Massachusetts municipal utilities earned high praise for their performance in 2011, largely for their reliability and speedy return to service after devastating storms in August and October.

Most municipal utility customers had service restored within a day or two after the storms while many customers of investor-owned utilities endured outages of a week or more. The same has happened over many years, storm after storm.

While such commendable service stands out in the days after a storm, it is year-round typical of municipal utility service, which springs from a public power business model featuring local ownership and control, non-profit operations, superior customer service and generally lower rates.

This is the same business model used to create municipal utilities more than a century ago, when dissatisfaction with service and rates drove many municipalities to wrest control of their electric service from private providers. These public power pioneers were confident that local ownership and control of their electric service would benefit the community, and history has proven them right, time after time.

Unfortunately, the public power business model is facing challenges today that undermine the ability of municipal utilities to maintain the level of service that has won them such praise. Generally, these challenges come in the form of laws, regulations and power market rules that would have public power conform to one-size-fits-all standards of a competitive marketplace. Such proposals ignore the unique structure and proven benefits of public power.

Protecting the public power business model is an endless task, heightened during times of sweeping change. In the early 1900s, communities exercising their right to own and operate local electric utilities faced strong opposition from titans of the electric industry. Today, MMWEC and the municipal utilities it represents champion public power in many ways, seeking to ensure that decision-makers understand the value of public power to the electric industry, its customers and the nation as a whole.

It is our hope that this year’s annual report contributes to that process.
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“When a community is not satisfied with the service rendered or the rates charged by a private utility, it has the undeniable right, as one of its functions of government, to establish its own electric utility, by vote of the electorate.”

Public Power 101

This statement, paraphrased from a 1933 campaign speech of Franklin Delano Roosevelt, is often cited as a basic premise for the existence of public power. In Massachusetts, between 1889 and 1926, the residents of 40 cities and towns voted to create their own public power utilities, known as municipal utilities or light departments. Municipal utilities are owned by the towns and thus residents of the communities they serve. They are operated by locally elected public officials, subject to public records and open meeting laws, providing customer/owners with high levels of transparency and access to business documents and officials.

Customer service, driven by local decision-making, is the principal focus of the public power business model, reflecting the founding purpose of these utilities. Key components of the business model include local ownership and control, not-for-profit operation, cost-based rates and access to tax-exempt financing. Public power utilities with common interests work together through Joint Action Agencies such as MMWEC to achieve economies of scale, enhancing customer benefits.

The result for customers is reliable and affordable electric service. In fact, overall, public power service has proven to be superior and less expensive than service provided by for-profit, private utilities, which work to generate profits for their stockholders in addition to addressing customer needs. In public power utilities, any income above expenses is reinvested in the community to reduce rates, improve service or meet other local needs.
There are more than 2,000 publicly owned utilities in the United States that serve approximately 15% of the nation’s electricity needs. Public power has been part of the electric industry for more than 100 years, and history has shown that a mix of public and private enterprise is beneficial for both the industry and its customers.

In 1935, with small public power utilities under attack by industry giants, the Public Utility Holding Company Act and other industry reforms included the preservation and expansion of publicly owned electric facilities, in part for use as a “yardstick” to measure the service and rates of for-profit utilities. In keeping the service yardstick long and the rate yardstick short, public power utilities continue to set the standard for reliable and economic electric service.

The public power business model is a familiar, autonomous offspring of local government—a reflection of fundamental American rights and values. While keeping traditional values at their core, municipal utilities continue to adapt to changes in the industry with innovative solutions to complex challenges.
**Reliable Service**

Two storms in 2011 were unusually punishing to New England. Tropical Storm Irene in August and a heavy snowstorm late in October left hundreds of thousands Massachusetts consumers without electricity. As outages from the October storm crawled into their second week, legislators, regulators and other public officials questioned the storm preparation and restoration efforts of affected utilities.

Many of these officials pointed to the fact that customers of public power municipal utilities had their service restored within hours while customers of private utilities in neighboring communities remained in the dark. Similar post-storm comparisons of public power and private utility service occur more often than not, storm after storm, highlighting the quality and reliability of municipal utility service.

This is “yardstick” competition at work—using municipal utility service and rates (in this case service) as the benchmark to assess the service and rates of private utilities. It is not an apples-to-apples comparison, as public power and private utilities are different in many ways, including the number of customers and size of territories served. Nevertheless, it is a valuable way to compare various service metrics and establish best practices to improve service for all consumers. Without public power, such comparisons and opportunities for improvement would be lost.

The public power business model provides customers with an electoral voice in the management and operation of municipal utilities. In addition, not-for-profit operations enable municipal utilities to focus exclusively on local needs, unfettered by an obligation to distant stockholders. This structure ensures that local choice is factored into utility decisions, from the number of linemen employed to the type of energy resource used to meet local power needs.

In assessing their storm performance, municipal utilities cite aggressive system maintenance programs, including tree trimming, as well as the quick response of local line crews that are intimately familiar with the electric distribution system. Municipal utilities also have close working relationships with other town departments—DPW, Police, Fire—that expedite work during emergencies. There are local choices involved in maintaining this level of service year-round, and the result is heightened reliability.

Local decision-making also enables municipal utilities to keep their rates competitive. For example, 28 Massachusetts municipal utilities decided to become MMWEC Project Participants, enabling them to capture the cost-based benefits of MMWEC ownership in several large New England generating facilities, including the Stony Brook power plant, Seabrook Station and Millstone Unit 3.

Through their membership in MMWEC, 21 municipal utilities participate in MMWEC’s Energy Portfolio Management Program, which encompasses power supply planning, market analysis, resource development, contracting and risk management services. This program is structured to address each Member’s risk tolerance and unique portfolio goals.

The public power business model has a long history of proven success, due in part to its ability to accommodate industry change, which does not always recognize the benefits and unique characteristics of public power.
Challenges

There is plenty of difficult work to be done to improve the electric utility industry. Achieving national and regional energy policy goals is a process complicated by shifting economic and political realities, perhaps more so today than ever before.

As legislators, regulators and power market operators decide what works and what doesn’t, there is no denying the long-term success of the public power business model and its value to the industry and consumers. Despite this success, the forces of change are producing results that undermine the ability of public power to provide the level of service that consistently wins praise for its reliability and competitive cost. Such activity, which fails to recognize the core structure and independent characteristics of public power utilities, includes:

• A Federal Energy Regulatory Commission (FERC) order that restricts the long-held right of municipal utilities to satisfy their regional capacity obligations through the use of “self-supplied” resources, contrary to understandings reached in a FERC-approved settlement. This order undermines the ability of municipal utilities to build and own electric generation of their choice;

• Similarly, state proposals that would require municipal utilities to surrender long-standing exemptions from various policy mandates. In addition to eliminating local choice, such proposals would increase costs significantly for municipal utilities;

• Proposals to modify or eliminate the tax exemption for interest on municipal bonds. Such proposals threaten the primary source of financing for public power;

• The lack of comparable incentives for public power to develop renewable energy. The largest wind project in Massachusetts, a $65 million public power initiative, was not eligible for development or production incentives. A private developer of the same project would have been eligible for a $21.6 million federal grant; and

• More generally, wholesale power market proposals that conflict with long-held public power contractual rights and principles. The failure to address public power issues in the initial stages of policy development results in unnecessary expenditures later in the development process to protect public power rights.

Public power utilities are independent, traditional and primarily responsive to their customers. At the same time, at the behest of their customers, they are finding innovative solutions to industry challenges, embracing renewable energy, and implementing smart grid and energy efficiency initiatives without mandates to do so.

There is little if any reason in making public power conform to a one-size-fits-all approach to regulation and power market management. As compared to the profit-motivated majority of power market participants, public power utilities bring little risk to the marketplace due to their strong financial profile and not-for-profit business structure.
MMWEC Initiatives

As the Joint Action Agency for Massachusetts municipal utilities, MMWEC works in many different ways to promote and defend the public power business model. This work includes various initiatives that help municipal utilities keep their business practices in sync with greener energy policies, wholesale power market reforms and variable financial risks. It also involves efforts to identify and address public power challenges early on, as well as legal action, if necessary, to enforce the rights of municipal utilities.

All of these activities are focused on helping municipal utilities deliver a reliable and affordable supply of electricity to “Mrs. Jones”, the MMWEC-created surrogate for all municipal utility customers and the ultimate beneficiary of public power services. After all, it is “Mrs. Jones” who will suffer the consequences of public power business model erosion, which could include higher costs, abridged service and compromised local control.

GREEN ENERGY

Municipal utilities and their customers have decided, without mandate, to invest in numerous renewable energy and energy efficiency resources.

In 2011, MMWEC and 14 of its Member utilities, together as the Berkshire Wind Power Cooperative Corporation, brought the largest wind project in Massachusetts into operation. The 10-turbine, 15-megawatt Berkshire Wind Power Project entered commercial operation on May 28, 2011. “We responded to the call of our customers for renewable energy and developed this project in a manner that makes both energy and economic sense for the people we serve,” said H. Bradford White, then-president of the cooperative.

At the Berkshire Wind dedication ceremony, Massachusetts Gov. Deval Patrick called the project “a beacon of our clean energy future.” In fact, municipal utilities are responsible for developing 24.7 megawatts of the state’s wind generating capacity, or nearly 63% of the total.

Municipal utilities that belong to the MMWEC Solar Aggregate host nearly 2 megawatts of solar photovoltaic projects, approximately a third of which were developed through an MMWEC solar program designed specifically for municipal utilities. The MMWEC Solar Aggregate, which aggregates and sells Solar Renewable Energy Certificates (SREC) for projects located in municipal utility communities, raised nearly $400,000 in SREC revenue for project developers in 2011.

Early in 2012, the state Department of Energy Resources awarded a first-time grant to MMWEC and four municipal utilities for energy efficiency initiatives. MMWEC received part of the grant to promote its energy efficiency program model, which is the basis for programs in three of the grant-recipient communities. The success of the existing programs is expected to be a springboard for program development by additional municipal utilities.
GOVERNMENT, REGULATORY & MARKETPLACE ACTIVITY

In its interactions with legislators, regulators and ISO New England (ISO-NE), one of MMWEC’s key objectives is to secure more meaningful recognition of public power in energy and financial policy development. Public power too often is overlooked in this process, jeopardizing a valuable balance in electric industry structure.

In March 2012 visits to Capitol Hill in Washington, D.C., MMWEC discussed the success and value of the public power business model as well as other key issues, including the need for change in the FERC’s transmission incentives program, which many believe unnecessarily increases the cost of transmission service. MMWEC joined in a letter to the FERC with 34 other entities, including numerous state consumer advocates, attorneys general, utility commissions and national environmental organizations, highlighting the need for change in the FERC’s transmission incentives program to avoid unnecessary costs for consumers. MMWEC also co-sponsored an American Public Power Association resolution to the same effect.

Other issues addressed during Capitol Hill visits covered the implications for public power of Dodd-Frank Act financial reforms, proposals to protect the electric grid from cyber attacks and federal budget plans to limit the tax exemption for certain purchasers of tax-exempt revenue bonds. The tax-exempt bond reforms might look good on the federal ledger but would increase borrowing costs for municipal entities and raise costs for consumers, essentially shifting costs to the local level. MMWEC has issued more than $4.7 billion in tax-exempt bonds to finance and refinance its 720-megawatt ownership interest in several New England power plants.

In several meetings with FERC commissioners and staff over the past year, in addition to public power business model discussions, MMWEC has focused on the consumer impacts of rising transmission costs, including incentives that can boost the return on equity for transmission owners to more than 13%, even on cost overruns. MMWEC also is participating in FERC and ISO-NE studies of the need for greater coordination between electricity and natural gas markets.

After exhausting avenues at the FERC, in February 2012 MMWEC filed a court appeal challenging the FERC’s decision to limit the right of municipal utilities to self-supply resources to meet their ISO-NE capacity obligations. Among other onerous impacts, the inability to meet capacity obligations through self-supply would result in higher costs for municipal consumers by reducing the economic value of a new combined-cycle generating unit proposed by MMWEC.
SOUND FINANCIAL STANDING

There are significant financial risks associated with wholesale power markets, where participants conduct a wide range of complex transactions and operators work to ensure reliability and compliance with regulatory mandates. Few of those risks, however, stem from public power participation in the marketplace, due to the strong financial standing of most public power entities, including MMWEC, its Members and Project Participant utilities.

The credit ratings on all of MMWEC’s Power Supply Projects are in the “A” category of ratings. In January 2012, MMWEC issued $164.8 million in tax-exempt revenue bonds with a total interest cost of 1.2% to refund and retire higher-interest bonds issued in 2001. The refunding saves MMWEC Project Participants $16.8 million and fine-tunes a debt portfolio that will see all of MMWEC’s existing debt retired by 2019.

Significantly, MMWEC’s remaining debt is related to its ownership in the Seabrook Station and Millstone Unit 3 nuclear plants, both of which are expected to operate at least until 2045, long after the related debt is retired. The refunding savings and relatively short life of remaining debt strengthen the ability of Project Participants to secure stable and reliable power resources for the future.

The credit rating agencies also find strength in the financial positions of individual MMWEC Project Participants, stemming from low retail rates, local rate-setting authority, strong liquidity and limited capital requirements.

MMWEC also works to limit the marketplace risks of Member utilities through its Energy Portfolio Management Program, which enables MMWEC to assess the financial standing and risk profile of its trading partners and secure adequate financial assurance to address counterparty risks.

Moreover, as not-for-profit municipal entities with local rate-setting authority and other legal protections regarding debt security, the credit risks of municipal utilities are miniscule when compared with those of other market participants, including an abundance of profit-motivated entities. Recent power market credit reforms properly seek to protect market participants against the default of other market participants, but the low-risk profile of municipal utilities requires special consideration in determining credit requirements.

A far greater risk comes from a policy development process that overlooks—or worse yet undermines—the proven benefits of public power to consumers, the electric industry and the nation as a whole.
Directors

Jonathan V. Fitch
Director/Elected
Chairman

Robert V. Jolly, Jr.
Director/Elected

Kevin P. Kelly
Director/Elected

James M. Lavelle
Director/Elected

Jeffrey R. Cady
Director/Elected

Sean Hamilton
Director/Elected

Gary R. Babin
Director/Elected

Paul Robbins
Director
Governor's Appointee

Michael J. Flynn
Director
Governor's Appointee
Town of Wilbraham

Luis Vitorino
Director
Town of Ludlow

John M. Flynn
Director
Town of Hampden

Officers

Ronald C. DeCurzio
Chief Executive Officer/Secretary

Peter D. Dion
President

Nicholas J. Scobbo, Jr.
General Counsel

Alan R. Menard
Assistant Treasurer/Director of Business Support and Administrative Services

Nancy A. Brown
Assistant Secretary

Managers

Edward Kaczenski
Director of Engineering and Generation Assets

Michael J. Lynch
Director of Market Management and Planning

Carol A. Martucci
Director of Accounting and Financial Reporting

David Tuohy
Director of Communications and External Affairs

Daniel L. Suppin
Director of Information Technology

Jeffrey B. Iafrati
Director of Treasury and Commodities
Members & Project Participants

Ashburnham Municipal Light Department*
Boylston Municipal Light Department*
Braintree Electric Light Department
Chicopee Electric Light Department*
Danvers Electric Division
Georgetown Municipal Light Department
Groton Electric Light Department*
Hingham Municipal Lighting Plant
Holden Municipal Light Department*
Holyoke Gas & Electric Department*
Hudson Light & Power Department
Hull Municipal Lighting Plant*
Ipswich Municipal Light Department*
Littleton Electric Light & Water
Mansfield Municipal Electric Department*
Marblehead Municipal Light Department*
Middleborough Gas & Electric Department
Middleton Municipal Electric Department
North Attleborough Electric Department
Paxton Municipal Light Department*
Peabody Municipal Light Plant*
Princeton Municipal Light Department*
Reading Municipal Light Department
Russell Municipal Light Department*
Shrewsbury Electric & Cable Operations*
South Hadley Electric Light Department*
Sterling Municipal Light Department*
Templeton Municipal Light & Water Plant*
Wakefield Municipal Gas & Light Department*
West Boylston Municipal Lighting Plant*
Westfield Gas & Electric*
Pascoag (RI) Utility District
Green Mountain Power Corporation (VT)
Hardwick (VT) Electric Department
Ludlow (VT) Electric Light Department
Morrisville (VT) Water and Light Department
Stowe (VT) Electric Department
Swanton (VT) Electric Department

* MMWEC Members

2011 Financial Statements

MMWEC’s Financial Statements for the years ended December 31, 2011 and 2010 are contained on the CD included in this year’s annual report.

Copies of this report and supplemental financial information can be obtained, free of charge, by contacting:

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The Massachusetts Municipal Wholesale Electric Company (MMWEC) is a not-for-profit, public corporation and political subdivision of the Commonwealth of Massachusetts, created in 1976 through an Act of the Massachusetts General Court. MMWEC provides a broad range of power supply, financial, risk management and other services to enhance the competitiveness of Massachusetts municipal utilities. MMWEC also is the operator and principal owner of the Stony Brook power plant, a 527-megawatt, combined-cycle generating station located at MMWEC’s Stony Brook Energy Center in Ludlow, Massachusetts.