the payment delays, the project used cash on hand through 2023, followed by a draw on its line of credit. The draw on the line of credit was recently repaid and there are currently no amounts outstanding.

The rating action also reflects the legal security of the take-or-pay power sales agreement with 11 municipal electric utilities and 1 rural electric cooperative that

collectively have a weighted average credit quality in the Baa rating category. The weighted average credit quality is somewhat weak compared to similarly rated municipal projects and is further exacerbated by Vermont's regulation of municipal utilities as their rates need to be approved by the VPU C even though VPPSA and the project itself is unregulated. This is balanced by the project's profile as a peaking facility and its fast reserve capacity as it is highly valuable to ISO-NE, owing to its ability to quickly help stabilize the New England electrical grid. Moreover, with the project's participation in ISO-NE's capacity and energy markets, the project is able to realize value from the services it provides to ISO-NE. As a result, each member receives an annual bill credit through the authority's power settlement process that reflects the economic benefit to the participants. This structure helps to reduce each member's payment obligation to the project, helps to mitigate the need for a substantial rate increase at VPPSA, and lowers the burden of the obligation to each member.

RATING OUTLOOK

The negative outlook reflects the weakening in credit quality of the project's participants as two participants are currently having cash flow issues that have led to a delay in payments owed to the project.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Notable improvement in the project participants' weighted average credit quality

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Largest participant, Lyndonville Electric, is unable to secure loan to pay overdue balances
- Difficulty in payments from members continue or additional members struggle to make payments
- Material deterioration in the project participants' weighted average credit quality
- Unexpected major plant outages that impact financial performance

LEGAL SECURITY

Pledged net revenues are derived from the power sales agreements with 11 municipal electric utilities and 1 rural electric cooperative according to their project entitlement shares. The bond rate covenant is sum-sufficient, and there is no additional bonds test although any issuance is subject to approval by the Vermont PUC. The debt service reserve fund is fully cash funded and sized to meet maximum annual debt service.

PROFILE

VPPSA is a joint action agency established in 1979. The authority is a self-supported agency providing a variety of centralized services to its 11 member municipal distribution utilities throughout the State of Vermont. The authority is organized as a public service corporation and the board of directors consists of 11 directors, with one director elected by the legislative body of each of the 11 municipal members.

The Swanton project participants include 11 municipal electric distribution utilities that are VPPSA members and one electric cooperative which is not a VPPSA member. The Swanton plant is a 48 MW dual-fuel peaking electric generation plant in Swanton, Vermont that achieved full commercial operations in June 2010. The plant has Fast-Start capabilities and is mostly utilized for reserve capacity purposes in the ISO-NE forward and real time markets.

METHODOLOGY

The principal methodology used in these ratings was US Municipal Joint Action Agencies published in December 2022 and available at <https://ratings.moodys.com/rmc-documents/396803>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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