

RATING ACTION COMMENTARY

Fitch Affirms Connecticut Muni Electric Energy Coop and TRANSCO Revs at 'AA-'; Outlook Stable

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Fitch Ratings - New York - 10 Apr 2025: Fitch Ratings has affirmed the following Connecticut Municipal Electric Energy Cooperative (CMEEC) and Connecticut Transmission Municipal Electric Energy Cooperative (TRANSCO) ratings at 'AA-':

Connecticut Municipal Electric Energy Cooperative:

--\$9.9 million 2021 series A transmission services revenue bonds;

--\$18.4 million 2022 series A power supply system revenue bonds;

--Issuer Default Rating (IDR).

Connecticut Transmission Municipal Electric Energy Cooperative:

--\$14.8 million 2021 series A transmission system revenue bonds.

The Rating Outlook is Stable.

RATING ACTIONS

| ENTITY / DEBT ↕ | RATING<br>TYPE ↕ | RATING ↕ | RATING<br>ACTION ↕ | PRIOR ↕ |
|-----------------|------------------|----------|--------------------|---------|
| <hr/>           |                  |          |                    |         |

|                                                                                       |        |                                |                           |
|---------------------------------------------------------------------------------------|--------|--------------------------------|---------------------------|
| Connecticut Municipal Electric Energy Cooperative (CT)                                | LT IDR | AA- Rating Outlook Affirmative | AA- Rating Outlook Stable |
| Connecticut Municipal Electric Energy Cooperative (CT) /Electric System Revenues/1 LT | LT     | AA- Rating Outlook Affirmative | AA- Rating Outlook Stable |

VIEW ADDITIONAL RATING DETAILS

The affirmation of CMEEC'S IDR and CMEEC and TRANSCO's long-term bond ratings at 'AA-' reflect CMEEC's stable consolidated financial profile, supported by its 'Very Strong' revenue defensibility and 'Strong' operating risk profile. The joint-action agency's 'Very Strong' revenue defensibility is underpinned by a very strong contractual framework that includes all-requirements wholesale power contracts (WPCs) with each of its six member utilities. CMEEC's ratings also reflect the strong credit quality of its largest members and the unfettered legal authority to set rates for members.

CMEEC's strong operating risk assessment is supported by a low operating cost burden, largely influenced by short- and medium-term market power purchases. These purchases subject the utility to potential variability in market pricing. However, this risk is partially mitigated by CMEEC's energy risk management policies. Capital spending needs are limited and will not require the utility to borrow funds.

Based on preliminary fiscal 2024 financials, the utility's leverage ratio was 5.8x, largely unchanged from the previous year. CMEEC's liquidity position also remained robust, equaling 202 days unrestricted cash and, when factoring \$50 million in available liquidity facilities, CMEEC's liquidity cushion was 385 days. Fitch's scenario analysis indicates that leverage is projected to hover just above 6x in the base case and trend towards 6.5x in the rating case, while financial metrics continue supporting the overall rating. The system projects continued stable financial performance and minimal future capital spending.

SECURITY

CMEEC's power supply system revenue bonds are secured by a pledge of net revenues of CMEEC, which is derived from power sales contracts with its six member systems.

The TRANSCO bonds are secured by net revenues received by TRANSCO from CMEEC, which are ultimately derived from separate take-or-pay contracts with the same six member systems.

## **KEY RATING DRIVERS**

### **Unconditional Long-Term Contracts; Strong Member Credit Quality**

The 'Very Strong' revenue defensibility assessment is supported by long-term all-requirements contracts that require each of CMEEC's six members to purchase essentially all of their power requirements from the joint-action agency. Revenue defensibility is further supported by CMEEC's independent legal ability to adjust rates sufficient to meet costs associated with power delivery and the strong credit quality of the largest purchasing members.

Member credit quality is generally supported by midrange demographics and demand characteristics, very low and highly competitive retail rates relative to state averages, and robust financial characteristics, including strong liquidity positions and low leverage levels. However, industrial customer concentration at some of the member city systems moderately affects purchaser credit quality.

### **Low Operating Costs**

The utility's strong operating risk assessment reflects its low operating cost burden, which was roughly 9.1 cents/kWh in 2024 and averaged 9.4 cents/kWh over the past five years. Costs rose in 2022 and 2023 due to elevated market prices, but declined in fiscal 2024 as purchased power expense decreased by 22% yoy due to lower market prices.

CMEEC's power supply strategy requires active management of varied power purchases primarily from the New England power market (as administered by the Independent System Operator - New England), which exposes CMEEC to fluctuating market prices and limits operating cost flexibility. The system's purchasing activities include a combination of seasonal and spot transactions, and short-intermediate term bilateral contracts supplemented by owned-generation (particularly peaking power plants) and distributed generation within its members' territories. For fiscal years 2025 and 2026, CMEEC expects to hedge over 50% of its members' energy needs.

CMEEC is projecting just under \$900,000 in capital expenditures between fiscal years 2025 and 2027 based on limited future capital needs. Future spending will be dedicated to

equipment purchases and replacement, and construction outlay.

### **Stable Historical Financial Performance; Very Low Leverage Ratio**

The system's 'Very Strong' financial profile assessment reflects stable financial performance and low system leverage. CMEEC's leverage ratio, measured by Fitch as net adjusted debt to adjusted FADS, was 5.8x at YE 2024, while Coverage of Full Obligations was 1.27x. Financial metrics have generally remained stable due to consistently healthy margins and minimal capital requirements. Fitch's rating case scenario analysis highlights that leverage levels will remain supportive of the financial profile assessment and the 'AA-' rating.

### **RATING SENSITIVITIES**

#### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- Sustained consolidated leverage of 8.0x or more in Fitch's rating case;
- Material decline in the largest members' credit quality;
- A rise in the operating cost burden or shift to higher lifecycle investment needs that leads to a lower operating risk assessment.

#### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

- A decline in CMEEC's consolidated leverage ratio, either through higher cash flow or reduced outstanding debt, to levels consistently below 5.0x through Fitch's base and stress case

### **PROFILE**

CMEEC is a joint action agency (JAA) that provides power to six municipal distribution system members in southern Connecticut: Groton Utilities, Bozrah Light & Power (BL&P), Jewett City Department of Public Utilities, Norwich Public Utilities, and the city of Norwalk's Second (South Norwalk) and Third (East Norwalk) Taxing Districts.

The members are provided electric service pursuant to long-term, full requirement replacement power sales contracts that extend through 2053, which is well beyond the final maturity of CMEEC's bonds. CMEEC also provides electricity to the Mohegan Tribal Utility Authority (MTUA) pursuant to a long-term wholesale contract that was recently extended to December 2031.

CMEEC created TRANSCO in 2009 as a separate, legal JAA to acquire a portion of the transmission assets of Connecticut Light & Power to provide transmission service to CMEEC's members. TRANSCO is comprised of the same six members as CMEEC.

CMEEC is obligated to pay all of TRANSCO's obligations on a take-or-pay basis, including debt service. The transmission-related agreements extend through 2052, beyond the final maturity of the transmission related debt (2042). CMEEC's payments to TRANSCO are paid as an operating expense, ahead of the utility's own debt service. TRANSCO is a blended component unit of CMEEC, and its financial performance is reported on a CMEEC combined basis. For fiscal year 2024 consolidated results, CMEEC's revenues are roughly 85% power supply related, 17% transmission, and the rest from member level rate stabilization fund transfers (some of which is comprised of billing for power supply).

CMEEC and TRANSCO's revenue bonds are separately secured but supported by the same six-member systems. Given that CMEEC is the obligor on all of TRANSCO's obligations, Fitch does not differentiate the debt ratings of the two joint action agencies.

### **Sources of Information**

The principal sources of information used in the analysis are described in the Applicable Criteria.

### **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

### **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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**APPLICABLE CRITERIA**

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria - Effective from January 10, 2025 to May 1, 2026 \(pub. 10 Jan 2025\) \(including rating assumption sensitivity\)](#)

## APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.1.0 (1)

## ADDITIONAL DISCLOSURES

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Connecticut Transmission Municipal Electric Energy Cooperative (CT)

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