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CREDIT OPINION
31 January 2023

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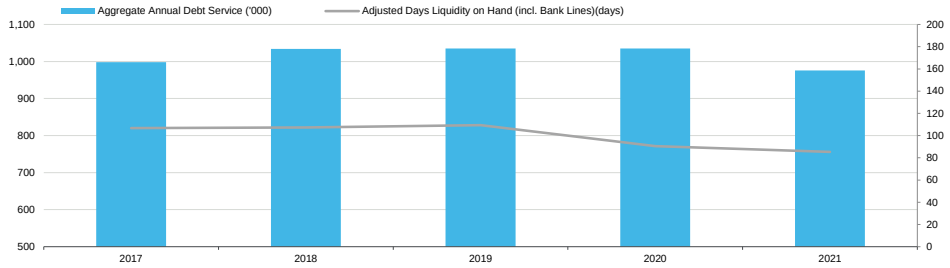
Connecticut Trans. Muni. Elec.Energy Coop.

Update to credit analysis

Summary

Connecticut Transmission Municipal Electric Energy Cooperative's (Transco, Aa3 stable) credit profile is supported by stable and predictable revenue and cash flow, which is expected to remain the norm, and the benefits of its strong ties through various financial, operational and contractual relationships with affiliated Connecticut Municipal Electric Energy Cooperative (CMEEC, Aa3 stable). The Transco credit profile also reflects the collective strength of the approximate A1 weighted average credit quality of Transco's members, the lower risk nature of the transmission business, and the various transmission services contracts that provide strong legal protections to Transco's bondholders.

Exhibit 1
Moderate Annual debt service requirements and adequate liquidity maintained



Source: Moody's Investors Service

Credit strengths

» Low business risk characteristics of the transmission assets Transco purchased from Connecticut Light & Power Company (CL&P), with CL&P as the operator

» Economic benefits from owning low risk transmission assets

» Satisfactory legal protections exist, including average bond security provisions and strong take or pay all requirements power supply agreements (PSAs), general transmission services agreements (GTSAs) and transmission finance and service agreements (TFSAs) with CMEEC and Transco participants, respectively

» Transco has relatively low leverage to take advantage of attractive Federal Energy Regulatory Commission (FERC) authorized return on equity (ROE)

Credit challenges

» Significant dependence on CMEEC makes managing that relationship integral to maintaining the Transco credit profile

» CMEEC, and by association, Transco, have exposure to potential natural gas price volatility and resulting periodic exposure to collateral posting requirements for fuel hedge and power supply agreements

» CMEEC, and, by association, Transco, have modest concentration in several large customers served by the City of Groton and Bozrah Light and Power (BL&P)

Rating outlook

The stable outlook reflects the sound weighted average credit quality of the members, the strong contractual arrangements with members, the transmission cost benefits from owning transmission assets, sound risk management practices, and a good liquidity profile.

Factors that could lead to an upgrade

» Improvement of the members' credit quality

Factors that could lead to a downgrade

» If there is material decline in the members' credit quality or any of Transco's or CMEEC's members/participants challenge their contractual obligations

» If liquidity for CMEEC and by association, Transco, becomes strained

Key indicators

Exhibit 2

Connecticut Transmission Municipal Electric Energy Cooperative	2017	2018	2019	2020	2021
Debt Outstanding ($'000)	20,690	20,690	20,690	20,690	16,360
Adjusted Debt Ratio (%)	36.5	37.5	38.4	39.6	36.1
Total Days Cash on Hand (days)	106.7	107.3	109.4	90.5	85.3
Adjusted Days Liquidity on Hand (incl. Bank Lines)(days)	106.7	107.3	109.4	90.5	85.3
Fixed Obligation Charge Coverage (if applicable)(x)	1.00	1.00	1.00	1.00	1.00

Source: Moody's Investors Service

Profile

Transco is a legally separate, special purpose, publicly-owned, joint-action electric transmission entity created under CMEEC's existing statutes to acquire and own transmission assets comprising part of the regional electric grid administered by the Independent System Operator - New England, Inc. (ISO-NE). Each of Transco's members is a member in CMEEC. CMEEC is a joint action agency that is currently a full requirements power supplier to six municipal electric utilities in Connecticut (City of Groton; Borough of Jewett City; City of Norwich; Second (South Norwalk) and Third (East Norwalk) Taxing Districts of the City of Norwalk; and BL&P) and to the Mohegan Tribal Utility Authority (MTUA). CMEEC's electric power and energy supply agreement with MTUA was amended in September 2021, extending the initial term through December 31, 2031.

Detailed credit considerations

Revenue Generating Base

The weighted average credit quality of the underlying members is A1 and we expect it to remain stable. Transco, through a special filing at the time of the purchase of the transmission lines from CL&P earns an attractive FERC authorized ROE. This return is recovered

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through a FERC authorized regional transmission tariff structure supported by the load serving entities in ISO-NE. This attractive ROE, even as reduced periodically, creates economic benefits for Transco members with positive cash flow benefits to partially offset overall member transmission costs. Full and timely recovery of transmission costs is built into the regional tariff structure as the rate formula is simply adjusted annually without the need for a rate case to account for over or under recovery in the prior year.

CMEEC, which is so integral to Transco's credit quality, is a joint power agency that is a full requirements power supplier to six municipal electric utilities in Connecticut and to the MTUA. CMEEC's members and participants continue to benefit from a near monopoly business position in their respective service areas and unregulated rate setting. These entities provide energy to more than 50,000 customers, and revenue derived from sales to these entities is usually fairly evenly distributed among residential, small and medium commercial, and large commercial and industrial customer classes, with a somewhat higher bias towards the residential class.

CMEEC's total load served has been steadily declining since 2015 with the load served at about 1.2 million MWh in fiscal 2021. The annual declines in load served reflect myriad factors, including the effects of weather and economic activity on members'/participants' demand and CMEEC's decision to discontinue its load aggregation business.

Municipal utility retail rates have historically been reasonably competitive against other electricity suppliers in New England. CMEEC is likely to maintain the competitive comparisons as CMEEC's cost structure benefits from operating cost efficiency strategies, amortizing debt and periodic refinancing of existing debt to achieve interest expense savings.

CMEEC provides full energy and capacity requirements to its members, excluding what is derived from existing hydroelectric resources, primarily through long- intermediate- and short- term power purchase agreements. CMEEC also has peaking generation resources, including member resources available from a combustion turbine unit in Norwich (~16.5 MW, winter rating), the MicroGen Project, which is comprised of 20 behind the meter units dispatched by CMEEC (~50 MW, winter rating), and 3 diesel generation units (~7.7 MW, winter rating). On December 31, 2021, CMEEC transferred its ownership of the Pierce project (~83.3 MW, winter rating) to a third party. Under the new ownership, the Pierce plant will continue to contribute to the grid and support regional grid reliability.

CMEEC has been expanding its renewable energy sources as part of the management's focus on carbon reduction strategies in support of the state's decarbonization goals to reach a 100% zero carbon target for the electric sector by 2040. While 49% of CMEEC's total load served by renewables and nuclear energy in 2021, this ratio increased to 53% in 2022 mainly reflecting the 14MW power purchase agreement entered for 20 years with Great River Hydro in July 2022 and CMEEC's 7.4 MW fuel cell power generation project that came to the service in December 2022.

CMEEC will likely continue to arrange for resources consistent with historical practices to fully meet its demand, plus a substantial reserve margin. CMEEC also has an interruptible demand-side management program that can modestly lower demand based on ISO-NE market conditions. CMEEC's competitive strategy is based on engaging its board to ensure CMEEC maintains an active role in understanding and mitigating exposures in the ISO-NE markets.

Some of CMEEC members face large customer dominance, which has been especially present for Groton, which serves Electric Boat and Pfizer, and BL&P, which serves Airgas Merchant Gases, Inc. To partially mitigate this risk, Groton and BL&P maintain average system rates significantly less than the Connecticut State average and have special contract arrangements with these customers that ensure recovery of recover member distribution costs and CMEEC's fixed cost obligations attributable to such customers on a take or pay basis. CMEEC's market position also benefits from the minimal fixed costs that might be exposed should a large customer depart, and the diverse, well-managed nature of CMEEC's power supply portfolio.

Financial Operations and Position

As a joint electric transmission agency, Transco recovers costs and earns returns on investment through the FERC formula rate tariff and CMEEC's costs are recovered in its wholesale rates charged to members pursuant to its full-requirements take-or-pay power sales contracts with members and transmission rates to its members pursuant to its GTSAs. In these instances, members/participants can adjust rates without external regulatory review.

Transco, which was formed in mid-2011, has produced consistently sound financial and operating performance in line many of its peers. For example, Transco's fixed obligation charge coverage (FOCC) ratio for fiscal years 2019-2021 averaged 1.0x. It is not unusual for a take-or-pay single asset joint action agency to manage its business on a close to sum sufficient FOCC budgetary basis. During the same

three-year period Transco's adjusted days liquidity averaged 95 days. Given the rate autonomy that Transco has available under the FERC formula tariff, we do not anticipate any weakening of these levels going forward.

Liquidity

Given Transco's significant contractual ties to CMEEC, we consider not only Transco' liquidity in terms of its 95 days of adjusted days liquidity on average over the past three fiscal years, but also view CMEEC's liquidity position as an important consideration in our analytical process. Although CMEEC is periodically affected by collateral posting under various fuel hedge and electric supply agreements, given market conditions it has not been required to post collateral in recent periods and this is likely to remain so for future years. CMEEC has a $40 million line of credit with Bank of America which expires on May 1, 2024. Currently, there is no outstanding balance on this line. We consider the terms and conditions of the existing credit agreements to be satisfactory as they do not contain onerous financial covenants or an ongoing material adverse change (MAC) clause.

CMEEC maintains an above average liquidity position, which is reflected in the three-year average of 383 days adjusted days liquidity on hand for FY 2019-2021, including unused capacity under multi-year committed bank credit as of those fiscal year end dates. Liquidity remains an important area of focus to help CMEEC cope with periodic volatility in energy markets.

Debt and Other Liabilities

Transco's debt ratio was 36% at December 31, 2021, primarily reflecting low leveraging to take advantage of the attractive FERC authorized allowed ROE under the formula rate structure. CMEEC and Transco have no incremental borrowing needs as the capital improvement plan includes modest amounts for standard maintenance of existing infrastructure which can be internally funded. Beyond the current maintenance plans for Transco and CMEEC, we think CMEEC will likely periodically consider additional distributed generation investments and Transco will likely consider other possible transmission investments, in both instances depending on case specific economics of those potential opportunities.

Legal Security

There is a pledge of revenues, pursuant to the TFSA between Transco and CMEEC, under which Transco agrees to provide transmission services to CMEEC. Under the TFSA, CMEEC agrees on a take-or-pay basis to pay all monthly transmission costs incurred by Transco, including debt service on the 2021 Series A Transmission System Revenue Bonds. These sum sufficient payments from CMEEC are considered absolute and unconditional regardless of whether any transmission services are provided and are considered operating expenses of CMEEC, payable ahead of any debt service payment on any CMEEC bonds outstanding. The sole source of funds for payment under the TFSA comes from payments made under the GTSAs that CMEEC has with its members, thereby effectively making the GTSAs part of the security package for Transco's Transmission System Revenue Bonds. Since the terms of the GTSAs require collection of sufficient funds to pay all CMEEC transmission related operating costs and debt service, we view the risks to investors in Transco debt and CMEEC Transmission Services Revenue Bonds as effectively the same. Since MTUA is not an owner of the Transco transmission assets, no costs of the assets owned by Transco are allocable to it, and it has no responsibility for, and receive no economic benefits from, the assets. (See below for more details on the GTSAs). The Transco bonds are also secured by a fifty percent maximum annual debt service reserve requirement.

General Transmission Services Agreements (GTSAs):

The GTSAs are full requirements, take or pay contracts with CMEEC members for transmission services and are in effect through at least December 31, 2052, which date is well beyond the longest dated debt maturity. The GTSAs are not part of the security for the CMEEC power supply system revenue bonds. Costs are divided into fixed costs and usage costs under the GTSAs; fixed costs include debt service under the transmission services revenue bond resolution, as well as costs for new projects or other financial contracts. Since MTUA did not participate in the Transco Project it is not obligated to pay any fixed costs, MTUA pays CMEEC for transmission services under the arrangement it has for bundled supply services provided under its power supply contract with CMEEC. Members must charge sufficient retail rates to meet all obligations to CMEEC and payments to CMEEC under the GTSAs are operating expenses of the members. CMEEC segregates the transmission usage receipts from MTUA, and these transmission service payments are part of the revenues under the CMEEC Transmission Services Bond Resolution and are available to pay for certain Transco usage cost billings and other administrative and financial costs of CMEEC, but not debt service under the CMEEC Transmission Services Bond Resolution or the Transco Transmission System Revenue Bond Resolution.

Debt Structure

At the end of 2022, Transco had $16.4 million 2021 Series A Transmission System Revenue Bonds bearing interest at 5% and maturing in 2039.

Debt-related derivatives

None

Pensions and OPEB

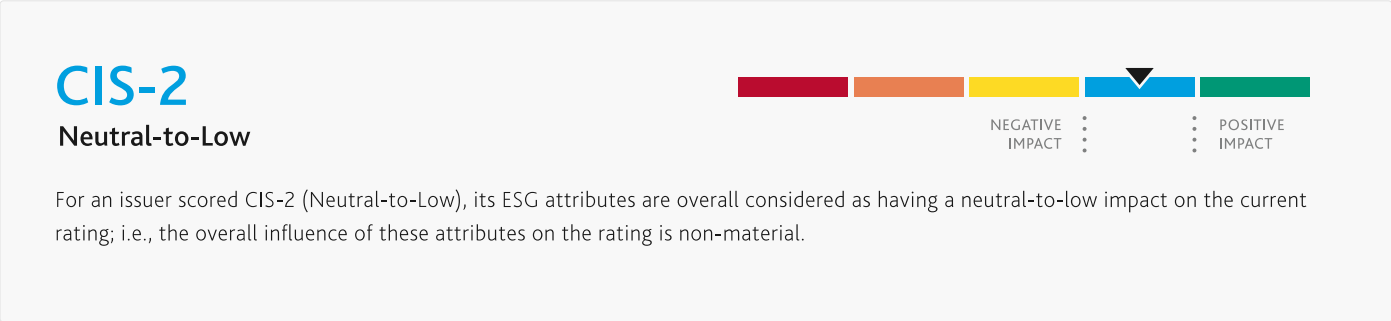
Not applicable.

ESG considerations

Connecticut Trans. Muni. Elec.Energy Coop.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3

ESG Credit Impact Score



Source: Moody's Investors Service

Transco's ESG credit impact score of **CIS-2** indicates that ESG considerations have a neutral-to-low impact on the rating. The score reflects moderately negative credit exposure to environmental risks, neutral-to-low exposure to social and governance risks.

Exhibit 4

ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

Transco's moderately negative environmental risk (**E-3** issuer profile score) reflects moderately negative exposure to physical climate risks as the state faces risks across several climate factors, including hurricanes, rising temperatures and water stress. These considerations are balanced by neutral-to-low risk for carbon transition, water management, waste & pollution, and natural capital.

Social

Transco's neutral-to-low (**S-2** issuer profile score) exposure to social risks reflects neutral-to-low exposure to risks related to responsible production, health and safety, customer relations, human capital, and demographic and societal trends.

Governance

Transco's neutral-to-low (**G-2** issuer profile score) exposure to governance risks reflects its neutral-to-low exposure to risks related to financial strategy and risk management, management credibility and track record, organizational structure, compliance and reporting and board structure and policies.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The principal methodology used in this rating was US Municipal Joint Action Agencies published in August 2020. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The scorecard indicated outcome under the below depicted scorecard is Aa3, which is consistent with the Aa3 rating for Transco's revenue bonds.

Exhibit 5

Joint Action Agency - Take or Pay Methodology Scorecard

Factor	Subfactor/Description	Score	Metric
1. Participant Credit Quality and Cost Recovery Framework	a) Weighted Average participant credit quality. Unregulated rate setting including participants. Cost recovery structure and governance.	A1	
2. Asset Quality	a) Asset diversity, complexity and history	Aa	
3. Liquidity	a) Adjusted days liquidity on hand (3-year avg) (days)	Baa	95
4. Leverage and Coverage	a) Adjusted Debt ratio (3-year avg) (%)	Aa	38%
	b) Fixed obligation charge coverage ratio (3-year avg) (x)	Baa	1.00x
5. Willingness to Recover Costs with Sound Financial Metrics	a) Rate Setting Record. Timeliness of rate recovery. Stability and strength of financial metrics	Aa	
Notching Factors		**Notch**	
	1 - Contractual Structure and Legal Environment	0	
	2- Participant Diversity and Concentration	0	
	3 - Construction Risk	0	
	4 - Financing Structure	0	
	5 - Unmitigated Exposure to Wholesale Power Markets	0	
Scorecard Indicated Outcome:		**Aa3**	

Source: Moody's Investors Service

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