MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY

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MMWEC opposes $238 million/year bailout of troubled Boston power plant

LUDLOW, Mass. - Jan. 30, 2006 - A Boston power plant's request for a $238-million-per-year consumer bailout should be rejected by federal regulators because it is based on an out-of-date analysis of the area's power needs and suspicious financial information, according to the Massachusetts Municipal Wholesale Electric Company (MMWEC), which is opposing the request along with the municipal utilities serving Concord, Reading and Wellesley.

If approved, the request by Mystic Development for guaranteed "reliability" payments for its gas-fired Mystic Units 8 and 9 would amount to the "conscription of electricity consumers as guarantors of a bad debt" incurred by investors and bankers trying to make a profit in New England's competitive electricity markets, according to MMWEC.

"Competition must not be a heads-I-win, tails-you-lose proposition in which investors may take advantage of the markets when they benefit from them, and resort to guaranteed cost-of-service payments" from consumers when their market revenues falter, MMWEC states. The poor business decisions of Mystic's owners "should not result in a federally-approved bailout, or in the saddling of consumers with massive charges designed to cover corporate forecasts that have not panned out," states MMWEC's motion asking the Federal Energy Regulatory Commission (FERC) to reject Mystic's request for approval of a Reliability Must Run (RMR) agreement.

RMR agreements guarantee payments to power plants that receive verification from ISO-New England that they are needed to ensure electric system reliability and can demonstrate that they are unable to cover their operating costs with revenue from the competitive marketplace or other sources. Mystic is seeking guaranteed annual payments from Northeastern Massachusetts and Boston area consumers of approximately $238.5 million to cover its costs for Units 8 and 9, which have a combined generating capacity of 1,658 megawatts.

While Mystic submitted an ISO-authored reliability analysis as part of its RMR application, the analysis is more than a year old and is based upon even older studies that do not reflect current power system conditions, according to MMWEC. Among other things, the analysis does not account for the near-term completion of major transmission upgrades in the Boston area or the continuing operation of more than 1,000 megawatts of generation that the analysis assumed would be shut down. These and other omissions render the reliability assessment badly outdated and "patently deficient", according to MMWEC.

"Before allowing Mystic to seek customer-funded life support at a proposed cost of nearly a quarter-billion dollars per year, the Commission must require Mystic to obtain a reasonably current (and thorough) ISO assessment of whether the units are needed for reliability," MMWEC states.

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Mystic also has failed to demonstrate that it is unable to recover its costs without an RMR agreement, in part because the plant's chaotic ownership, construction and operating history has produced financial information that is contradictory and unverifiable, MMWEC states.

After initiating construction in 2001, Sithe Energies sold the Mystic units to Exelon Corp. late in 2002, following the bankruptcy of the construction contractor, which resulted in significant cost overruns and delays. Shortly after the units entered operation in 2003, Exelon abandoned the units and their excessive debt, with the financial institutions holding the debt assuming ownership in lieu of foreclosure. The financial institutions have entered into expensive arrangements with third-party vendors to provide administration, operations, maintenance and marketing services.

Among other issues, this troubled history raises the possibility that the RMR payments sought by Mystic include "imprudent costs that have never been subject to regulatory scrutiny," according to MMWEC.

MMWEC also cites numerous discrepancies in Mystic's financial reports and cost analyses. In comparing the financial information submitted by Mystic in its initial RMR request in August 2005, which was rejected by the FERC, with information submitted with the current request in December 2005, MMWEC found numerous unexplained omissions and alterations that generally raise expenses and reduce revenues, thus making the Mystic units appear more needy.

"The financial results presented by Mystic support neither its gloomy characterization of past performance nor its dire predictions for future performance," MMWEC states. "Much more should be required, produced and subject to analysis before RMR charges of this magnitude are considered, let alone approved."

The Mystic RMR agreement would result in more than $28 million in annual charges to municipal utility consumers in the Northeastern Massachusetts area, with the approximate $210 million balance being charged to other electricity consumers in the area.

MMWEC is a non-profit, public corporation and political subdivision of the Commonwealth of Massachusetts that provides a variety of power supply, financial and other services to the state's consumer-owned municipal electric utilities.