

# Massachusetts Municipal Wholesale Electric Company

Financial Statements  
and  
Supplemental Information

Years Ended December 31, 2011 and 2010

# Massachusetts Municipal Wholesale Electric Company

FINANCIAL STATEMENTS  
Years Ended December 31, 2011 and 2010

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of  
Massachusetts Municipal Wholesale Electric Company  
Ludlow, Massachusetts

We have audited the accompanying balance sheets of Massachusetts Municipal Wholesale Electric Company (the Company) as of December 31, 2011 and 2010, and the related statements of revenues and expenses and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Municipal Wholesale Electric Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The project financial statements and debt service coverage information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly we express no opinion or provide any assurance on the information.

*McGladrey & Pullen, LLP*

March 30, 2012  
Boston, Massachusetts

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis  
Years Ended December 31, 2011 and 2010

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The following discussion and analysis of the Massachusetts Municipal Wholesale Electric Company (MMWEC) provides an overview and analysis of MMWEC's financial performance during the years ended December 31, 2011 and 2010. This discussion and analysis should be read in conjunction with MMWEC's financial statements and the accompanying notes.

## OVERVIEW OF THE FINANCIAL STATEMENTS

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts formed to be a joint action agency to develop a bulk power supply for its member Massachusetts cities and towns having municipal electric systems (Members) and other utilities, both private and public. Among other things, MMWEC is authorized to construct, own or purchase ownership interests in energy facilities and to issue revenue bonds for such purposes. MMWEC's ownership interest in energy generation facilities are through various Projects. Pursuant to its General Bond Resolution (GBR), the bonds of any bond issue relating to a Project are secured solely by revenues derived from that Project. Project revenues are derived primarily from Power Sales Agreements (PSAs) with MMWEC's Members and other utilities that are Participants in a Project (Project Participants). MMWEC's bulk power supply program consists of power purchase arrangements, power brokering services, planning and financial services, and the Projects relating to generating facilities built and operated either by MMWEC or other entities.

The accounting records of MMWEC are maintained in accordance with the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission and in conformity with generally accepted accounting principles for regulated utilities using the accrual basis of accounting. This also includes Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, formerly Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, as it relates to the deferral of revenues and expenses to future periods in which the revenues are expected to be earned or expenses expected to be recovered through the ratemaking process.

MMWEC follows all Governmental Accounting Standards Board (GASB) statements and follows all statements issued by the Financial Accounting Standards Board (FASB) before November 30, 1989. MMWEC also follows all FASB statements issued after November 30, 1989, to the extent there is no GASB guidance available.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Balance Sheets report year-end assets and liabilities based on the original cost adjusted for any depreciation, amortization or unrealized gains/losses as appropriate. The Statements of Revenues and Expenses present MMWEC's operating revenues and expenses incurred as a result of MMWEC's business activity. The Statements of Cash Flows report the cash provided and used for operating activities, as well as investing activities and capital and related financing activities.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis  
Years Ended December 31, 2011 and 2010

## MMWEC FINANCIAL ANALYSIS

An analysis of MMWEC's financial position begins with the review of the Balance Sheets, the Statements of Revenues and Expenses and the Statements of Cash Flows. A summary of MMWEC's Condensed Balance Sheets is presented in Table 1. The Condensed Statements of Revenues and Expenses is summarized in Table 2 and the Condensed Statements of Cash Flows is summarized in Table 3.

**Table 1**  
**Condensed Balance Sheets**

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Current assets, less current portion of restricted special funds	\$ 88,700	\$ 80,457
Restricted assets, including current portion of restricted special funds	232,232	256,699
Other assets	98,821	91,767
Capital assets	<u>611,251</u>	<u>604,035</u>
 Total assets	 <u>\$ 1,031,004</u>	 <u>\$ 1,032,958</u>
 Current liabilities	 \$ 210,426	 \$ 212,198
Noncurrent liabilities	<u>820,578</u>	<u>820,760</u>
 Total liabilities	 <u>\$ 1,031,004</u>	 <u>\$ 1,032,958</u>

**Table 2**  
**Condensed Statements of Revenues and Expenses**

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Operating revenues	<u>\$ 304,949</u>	<u>\$ 306,263</u>
Depreciation expense	15,322	14,774
Other operating expenses	<u>224,825</u>	<u>227,138</u>
Total operating expenses	<u>240,147</u>	<u>241,912</u>
 Operating income	 <u>64,802</u>	 <u>64,351</u>
Investment income	8,199	11,501
Interest and amortization expense	(13,561)	(15,312)
Gain on extinguishment of long-term debt	2,059	-
Increase in amounts payable under terms of the power sales agreements	<u>(61,499)</u>	<u>(60,540)</u>
Total non-operating expenses	<u>(64,802)</u>	<u>(64,351)</u>
 Net revenues and expenses	 <u>\$ -</u>	 <u>\$ -</u>

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis  
Years Ended December 31, 2011 and 2010

## MMWEC FINANCIAL ANALYSIS...continued

**Table 3**  
**Condensed Statements of Cash Flows**

	2011	2010
	(In Thousands)	
Net cash provided by operating activities	\$ 98,046	\$ 116,840
Net cash used in investing activities	(1,835)	(7,620)
Net cash used in capital and related financing activities	(116,248)	(100,304)
Net change in cash and cash equivalents	(20,037)	8,916
Cash and cash equivalents – beginning of year	35,326	26,410
Cash and cash equivalents – end of year	\$ 15,289	\$ 35,326

## BALANCE SHEETS

The majority of MMWEC's Balance Sheets consists of the financial activity relating to various Projects, representing ownership interests in various electric generation facilities for which MMWEC has corresponding PSAs with each Project Participant. MMWEC's joint ownership interests are shown in Note 9 – Project Joint Ownership Agreements in the accompanying notes of the accompanying financial statements. The following analysis compares 2011 financial results to 2010 financial results.

Current assets, excluding the current portion of restricted funds, increased by \$8.2 million.

Cash and temporary investments increased by \$11.9 million, primarily due to timing differences in the portfolio, particularly within the Stony Brook Projects, and increased billings in 2011 in anticipation of planned maintenance projects in 2012, offset by payments made on the Stony Brook Fuel Oil Project line of credit in 2011, as discussed in Note 5 to the accompanying financial statements. There is a corresponding decrease in restricted funds for investments with a maturity of greater than one year in the Stony Brook Projects of \$10 million.

The decrease in accounts receivable and unbilled revenue of \$2.9 million is chiefly attributable to lower amounts billed in December 2011 related to the Projects than at the same time in the prior year due to lower maintenance and refueling outage costs incurred in late 2011 for the Seabrook and Millstone Projects, as well as lower overall generation across all the Projects, including Stony Brook and Wyman, than at the same time in the prior year. Inventories decreased \$0.8 million from the prior year due to continued fuel burn in the Stony Brook Projects with no replacement fuel purchased during 2011.

Current and noncurrent restricted funds, including related interest receivable, decreased by \$24.5 million, primarily due to the extinguishment of a significant portion of the Series One bonds during 2011, which resulted in the release of \$14.8 million of bond reserve funds in the Millstone and Seabrook Projects. These funds were utilized as a source of funding with respect to the issuance of the Series 2011 bonds. Additionally, Stony Brook restricted funds decreased by \$10 million due to timing differences in the portfolio as described above.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis  
Years Ended December 31, 2011 and 2010

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## **BALANCE SHEETS**...continued

Deferred charges increased by \$7.2 million from 2010 to 2011, reflecting improved investment performance of and monthly contributions made to the nuclear decommissioning trust funds; higher market valuation of and increased contributions made to pension assets; larger advances made to the lead owners for Project operating costs of Projects where MMWEC is a minority joint owner; and increased debt issuance costs related to the Series 2011 bonds issued during 2011.

In 2011, total capital assets had a net increase of \$7.2 million due primarily to nuclear fuel purchases of \$4.5 million and net in-service asset additions of \$18.5 million, offset by continued depreciation of \$14.0 million net of asset retirements of \$1.4 million, decreases in construction work in progress of \$1.8 million.

The \$4.6 million decrease in current liabilities, excluding current maturities of long-term debt, is attributable to more funds expended for power purchases at year-end 2011 than in the prior year, thus reducing the amount of advances the Members and Project Participants had at MMWEC by \$1.8 million. In addition, there were decreases in accounts payable and accrued expenses of \$1.6 million as payments to vendors for operational expenses were made closer to year-end during 2011 than in the prior year and there were also decreased draws on the lines of credit of \$1.2 million, resulting in lower short-term debt balance than in the prior year.

Long-term debt, including current maturities, decreased by \$77.8 million primarily due to the extinguishment of long-term debt.

Other noncurrent liabilities, excluding long-term debt, increased \$80.4 million due to accretion of asset retirement obligations and increased obligations due to revised cash flow estimates, and increases in amounts payable under the terms of the PSAs, which include temporary offsets of unbilled expenses, such as depreciation and unrealized gains/losses, and bond payment activity.

## **STATEMENTS OF REVENUES AND EXPENSES**

The majority of MMWEC's Statements of Revenues and Expenses consists of the financial activity relating to revenues and expenses from power purchases and the PSAs for the Projects. Project revenues are derived, primarily, from PSAs with Project Participants. Under all PSAs, the Project Participants are required to pay their respective shares of MMWEC's actual costs relating to the Projects, including debt service. Thus, MMWEC's revenues for an individual Project are dependent on debt service and the costs associated with that particular Project. Revenues for the individual Projects vary from year to year as the costs MMWEC incurs relating to a Project vary. MMWEC bills under the PSAs only the expenses and costs it incurs from the lead owner of the generating facility and its own expense associated with each Project plus certain other amounts required pursuant to MMWEC's General Bond Resolution.

For 2011, revenue decreased by \$1.3 million due to more moderate temperatures in the current year than in the prior year, lower power prices and lower overall generation. Purchased power expenses decreased by \$2.4 million during 2011 as compared to 2010 also due to more moderate temperatures resulting in reduced power purchases from less demand and lower overall power prices.

The \$9.9 million decrease in fuel used in electric generation was driven by reduced generation and decreased fuel costs at Seabrook Station, Stony Brook, and Millstone. Both Seabrook Station and Millstone had planned refueling outages and unplanned maintenance outages in 2011, whereas in the prior year only Millstone had a refueling and maintenance outage. Stony Brook's generation was impacted in 2011 by more moderate temperatures, resulting in lower generation.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis  
Years Ended December 31, 2011 and 2010

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## **STATEMENTS OF REVENUES AND EXPENSES...continued**

Other operating expense increased \$2.6 million reflecting increased operations activity at Seabrook Station due to planned and unplanned outages in 2011, offset by lower lead owner restructuring-related expenses incurred at Millstone during the current year than in the prior year.

Maintenance expense increased \$6.6 million in 2011, primarily driven by the nuclear Projects, as both Seabrook Station and Millstone had planned refueling outages and unplanned maintenance outages in 2011, whereas in the prior year only Millstone had a refueling and maintenance outage.

In 2011, depreciation expense increased \$0.5 million. This is the result of additional capital assets being placed in service during the year.

The \$0.7 million increase in taxes other than income is attributable to higher property tax assessments for both Seabrook Station and Millstone in 2011.

Investment income, which is a result of varying fund balances and interest rates, decreased by \$3.3 million in 2011, due to a lower interest rate environment and lower overall investment balances in 2011 as opposed to 2010.

Interest expense decreased by \$1 million due to lower interest costs in 2011 than in 2010 driven by reduced long-term debt balances due to scheduled principal payments and extinguishment of debt. Amortization expense increased by \$0.8 million due to increased premium and debt issuance amortization due to the Series 2011 bond issuance during 2011.

Gain on extinguishment of long-term debt of \$2.1 million relates to the repayment of \$123.1 million of the Series One Bonds in June 2011 prior to maturity at the option of MMWEC at a redemption price of \$120.3 million, net of \$0.7 million in debt issuance costs associated with the redeemed bonds.

The increase in amounts payable under terms of the PSAs is discussed in Note 1 of the accompanying financial statements.

## **STATEMENTS OF CASH FLOWS**

For purposes of the Statements of Cash Flows, cash equivalents are cash and investments having an original maturity of three months or less from the date of acquisition. Cash and cash equivalents decreased by \$20.0 million from 2010 to 2011. This is due to increased principal payments made in 2011, offset by the proceeds of and premiums related to the Series 2011 bonds that were issued during 2011, as well less draws on the short-term debt facilities during 2011 as compared to 2010.

## **DEBT SERVICE COVERAGE**

For the PSAs' contract years ended June 30, 2011 and June 30, 2010, MMWEC met the GBR debt service coverage requirements for all of MMWEC's Projects. In accordance with the provisions of MMWEC's GBR, MMWEC covenants that it will fix, revise and collect rates, tolls, rents and other fees and charges sufficient to produce revenues to pay all Project operating and maintenance expenses as well as principal, premium, if any, and interest on the Bonds associated with each Project. Revenues for each Project, which include applicable interest earnings from investments associated with funds required to be maintained by the GBR, are required to equal 1.10 times the annual debt service for the PSA contract year ending June 30, after deduction of certain operating and maintenance expenses and exclusive of depreciation. Further details can be found in the Supplemental Information to the financial statements.



# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis  
Years Ended December 31, 2011 and 2010

## DEBT RATINGS

During 2011, following their annual credit review of MMWEC, the three major credit rating agencies rated the MMWEC bonds as follows:

Investment Type	Standard & Poor's	Fitch Ratings	Moody's Investors Service
Nuclear Mix No. 1, Series A	A+	A+	A3
Nuclear Project No. 3, Series A	A+	A+	A3
Nuclear Project No. 4, Series A	A+	A+	A3
Nuclear Project No. 5, Series A	A	A+	A3
Project No. 6, Series A	A-	A+	A3
Nuclear Mix No. 1, Series 2011	A+	A+	A3
Nuclear Project No. 3, Series 2011	A+	A+	A3
Nuclear Project No. 4, Series 2011	A+	A+	A3
Nuclear Project No. 5, Series 2011	A	A+	A3
Project No. 6, Series 2011	A-	A+	A3
Nuclear Mix No. 1, Series One	A+	A+	A3
Nuclear Project No. 3, Series One	A+	A+	A3
Nuclear Project No. 4, Series One	A+	A+	A3
Nuclear Project No. 5, Series One	A	A+	A3
Project No. 6, Series One	A-	A+	A3

As described in Note 15 to the accompanying financial statements, on January 26, 2012, MMWEC issued \$164.8 million in Series 2012A Bonds. The Series 2012A bonds were rated by Standard & Poor and Fitch Ratings as follows:

Investment Type	Standard & Poor's	Fitch Ratings
Nuclear Mix No. 1, Series 2012A	A+	A+
Nuclear Project No. 3, Series 2012A	A+	A+
Nuclear Project No. 4, Series 2012A	A+	A+
Nuclear Project No. 5, Series 2012A	A	A+
Project No. 6, Series 2012A	A-	A+

## SIGNIFICANT EVENTS

During 2011, MMWEC continued development work on its plans to build Stony Brook Unit 3, a 280-megawatt combined-cycle dual fuel generating unit to be located at its Stony Brook site in Ludlow, Massachusetts. As in the prior year, most of the 2011 efforts have been directed at maintaining existing permits and obtaining subscription commitments to Stony Brook Unit 3 and investigating candidates for joint ownership.

As of December 31, 2011, 20 Massachusetts cities and towns having municipal electric systems were Members of MMWEC. As discussed in Note 15 to the accompanying financial statements, on March 15, 2012, the Russell Municipal Light Department became the twenty-first Member of MMWEC.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis  
Years Ended December 31, 2011 and 2010

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## MMWEC PROJECT OPERATIONS

The following table provides 2011 operating information for the MMWEC Projects. See Note 9 – Project Joint Ownership Agreements in the accompanying financial statements for additional information.

### MMWEC Project Operations January 1 through December 31, 2011

	<u>Stony Brook Intermediate</u>	<u>Stony Brook Peaking</u>	<u>Seabrook</u>	<u>Millstone 3</u>	<u>Wyman</u>
Availability	94.55%	98.26%	79.39%	87.65%	90.82%
Capacity Factor	4.82%	0.19%	76.57%	86.37%	1.27%
Generation MWH	135,767	2,861	969,410	448,423	2,485

*The capacity factor represents the percentage of electricity actually produced as compared with potential production.*

## CONTACT INFORMATION

This financial report is designed to provide a general overview of MMWEC's finances. Questions or requests for additional information should be addressed to MMWEC Attn: Director of Accounting & Financial Reporting, PO Box 426, Ludlow, Massachusetts 01056.

# Massachusetts Municipal Wholesale Electric Company

Balance Sheets

December 31, 2011 and 2010

(In Thousands)

	2011	2010
<b>ASSETS</b>		
Current assets:		
Cash and temporary investments	\$ 23,140	\$ 11,237
Accounts receivable	25,008	25,247
Unbilled revenues	14,656	17,291
Inventories	24,894	25,726
Prepaid expenses	1,002	956
Current portion of restricted special funds	103,196	109,105
Total current assets	<u>191,896</u>	<u>189,562</u>
Noncurrent assets:		
Restricted assets:		
Restricted special funds	129,036	147,594
Interest receivable	521	673
Deferred charges:		
Unamortized debt issuance costs	2,354	1,957
Nuclear decommissioning trust	69,581	65,139
Other deferred charges	26,365	23,998
Total noncurrent assets	<u>227,857</u>	<u>239,361</u>
Capital assets:		
In service	1,366,936	1,348,467
Accumulated depreciation	(802,291)	(788,388)
Construction work in progress	13,797	15,610
Nuclear fuel, net of amortization	32,809	28,346
Total capital assets	<u>611,251</u>	<u>604,035</u>
Total assets	<u>\$ 1,031,004</u>	<u>\$ 1,032,958</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	14,429	13,892
Member and participant advances	111,282	113,046
Short-term debt	811	2,069
Accrued expenses	21,413	23,535
Current liabilities payable from restricted assets:		
Current maturities of long-term debt, net of premiums	62,491	59,656
Total current liabilities	<u>210,426</u>	<u>212,198</u>
Noncurrent liabilities:		
Long-term debt, net of premiums and current maturities	308,292	388,901
Asset retirement obligations	119,084	105,334
Amounts payable under terms of the power sales agreements	327,280	265,781
Long-term member and participant advances	65,922	60,744
Total noncurrent liabilities	<u>820,578</u>	<u>820,760</u>
Total liabilities	<u>\$ 1,031,004</u>	<u>\$ 1,032,958</u>

The accompanying notes are an integral part of these financial statements.

# Massachusetts Municipal Wholesale Electric Company

Statements of Revenues and Expenses  
 Years Ended December 31, 2011 and 2010  
 (In Thousands)

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Revenues	<b>\$ 304,949</b>	\$ 306,263
Operating expenses:		
Fuel used in electric generation	<b>20,832</b>	30,763
Purchased power	<b>136,473</b>	138,861
Other operating	<b>46,285</b>	43,650
Maintenance	<b>15,695</b>	9,061
Depreciation	<b>15,322</b>	14,774
Taxes other than income	<b>5,540</b>	4,803
Total operating expenses	<b>240,147</b>	241,912
Operating income	<b>64,802</b>	64,351
Non-operating revenues (expenses):		
Investment income	<b>8,199</b>	11,501
Interest expense on long-term debt	<b>(15,919)</b>	(16,888)
Amortization of premium	<b>2,915</b>	2,160
Amortization of debt issuance costs	<b>(627)</b>	(656)
Interest charged to projects during construction	<b>70</b>	72
Gain on extinguishment of long-term debt, net	<b>2,059</b>	-
Increase in amounts payable under terms of the power sales agreements	<b>(61,499)</b>	(60,540)
Total non-operating revenues (expenses)	<b>(64,802)</b>	(64,351)
Net revenues and expenses	<b>\$ -</b>	-

The accompanying notes are an integral part of these financial statements.

# Massachusetts Municipal Wholesale Electric Company

## Statements of Cash Flows

Years Ended December 31, 2011 and 2010

(In Thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Received from sales to members and participants	\$ 311,237	\$ 333,917
Paid to suppliers for goods and services	<u>(213,191)</u>	<u>(217,077)</u>
Net cash provided by operating activities	<u>98,046</u>	116,840
Cash flows from investing activities:		
Net purchases of investments	(7,473)	(13,945)
Interest received	<u>5,638</u>	<u>6,325</u>
Net cash used in investing activities	<u>(1,835)</u>	<u>(7,620)</u>
Cash flows from capital and related financing activities:		
Construction expenditures and purchases of nuclear fuel	(24,558)	(22,071)
Proceeds from issuance of short-term debt	3,082	7,590
Proceeds from issuance of long-term debt	107,661	(57,990)
Principal payments on long-term debt	<u>(179,770)</u>	-
Principal payments on short-term debt	(4,340)	(7,979)
Decommissioning trust payments	(1,729)	(1,465)
Debt issuance costs paid	(1,706)	-
Interest payments on long-term debt	<u>(14,888)</u>	<u>(18,389)</u>
Net cash used in capital and related financing activities	<u>(116,248)</u>	<u>(100,304)</u>
Net change in cash and cash equivalents	(20,037)	8,916
Cash and cash equivalents, beginning of year	<u>35,326</u>	26,410
Cash and cash equivalents, end of year	<u>\$ 15,289</u>	<u>\$ 35,326</u>

The accompanying notes are an integral part of these financial statements.

# Massachusetts Municipal Wholesale Electric Company

Statements of Cash Flows...continued

Years Ended December 31, 2011 and 2010

(In Thousands)

	2011	2010
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 64,802	\$ 64,351
Noncash items included in operating income:		
Depreciation	15,322	14,774
Amortization of nuclear fuel and accretion of asset retirement obligation	15,839	17,159
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	239	4,300
Unbilled revenues	2,635	932
Inventories	832	1,065
Prepaid expenses	(46)	97
Other deferred charges	(2,367)	(6,286)
Increase (decrease) in:		
Accounts payable	528	908
Member and participant advances	3,414	22,422
Accrued expenses	(3,152)	(1,798)
Amounts payable under terms of power sales agreements	-	(1,084)
Net cash provided by operating activities	<u>\$ 98,046</u>	<u>\$ 116,840</u>
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>		
Cash and temporary investments	\$ 23,140	\$ 11,237
Total restricted special funds	<u>232,232</u>	<u>256,699</u>
Total cash and investments	<u>255,372</u>	<u>267,936</u>
Less - investments included in restricted special funds	<u>(240,083)</u>	<u>(232,610)</u>
Total cash and cash equivalents	<u>\$ 15,289</u>	<u>\$ 35,326</u>
<b>Supplemental disclosures of cash flow information:</b>		
Noncash investing, capital and financing transactions:		
Amortization of debt premiums and issuance costs	<u>\$ 1,597</u>	<u>\$ 1,504</u>
Debt issuance costs financed by accounts payable	<u>\$ 9</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

### Reporting Entity/Nature of Business

The Massachusetts Municipal Wholesale Electric Company (MMWEC) is a public corporation and a political subdivision of the Commonwealth of Massachusetts formed to be a joint action agency to develop a bulk power supply for its member Massachusetts cities and towns having municipal electric systems (Members) and other utilities, both public and private. Among other things, MMWEC is authorized to construct, own, or purchase ownership interests in energy facilities and to issue revenue bonds for such purposes. MMWEC's ownership interest in energy generation facilities are through various Projects (Note 9). Pursuant to its General Bond Resolution (GBR), the bonds of any bond issue relating to a Project are secured solely by revenues derived from that Project. Project revenues are derived primarily from Power Sales Agreements (PSAs) with MMWEC's Members and other utilities who are Participants in a Project (Project Participants). MMWEC's bulk power supply program consists of power purchase arrangements, power brokering services, planning and financial services, and the Projects relating to generating facilities built and operated either by MMWEC or other entities.

A Massachusetts city or town having a municipal electric system, authorized by majority vote of the city or town, may become a Member of MMWEC by applying for admission and agreeing to comply with the terms and conditions of membership as MMWEC By-Laws may require. As of December 31, 2011 and 2010, twenty (20) Massachusetts cities and towns having municipal electric systems were Members.

### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting records of MMWEC are maintained in accordance with the Uniform System of Accounts for Public Utilities and Licensees prescribed by the Federal Energy Regulatory Commission (FERC) and in conformity with generally accepted accounting principles (GAAP) for regulated utilities using the accrual basis of accounting. Additionally, MMWEC follows ASC 980, formerly SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*, as it relates to the deferral of revenues and expenses to future periods in which the revenues are expected to be earned or expenses are expected to be recovered through the ratemaking process.

MMWEC follows all Governmental Accounting Standards Board (GASB) statements and follows all Financial Accounting Standards Board (FASB) statements issued before November 30, 1989. MMWEC also follows all FASB statements issued after November 30, 1989, to the extent there is no GASB guidance available.

### Fair Value Measurements

In September 2006, FASB issued guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance provides a consistent definition of fair value which focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Fair Value Measurements...continued

The following is a synopsis of the FASB fair value measurements.

Level 1 - Pricing inputs are quoted prices available in active markets for identical investments as of the reporting date. MMWEC does not adjust the quoted price for these investments, even in situations where MMWEC holds a large position and a sale could reasonably impact the quoted price.

Level 2 - Pricing inputs are quoted prices for similar investments, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to these investments.

Level 3 - Pricing inputs are unobservable for the investment, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes private investments that are supported by little or no market activity.

The following table presents MMWEC's assets measured at fair value on a recurring basis as of December 31:

	2011			Total
	Level 1	Level 2	Level 3	
	(In Thousands)			
Investment and cash equivalents:				
U.S. Treasury Bills	\$ 85,838	\$ -	\$ -	\$ 85,838
U.S. Treasury Notes	32,627	-	-	32,627
U.S. Agency Bonds	-	128,369	-	128,369
Investments and Cash Equivalents	<u>\$ 118,465</u>	<u>\$ 128,369</u>	<u>\$ -</u>	<u>\$ 246,834</u>
Nuclear Decommissioning Trust	<u>\$ -</u>	<u>\$ 69,581</u>	<u>\$ -</u>	<u>\$ 69,581</u>



# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Fair Value Measurements...continued

	2010			Total
	Level 1	Level 2	Level 3	
	(In Thousands)			
Investment and cash equivalents:				
U.S. Treasury Bills	\$ 90,130	\$ -	\$ -	\$ 90,130
U.S. Treasury Notes	32,749	-	-	32,749
U.S. Agency Bonds	-	120,386	-	120,386
U.S. Agency Discount Notes	-	8,200	-	8,200
Investments and Cash Equivalents	<u>\$ 122,879</u>	<u>\$ 128,586</u>	<u>\$ -</u>	<u>\$ 251,465</u>
Nuclear Decommissioning Trust	<u>\$ -</u>	<u>\$ 65,139</u>	<u>\$ -</u>	<u>\$ 65,139</u>

The fair value of Level 1 instruments is based on quoted over-the-counter (OTC) market prices at December 31 for identical securities. The fair value of Level 2 instruments is based on quoted OTC market prices at December 31 for similar issues.

### Fair Value of Financial Instruments

The carrying value of MMWEC's short-term financial instruments, which consist of cash, cash equivalents, temporary investments, accounts receivable, unbilled revenues, short-term debt, accounts payable and accrued expenses, approximates the instruments' estimated fair values based on the instruments' short-term nature.

The estimated fair value of MMWEC's long-term financial instruments is as follows:

	2011		2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In Thousands)			
Long-term debt, including current maturities	<u>\$ 358,420</u>	<u>\$ 373,288</u>	<u>\$ 444,255</u>	<u>\$ 453,992</u>
Long-term investments held in restricted special funds	<u>\$ 129,036</u>	<u>\$ 129,036</u>	<u>\$ 147,594</u>	<u>\$ 147,594</u>
Nuclear decommissioning trust	<u>\$ 69,581</u>	<u>\$ 69,581</u>	<u>\$ 65,139</u>	<u>\$ 65,139</u>

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

The fair value of long-term financial instruments is estimated based on quoted market prices for the same or similar issues.

### Assets and Liabilities

#### Cash and Investments

For purposes of the Statements of Cash Flows, cash equivalents are cash and investments having an original maturity of three months or less from the date of acquisition. Unrestricted cash and cash equivalents are presented within cash and temporary investments in the accompanying Balance Sheets. Restricted cash and cash equivalents are presented within the current portion of restricted special funds in the accompanying Balance Sheets.

MMWEC has adopted an investment policy, which is approved annually by MMWEC's Board of Directors as required by MMWEC's GBR. Although certain cash and temporary investment amounts used for power purchases and working capital requirements of MMWEC are not subject to the provisions of the GBR, they are subject to the provisions of the investment policy.

Investments are stated at fair value, as defined under fair value measurements above. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the Statements of Revenues and Expenses as increases or decreases in investment income.

Through its investment policy, MMWEC is restricted to investing in certain types of securities and investments, which are:

- a. Direct obligations of the United States of America
- b. Bonds, debentures, notes or other indebtedness issued  
by various federal agencies
- c. New housing authority bonds issued by public agencies or municipalities
- d. Bonds or notes issued by states and municipalities that are rated  
in one of the two highest rated categories by rating agencies
- e. Bank time deposits
- f. Repurchase agreements
- g. Federal funds or bankers acceptances
- h. Investment agreements

#### Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Based on the validity of contracts and collection history, an allowance for doubtful accounts is not considered necessary. Should these circumstances change, an allowance for doubtful accounts would be provided for those accounts receivable considered to be uncollectible at the end of the year, and the bad debts would be written off against the allowance when identified.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Assets and Liabilities...continued

#### Unbilled Revenue

Unbilled revenues are revenues that are not yet billed under the MMWEC Member and Participant agreements and other power arrangements and represent a portion of December services rendered that are collectible in January of the subsequent year.

#### Inventories

Fuel oil and spare parts inventories are recorded and accounted for by the average cost method. At December 31, 2011 and 2010, total fuel oil inventory was valued at \$11.5 million and \$14.2 million, respectively, and spare parts inventory amounted to \$13.4 million and \$11.5 million, respectively.

#### Nuclear Fuel

Nuclear fuel, net of amortization, includes MMWEC's ownership interest in spent nuclear fuel, fuel in reactor, in stock and in process for both Millstone Unit 3 and Seabrook Station. The cost of nuclear fuel is amortized to fuel used in electric generation for each nuclear unit based on the relationship of energy produced in the current period to total expected energy production for fuel in the reactor. A provision for fuel disposal costs is included in fuel used in electric generation based upon disposal contracts with the U.S. Department of Energy (DOE). In addition, fuel used in electric generation includes the annual assessment, under the Energy Policy Act of 1992, for the cost of decontamination and decommissioning of uranium enrichment plants operated by the DOE. MMWEC, along with all of the other joint owners of both Millstone Unit 3 and Seabrook Station, has filed claims against the DOE in the United States Court of Claims for partial breach of the disposal contracts with the DOE.

With respect to Seabrook Station, in 2009, MMWEC, and the other Seabrook Station joint owners, settled their claims against the DOE, with the U.S. Department of Justice (DOJ), who represented the DOE. The settlement resulted in payments to MMWEC in 2010 of \$1.7 million for costs incurred in prior years. These settlement amounts were included in the Member and Participant advances and restricted special fund balances in the accompanying Balance Sheet at December 31, 2010. Approximately \$1.6 million of these funds were disbursed to Seabrook Station Participants during 2011. The remaining \$113,000 will be disbursed to Seabrook Station Participants during 2012 and are included in the Member and Participant advances and restricted special fund balances in the accompanying Balance Sheet at December 31, 2011.

No settlement payments related to Seabrook Station have been received since 2010. As the DOE has agreed in principle to settlements in regard to ongoing costs incurred related to the disposal contracts, accounts receivable related to these settlements have been recorded at December 31, 2011 and 2010 in the amount of \$520,000 and \$137,000, respectively.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2011 and 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Assets and Liabilities...continued

#### Nuclear Fuel...continued

With respect to the Millstone Unit 3 spent nuclear fuel case, on October 28, 2008, the United States Court of Federal Claims ("CFC") awarded Dominion Nuclear Connecticut, Inc., majority owner of Millstone Unit 3, on behalf of itself, MMWEC and the other joint owner, a judgment for damages incurred through June 30, 2006. On December 24, 2008, the United States filed a notice of appeal of the CFC decision. On April 25, 2011, the U.S. Court of Appeals for the Federal Circuit issued a decision affirming the CFC's award of damages to Dominion Nuclear Connecticut, Inc., which resulted in a payment to MMWEC of \$560,000 that was disbursed to Millstone Unit 3 Participants as a credit on the Millstone Unit 3 project billings during 2011.

#### Capital Assets – In Service

Capital assets – In service are generally defined by MMWEC as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets of MMWEC are recorded at cost at the date of acquisition. MMWEC capitalizes interest as an element of the cost of electric plant and nuclear fuel in process. The amount of interest capitalized is based on the cost of debt, including amortization of debt issuance costs and premiums, related to each Project, net of investment gains and losses, and interest income derived from unexpended restricted special funds. MMWEC capitalized interest costs of \$306,000 and \$157,000 for the years ended December 31, 2011 and 2010, respectively.

Provisions for depreciation are computed using the straight-line method based on estimated useful lives for the underlying assets at Stony Brook and the administrative and general office on MMWEC's site (Service). Seabrook Station, Millstone and Wyman are depreciated based on the group life basis. The lives are as follows:

#### Stony Brook

Building	25 years
Building improvements	20 years
Equipment	20-30 years
Computer equipment and vehicles	3-4 years

#### Service

Office equipment and software	3-8 years
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#### Other Generation Facilities

Seabrook Station	60 years
Millstone Unit 3	60 years
W.F. Wyman No. 4	51 years

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Assets and Liabilities...continued

#### Capital Assets – In Service...continued

In 2010, MMWEC revised its estimated useful life for Wyman to 51 years. This revision was effective January 1, 2010. The revision was accounted for prospectively as a change in accounting estimate and as a result, depreciation expense and accumulated depreciation for Wyman at December 31, 2010 decreased by approximately \$492,000.

NextEra Energy Seabrook, LLC, the lead owner of Seabrook Station, has filed for approval from the Nuclear Regulatory Commission to extend Seabrook Station's operating license for an additional 20 years to 2050. The estimated useful of 60 years for Seabrook Station incorporates the assumption that the license extension will be granted.

#### Construction Work in Progress

Construction Work In Progress is stated at cost. Any internal costs that are capitalized are limited to those costs that can be directly identified with the design, engineering or construction of a specific Project and do not include any costs related to production, general corporate overhead or similar activities.

#### Debt Issuance Costs

MMWEC has capitalized the financing costs directly associated with financing and issuing its various bonds (see Note 6). Debt issuance costs related to the Series A and Series 2011 bonds are being amortized using the effective interest rate method over the terms of the underlying bond agreements. Debt issuance costs related to the Series One bonds are being amortized using the straight-line method over the term of the underlying bond agreement.

Amortization expense is expected to be as follows for the years ending December 31:

2012	\$	644,560
2013		552,928
2014		448,558
2015		348,229
2016		230,159
2017-2019		<u>129,902</u>
Totals	\$	<u>2,354,336</u>

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Assets and Liabilities...continued

#### Nuclear Decommissioning Trust

As required by the Nuclear Regulatory Commission (NRC) and respective state statutes and/or regulations, as well as MMWEC's own determinations, MMWEC has funded trust funds maintained by external trustees to provide for the estimated future decommissioning activities of Millstone Unit 3 and Seabrook Station. The balances at December 31, 2011 and 2010 for Millstone Unit 3 were \$27.5 million and \$25.5 million, respectively, and for Seabrook Station were of \$42.1 million and \$39.6 million, respectively, and are stated at fair value and are included in deferred charges and amounts recoverable (payable) under terms of the PSAs on the Balance Sheet. Decommissioning balances for the Seabrook Station include funds in the New Hampshire Nuclear Decommissioning Trust and in an escrow account into which payments are made by MMWEC as a funding assurance mechanism. Depending on future circumstances, the funds held in the escrow account will be placed either in the Decommissioning Trust Fund for Seabrook Station, or will be returned to MMWEC, per order of the Nuclear Decommissioning Financing Committee of the State of New Hampshire.

#### Amounts Recoverable (Payable) Under Terms of the Power Sales Agreements

Billings to Project Participants are structured to recover costs in accordance with the PSAs, which generally provide for billing debt service, operating expenses and reserve requirements. Expenses are reflected in the Statements of Revenues and Expenses in accordance with GAAP. The timing difference between amounts billed and expensed is charged, or credited, to amounts recoverable (payable) under terms of the PSAs. Such amounts will be recovered through future billings or an expense will be recognized to offset credit balances. The principal differences include depreciation, fuel amortization, costs associated with canceled Projects (or assets abandoned within a Project), asset retirement obligations, cost of refinancing, billing for certain interest, reserves, net unrealized gains or losses on investments and other costs. Individual Projects have cumulative billings in excess of costs, which total \$327.3 million and \$265.8 million at December 31, 2011 and 2010, respectively. In accordance with the PSAs, these amounts have been offset in amounts payable under terms of the PSAs on the Balance Sheet.

The December 31, 2011 and 2010 amounts payable balances of \$327.3 million and \$265.8 million, respectively, reflect the Statements of Revenues and Expenses net increase of \$61.5 and \$60.5 million for the years then ended.

The decrease of \$1.1 million in amounts payable under terms of the PSAs as shown on the Statement of Cash Flows at December 31, 2010 is due to the reclassification of approximately \$1.9 million in amounts payable under the PSAs for the Seabrook DOE refund received in 2009 to member and participant advances in 2010, offset by the following 2010 transactions which were not required to be reflected in the amounts payable balance on the 2010 Balance Sheet due to their temporary nature: amount of pension expense in excess of contributions of approximately \$0.7 million and approximately \$0.2 million related to unrealized gains related to the Nuclear Decommissioning Trust.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2011 and 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Assets and Liabilities...continued

#### Member and Participant Advances and Reserves

MMWEC maintains numerous operating reserves and advances from its Members and Project Participants in accordance with the PSAs, Power Purchase Agreements (PPAs) and other contractual arrangements. Member and Participant advances that are considered current liabilities, were \$111.3 million and \$113.0 million for the years ended December 31, 2011 and 2010, respectively. Other Member and Participant reserves for 2011 and 2010, which are considered long-term, were \$65.9 million and \$60.7 million, respectively.

#### Asset Retirement Obligations

MMWEC has identified certain asset retirement obligations (AROs), which are primarily associated with the decommissioning of MMWEC's ownership interest in Millstone Unit 3 and Seabrook Station. During 2011, MMWEC recorded an ARO associated with the decommissioning of MMWEC's ownership interest in Wyman of approximately \$308,000. MMWEC also revised its estimate of the decommissioning costs required for Millstone Unit 3 and Seabrook Station during the year ended December 31, 2011, resulting in an increase in the recorded obligation. A reconciliation of the beginning and ending aggregate carrying amount of AROs for the years ending December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Asset retirement obligations, beginning of year	\$ 105,334	\$ 100,261
Liabilities incurred	308	-
Accretion expense	5,981	5,073
Revisions in estimated cash flows	<u>7,461</u>	<u>-</u>
Asset retirement obligations, end of year	<u>\$ 119,084</u>	<u>\$ 105,334</u>

Accretion expense is included in other operating expenses in the Statements of Revenue and Expenses. MMWEC's AROs, other than those associated with these assets, are not significant.

AROs are recorded at the present value of amounts expected to be paid and capitalized as part of the cost of the related tangible long-lived assets. In the absence of quoted market prices, MMWEC estimated the present value of AROs using techniques involving discounted cash flow analysis. Using such measurement techniques is dependent upon many subjective factors, including the selection of discount and cost escalation rates, identification of planned retirement activities and related cost estimates, and assertions of probability regarding the timing, nature and costs of such activities. Inputs and assumptions are based on the best information available at the time the estimates are made. However, estimates of future cash flows are highly uncertain by nature and may vary significantly from actual results.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2011 and 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Revenues and Expenses

#### Revenues

Operating revenues include electric sales for resale provided through MMWEC's bulk power supply program. Revenues consist, in significant part, of billings under the PSAs, PPAs, and other power arrangements. MMWEC also records service revenues by providing its Members with power supply planning and related services, which are billed pursuant to the MMWEC Service Agreement or the All-Requirements Bulk Power Sales Agreement. Revenues related to financing and other activities are reflected as non-operating.

Revenues are comprised of the following:

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Electric sales for resale	\$ 299,651	\$ 302,048
Service	<u>5,298</u>	<u>4,215</u>
	<u>\$ 304,949</u>	<u>\$ 306,263</u>

#### Taxes

Chapter 775 of the Massachusetts Acts of 1975 (the Act) specifically exempts MMWEC from paying any taxes upon its income, existence or franchise, and any revenues from the transfer or sale of bonds issued by MMWEC. Chapter 775 exempts real and personal property situated within the Commonwealth from property taxation. However, the Act requires MMWEC to pay an amount in lieu of property taxes with respect to MMWEC assets in Massachusetts to any governmental body authorized to levy local taxes in Massachusetts. MMWEC pays an amount in lieu of property taxes for its interest in the Stony Brook Peaking and Intermediate fossil-fuel burning plants located in Ludlow, Massachusetts.

MMWEC pays property taxes for its ownership interest in Millstone Unit 3 located in Waterford, Connecticut and Seabrook Station, which is mostly located in Seabrook, New Hampshire. In addition, MMWEC pays property taxes for its ownership interest in the Wyman Unit 4 fossil-fuel burning plant, which is located in Yarmouth, Maine.

#### Restricted Funds

MMWEC's practice is to use restricted funds on hand before using unrestricted funds when an expense is incurred for purposes for which both restricted and unrestricted funds are available.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the financial statements. Estimates are used for, but not limited to, the selection of the useful lives of capital assets, provision necessary for contingent liabilities, accrued expenses, asset retirement obligations and other similar charges. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.



# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

## 2. CASH AND INVESTMENTS

MMWEC'S cash and investments at December 31, 2011 and 2010 were comprised of the following:

Type of Investment or Cash Equivalent	2011		2010		Associated Risks
	Carrying Value	Bank & Investment Value	Carrying Value	Bank & Investment Value	
	(In Thousands)				
Cash and Cash Equivalents:					
Government Money Market Funds	\$ 765	\$ 765	\$ 3,630	\$ 3,630	Credit Risk
Bank Cash Management Accounts	33	33	8,299	8,299	Credit Risk, Custodial Credit Risk
U.S. Treasury Bills	6,500	6,500	8,699	8,699	Credit Risk, Interest Rate Risk
U.S. Treasury Notes	251	251	1,402	1,402	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Agency Bonds	-	-	554	554	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Agency Discount Notes	-	-	8,200	8,200	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
Invested/Bank Cash	<u>7,740</u>	<u>11,147</u>	<u>4,542</u>	<u>5,116</u>	Custodial Credit Risk
Total Cash and Cash Equivalents	<u>15,289</u>	<u>18,696</u>	<u>35,326</u>	<u>35,900</u>	
Other Investments:					
U.S. Treasury Bills	79,338	79,338	81,431	81,431	Credit Risk, Interest Rate Risk
U.S. Treasury Notes	32,376	32,376	31,347	31,347	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Agency Bonds	<u>128,369</u>	<u>128,369</u>	<u>119,832</u>	<u>119,832</u>	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
Total Other Investments	<u>240,083</u>	<u>240,083</u>	<u>232,610</u>	<u>232,610</u>	
Totals	<u>\$ 255,372</u>	<u>\$ 258,779</u>	<u>\$ 267,936</u>	<u>\$ 268,510</u>	

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

## 2. CASH AND INVESTMENTS...continued

Investments are stated at fair value as described earlier in fair value measurements policy in Note 1. Fair values are based on quoted market prices of identical or similar securities. No investments are reported at amortized cost. The difference between the bank and investment value and carrying value is due to outstanding checks and/or deposits in transit.

At December 31, 2011 and 2010, all investments were held in MMWEC's name by custodians consisting of the Bond Fund Trustee (as defined in the GBR), or MMWEC's depository bank.

### Custodial Credit Risk

#### Deposits

Custodial credit risk is the risk that, in the event of a financial institution failure, MMWEC's deposits may not be returned to MMWEC. Beginning December 31, 2010 and through December 31, 2012, noninterest bearing transaction accounts are fully insured by the Federal Deposit Insurance Corporation (FDIC), regardless of the balance of the account.

There was no uninsured and uncollateralized bank balances subject to custodial credit risk at December 31, 2011 or 2010.

MMWEC's investment policy does not address custodial credit risk.

#### Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MMWEC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

All investment securities are held in book entry form, not physically held, in MMWEC's name.

### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2011, MMWEC's investments were rated as follows:

<u>Investment Type</u>	<u>Standard &amp; Poor's</u>	<u>Fitch Ratings</u>	<u>Moody's Investors Service</u>
U.S. Treasury Securities	AA+	AAA	Aaa
Federal National Mortgage	AA+	AAA	Aaa
Federal Farm Credit Bank	AA+	AAA	Aaa
Federal Home Loan Bank	AA+	AAA	Aaa
Federal Home Loan Mortgage	AA+	AAA	Aaa
Dryfus, Government Cash Management Fund	AA+	AAA	Aaa
Columbia Treasury Reserves Fund	AA+	AAA	Aaa

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2011 and 2010

## 2. CASH AND INVESTMENTS...continued

### Credit Risk...continued

As of December 31, 2010, MMWEC's investments were rated as follows:

Investment Type	Standard & Poor's	Fitch Ratings	Moody's Investors Service
U.S. Treasury Securities	AAA	AAA	Aaa
Federal National Mortgage	AAA	AAA	Aaa
Federal Farm Credit Bank	AAA	AAA	Aaa
Federal Home Loan Bank	AAA	AAA	Aaa
Federal Home Loan Mortgage	AAA	AAA	Aaa
Municipal Bond Anticipation Notes	Not Rated	Not Rated	MIG 1
Dryfus, Government Cash Management Fund	AAA	AAA	Aaa
Columbia Treasury Reserves Fund	AAA	AAA	Aaa

MMWEC's investment policy addresses credit risk by defining allowable investments and a maximum allocation to each asset class.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of MMWEC's investment in a single issuer.

At December 31, 2011 and 2010, MMWEC's investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio	
		2011	2010
Federal National Mortgage Assn.	U.S. Agency Securities	13.31%	17.15%
Federal Farm Credit Bank	U.S. Agency Securities	19.11%	14.62%
Federal Home Loan Bank	U.S. Agency Securities	10.64%	12.08%
Federal Home Loan Mortgage	U.S. Agency Securities	7.21%	4.15%

MMWEC's investment policy minimizes concentration of credit risk in a single issuer by diversification of investment types using the following maximum limits, which are established for MMWEC's total portfolio at December 31, 2011 and 2010, as follows:

Repurchase Agreements	10%
Certificates of Deposits	10%
U.S. Treasury Securities	100%
U.S. Agencies	65%
Municipal Securities	20%

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2011 and 2010

## 2. CASH AND INVESTMENTS...continued

### Concentration of Credit Risk...continued

Deviation from the approved portfolio limits requires written authorization and approval from the MMWEC Board of Directors.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

At December 31, 2011, MMWEC's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity In Years</u>		
		<u>Less than 1</u>	<u>1 – 5</u>	<u>Over 5</u>
		(In Thousands)		
U.S. Treasury Securities	\$ 118,465	\$ 95,181	\$ 20,237	\$ 3,047
U.S. Agency Securities	<u>128,369</u>	<u>22,617</u>	<u>72,936</u>	<u>32,816</u>
Totals	<u>\$ 246,834</u>	<u>\$ 117,798</u>	<u>\$ 93,173</u>	<u>\$ 35,863</u>

At December 31, 2010, MMWEC's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity In Years</u>		
		<u>Less than 1</u>	<u>1 – 5</u>	<u>Over 5</u>
		(In Thousands)		
U.S. Treasury Securities	\$ 122,879	\$ 94,965	\$ 25,569	\$ 2,345
U.S. Agency Securities	<u>128,586</u>	<u>8,906</u>	<u>80,855</u>	<u>38,825</u>
Totals	<u>\$ 251,465</u>	<u>\$ 103,871</u>	<u>\$ 106,424</u>	<u>\$ 41,170</u>

MMWEC's investment policy specifies that MMWEC shall seek to maximize the return on investments consistent with requirements for safety, minimization of risk and liquidity. Monies will not be invested for terms in excess of the projected use of funds nor exceed an average life of ten years.

For the years ended December 31, 2011 and 2010, net unrealized gains on investments totaled \$2.7 million and \$5.6 million, respectively. The net unrealized gains are excluded from operating revenue and are reported within investment income on the Statement of Revenues and Expenses.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

## 2. CASH AND INVESTMENTS...continued

### Interest Rate Risk...continued

During the years ended December 31, 2011 and 2010, investment income consisted of interest income, realized gains/(losses) and unrealized gains/(losses) as follows:

	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Interest income:		
Restricted funds	\$ 2,268	\$ 2,932
Cash and temporary investments	559	647
Decommissioning funds	<u>2,188</u>	<u>1,773</u>
Total interest income	<u>5,015</u>	<u>5,352</u>
Realized gains/(losses):		
Restricted funds	165	139
Cash and temporary investments	4	17
Decommissioning funds	<u>312</u>	<u>410</u>
Net realized gains/(losses)	<u>481</u>	<u>566</u>
Unrealized gains/(losses):		
Restricted funds	2,367	1,727
Cash and temporary investments	122	383
Decommissioning funds	<u>214</u>	<u>3,473</u>
Net unrealized gains/(losses)	<u>2,703</u>	<u>5,583</u>
Total investment income	<u>\$ 8,199</u>	<u>\$ 11,501</u>

## 3. SPECIAL FUNDS/RESTRICTED ASSETS

Mandatory segregations of assets are presented as special funds. Such segregations are required by bond agreements and other external parties.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

### 3. SPECIAL FUNDS/RESTRICTED ASSETS...continued

Numerous special funds are required by the GBR pursuant to which MMWEC issued its long-term debt. The special funds are invested in accordance with the provisions of the GBR. Certain working capital and other funds are not mandated by the GBR; however, they are invested in accordance with the provisions of the investment policy under the GBR. The composition of special funds is as follows:

<u>Fund</u>	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Bond Fund Interest, Principal and Retirement Accounts to pay principal and interest on bonds	\$ 39,310	\$ 36,907
Bond Fund Reserve Account set at the maximum annual interest obligation to make up any deficiencies in the Bond Fund Interest, Principal and Retirement Account	42,319	55,928
Reserve and Contingency Fund to make up deficiencies in the Bond Funds and pay for repairs and extraordinary costs	24,677	24,106
Revenue Fund to receive revenues and disburse them to the Bond Funds and other funds	48,604	55,398
Working Capital Funds to maintain funds to cover operating expenses	27,845	27,809
Capital Reserve Fund to pay Nuclear Capital Expenditures	7,519	3,681
Funds obtained from terminated power purchase contract	10,823	11,119
Other Funds for indemnification or purchase of insurance, funds contributed for an agreement where MMWEC acts as agent and long-term investments for the Peaking Project and fuel line of credit	<u>31,656</u>	<u>42,424</u>
Restricted Special Funds and Interest Receivable	232,753	257,372
Less: Current Portion	<u>(103,196)</u>	<u>(109,105)</u>
Interest receivable	<u>(521)</u>	<u>(673)</u>
Total Restricted Special Funds, Long-Term	<u>\$ 129,036</u>	<u>\$ 147,594</u>

For financial reporting purposes, interest receivable has been disclosed separately on the Balance Sheets.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2011 and 2010

## 4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2011 and 2010 is as follows:

	Balance 1/1/11	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/11
	(In Thousands)			
Capital assets not being depreciated:				
Land	\$ 3,049	\$ -	\$ -	\$ 3,049
Capital assets being depreciated:				
Plant in service	1,345,418	19,919	(1,450)	1,363,887
Less: Accumulated depreciation	788,388	15,322	(1,419)	802,291
 Net Plant	 <u>\$ 560,079</u>	 <u>\$ 4,597</u>	 <u>\$ (31)</u>	 <u>\$ 564,645</u>

	Balance 1/1/10	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/10
	(In Thousands)			
Capital assets not being depreciated:				
Land	\$ 3,049	\$ -	\$ -	\$ 3,049
Capital assets being depreciated:				
Plant in service	1,335,002	10,745	(329)	1,345,418
Less: Accumulated depreciation	773,780	14,774	(166)	788,388
 Net Plant	 <u>\$ 564,271</u>	 <u>\$ (4,029)</u>	 <u>\$ (163)</u>	 <u>\$ 560,079</u>

A summary of changes in nuclear fuel for 2011 and 2010 is as follows:

Year	Balance 1/1	Additions	Amortization	Balance 12/31
	(In Thousands)			
2011	<u>\$ 28,346</u>	<u>\$ 14,323</u>	<u>\$ (9,860)</u>	<u>\$ 32,809</u>
2010	<u>\$ 28,649</u>	<u>\$ 11,783</u>	<u>\$ (12,086)</u>	<u>\$ 28,346</u>

## 5. SHORT-TERM DEBT

MMWEC maintains a \$25 million loan facility which allows for borrowings by MMWEC to finance, temporarily, certain power purchases made by MMWEC for resale to the Members and other municipal systems under various power contracts between MMWEC and the municipal systems (Power Contracts). Borrowings attributable to a Power Contract under this loan facility are secured by the following: a lien on and/or security interest in all proceeds of any loans prior to disbursement by MMWEC, all amounts payable to MMWEC by the Power Contract Participants under the Power Contract, and earnings from MMWEC's temporary investments of such proceeds and amounts payable. The amount payable by a Power Contract Participant with respect to a Power Contract is limited to the amount allocated to that Participant.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

## 5. SHORT-TERM DEBT...continued

Borrowings outstanding under the loan facility were \$811,000 and \$207,000 as of December 31, 2011 and 2010, respectively. During 2011 and 2010, the maximum outstanding balance under the line of credit was \$1.3 million and \$1.0 million, respectively. Interest charged on borrowings under the loan facility after December 31, 2011 is at the bank's prime rate percent (3.25% at December 31, 2011). In addition, a commitment fee of .375% per annum is charged on the unused portion of the loan facility based on the average daily principal amount of the borrowing outstanding. This loan facility expires November 24, 2012.

MMWEC also maintains a \$15 million revolving line of credit for the purpose of financing purchases of fuel oil and selling such fuel oil from the Stony Brook Fuel Oil Project to the Intermediate and Peaking Projects. Borrowings under this line of credit are secured by the following: a lien on and/or security interest in all proceeds of any borrowings prior to disbursement by MMWEC, all amounts payable by the Intermediate and Peaking Projects to the Stony Brook Fuel Oil Project for fuel oil, and all earnings from MMWEC's investments of any such proceeds and amounts payable to the bank. Borrowings outstanding under the line of credit were \$0 and \$1.9 million as of December 31, 2011 and 2010, respectively. During 2011 and 2010, the maximum outstanding balance under the line of credit was \$1.9 million and \$5.1 million respectively. The interest rate for the borrowings under this line of credit after December 31, 2011 is at MMWEC's election prior to the last day of any interest period of either the LIBOR rate plus 1.50% per annum, or at a variable rate selected by MMWEC, which is either the prime rate or the BBA LIBOR Daily Floating Rate plus 1.50%. If no such selection is made, the variable rate is in effect. In addition, a commitment fee of .375% per annum is charged on the unused portion of the loan facility based on the average daily principal amount of the borrowing outstanding. This line of credit expires November 24, 2012.

The following short-term debt activity occurred in 2011 and 2010:

<u>Year</u>	<u>Balance 1/1</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12/31</u>
	(In Thousands)			
2011	<u>\$ 2,069</u>	<u>\$ 3,082</u>	<u>\$ (4,340)</u>	<u>\$ 811</u>
2010	<u>\$ 2,458</u>	<u>\$ 7,590</u>	<u>\$ (7,979)</u>	<u>\$ 2,069</u>

## 6. LONG-TERM DEBT

### General Bond Resolution and Power Supply System Revenue Bonds

MMWEC issued separate issues of Bonds for each Project, which are payable solely from, and secured solely by, the revenues derived from the Project to which such issue relates, plus available funds pledged under the GBR for the Bonds of such issues. The revenues derived from each Project are used solely to provide for the payment of the Bonds of any Bond issue relating to such Project, and to pay MMWEC's cost of owning and operating such Project, and are not used to provide for the payment of the Bonds of any Bond issue relating to any other Project.



# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2011 and 2010

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## 6. LONG-TERM DEBT...continued

### General Bond Resolution and Power Supply System Revenue Bonds...continued

Pursuant to all of the Project PSAs, each Project Participant is obligated to pay its share of the actual costs relating to the Project's generating units, and its share of all principal, premium and interest associated with the Bonds for the Projects in which the Project Participant has a PSA, and for which the Project Participant is obligated to set rates at levels sufficient to pay such costs. These obligations are not contingent upon the operational status of the Project's units.

MMWEC's issuance of debt, other than obligations with a maturity of less than one year, requires authorization by the Massachusetts Department of Public Utilities.

### Series 2011 Revenue Bonds

On June 16, 2011, MMWEC issued and sold Power Supply Project Revenue Bonds, Series 2011 for Nuclear Mix No. 1, Nuclear Project No. 3, Nuclear Project No. 4, Nuclear Project No. 5 and Project No. 6 (Series 2011 Bonds) in the face amount of \$96.7 million. The Series 2011 Bonds were issued at a premium of \$11 million which is being amortized over the life of the bonds using the effective interest method. The Series 2011 Bonds are payable from and secured by the revenues derived from Nuclear Mix No. 1, Nuclear Project No. 3, Nuclear Project No. 4, Nuclear Project No. 5 and Project No. 6.

The Series 2011 bond proceeds were used to redeem a portion of the Series One Bonds prior to maturity at the option of MMWEC at a redemption price of \$120.3 million, which was equal to the principal amount of \$123.1 million less discounts on the redeemed issues in the amount of \$2.8 million. The gain on extinguishment of debt on the accompanying statement of revenues and expenses is equal to the discounts on the redeemed issues offset by the acceleration of the expense of the unamortized debt issuance costs of \$692,000 related to the portion of the Series One Bonds redeemed.

Interest on the Series 2011 is payable in semi-annual installments beginning July 1, 2011 and on January 1 and July 1 for each year thereafter. The Series 2011 Bonds bear interest at a fixed rate ranging from 3.0% to 5.0% for the various issues.

In 2011, MMWEC incurred \$1.7 million of debt issuance costs in connection with the issuance of the Series 2011 Bonds, which have been capitalized and are being amortized using the effective interest rate method over the term of the bond. Amortization expense related to these financing costs was \$162,000 for the year ended December 31, 2011.

### Series A and Series One Revenue Bonds

The Series A Bonds maturing on and prior to July 1, 2011 are not subject to redemption prior to maturity at the option of MMWEC. The Series A Bonds maturing on and after July 1, 2012 are subject to redemption prior to maturity at the option of MMWEC at 101% of the principal amount from January 1, 2012 to December 31, 2012 and at 100% from January 1, 2013 and thereafter. The Series One Bonds of each issue are subject to redemption at the option of MMWEC, in whole or in part, at a redemption price of 100% of the principal amount.

The Series A bond premiums are amortized over the term of the bonds using the effective interest method.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

## 6. LONG-TERM DEBT...continued

### General Bond Resolution and Power Supply System Revenue Bonds...continued

#### Power Supply System Revenue Bonds

At December 31, 2011 and 2010, bonds payable on the accompanying Balance Sheet consist of serial and variable-rate bonds dated November 2001 and June 2011 and are comprised of the following issues:

<u>Issue</u>	<u>Net Interest Cost</u>	<u>December 31,</u>	
		<u>2011</u>	<u>2010</u>
		(In Thousands)	
Nuclear Mix No. 1, Series A (Original Issue \$90,015)	4.0%	\$ 13,180	\$ 21,670
Nuclear Project No. 3, Series A (Original Issue \$47,930)	4.2%	13,940	25,835
Nuclear Project No. 4, Series A (Original Issue \$112,695)	4.3%	45,510	57,290
Nuclear Project No. 5, Series A (Original Issue \$42,170)	4.2%	14,315	17,685
Project No. 6, Series A (Original Issue \$347,535)	4.2%	127,135	151,000
Nuclear Mix No. 1, Series 2011(Original Issue \$3,965)	1.9%	3,965	-
Nuclear Project No. 3, Series 2011 (Original Issue \$31,895)	2.4%	31,895	-
Nuclear Project No. 4, Series 2011 (Original Issue \$22,065)	2.6%	22,065	-
Nuclear Project No. 5, Series 2011 (Original Issue \$2,580)	2.7%	2,580	-
Project No. 6, Series 2011 (Original Issue \$36,180)	3.1%	36,180	-
Nuclear Mix No. 1, Series One (Original Issue \$11,350)	Variable	3,680	11,350
Nuclear Project No. 3, Series One (Original Issue \$62,975)	Variable	22,875	62,975
Nuclear Project No. 4, Series One (Original Issue \$35,325)	Variable	5,275	35,325
Nuclear Project No. 5, Series One (Original Issue \$9,025)	Variable	4,475	9,025
Project No. 6, Series One (Original Issue \$52,100)	Variable	11,350	52,100
Long-term debt		358,420	444,255
Unamortized premium		12,363	4,302
Less: Current maturities, including unamortized premiums		(62,491)	(59,656)
Total Long-Term Debt, net of premiums and current maturities		<u>\$ 308,292</u>	<u>\$ 388,901</u>

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

## 6. LONG-TERM DEBT...continued

### General Bond Resolution and Power Supply System Revenue Bonds...continued

#### Power Supply System Revenue Bonds...continued

The estimated fair values of MMWEC's debt are as followings:

<u>Issue</u>	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
	(In Thousands)	
Nuclear Mix No. 1, Series A	\$ 13,354	\$ 22,402
Nuclear Project No. 3, Series A	14,125	26,688
Nuclear Project No. 4, Series A	46,102	59,321
Nuclear Project No. 5, Series A	14,501	18,358
Project No. 6, Series A	128,782	156,448
Nuclear Mix No. 1, Series 2011	4,175	-
Nuclear Project No. 3, Series 2011	35,325	-
Nuclear Project No. 4, Series 2011	24,847	-
Nuclear Project No. 5, Series 2011	2,872	-
Project No. 6, Series 2011	41,550	-
Nuclear Mix No. 1, Series One	3,680	11,350
Nuclear Project No. 3, Series One	18,758	62,975
Nuclear Project No. 4, Series One	5,275	35,325
Nuclear Project No. 5, Series One	4,475	9,025
Project No. 6, Series One	9,818	52,100
	<u>\$ 367,639</u>	<u>\$ 453,992</u>
Total Long-Term Debt at estimated fair value	<u>\$ 367,639</u>	<u>\$ 453,992</u>

The following is a summary of total estimated debt service requirements for bonds outstanding at December 31, 2011:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		(In Thousands)	
2012	\$ 62,190	\$ 18,273	\$ 80,463
2013	62,510	14,813	77,323
2014	61,125	11,610	72,735
2015	57,855	8,499	66,354
2016	58,945	5,546	64,491
2017-2019	55,795	3,486	59,281
	<u>\$ 358,420</u>	<u>\$ 62,227</u>	<u>\$ 420,647</u>
Totals	<u>\$ 358,420</u>	<u>\$ 62,227</u>	<u>\$ 420,647</u>

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2011 and 2010

## 6. LONG-TERM DEBT...continued

### General Bond Resolution and Power Supply System Revenue Bonds...continued

#### Power Supply System Revenue Bonds...continued

Future interest requirements on variable rate debt were calculated using 4.5% per annum.

The interest rates on the Series One variable rate Bonds may be converted, at the option of MMWEC, to a daily, weekly, flexible, term or fixed mode. The realized interest rate on the Series One variable rate Bonds during 2011 and 2010 was .17% and .33%, respectively.

Financial and credit market disruption in 2008 resulted in failed auctions for MMWEC Series One variable rate debt. MMWEC Series One variable rate bonds have subsequently priced at the Maximum Auction Rate. The Maximum Auction Rate means, as of any Auction Date, the product of the Index multiplied by the Auction Mode Multiple. The index on any Auction Date with respect to the Series One Bonds of a particular Issue in any Auction Period of 35 days or less will be the Seven-Day "AA" Composite Commercial Paper Rate on such date. The Auction Mode Multiple, means, as of any Auction Date and with respect to the Series One Bonds of a particular Issue, the Percentage of Index determined based on the prevailing Rating of the Series One Bonds.

At December 31, 2011, the following are the detail terms of all variable rate debt:

<u>Project</u>	<u>2011 Average Auction Rate</u>	<u>Auction Mode</u>
Nuclear Mix No. 1, Series One	.16%	Weekly
Nuclear Project No. 3, Series One	.16%	Weekly
Nuclear Project No. 4, Series One	.17%	Daily
Nuclear Project No. 5, Series One	.16%	Weekly
Project No. 6, Series One	.17%	Daily

The following summarizes changes in long-term debt at face value for 2011 and 2010:

<u>Year</u>	<u>Balance 1/1</u>	<u>Additions</u>	<u>Payments</u>	<u>Discount at redemption</u>	<u>Balance 12/31</u>
			(In Thousands)		
2011	\$ 444,255	\$ 96,685	\$ (179,770)	\$ (2,750)	\$ 358,420
2010	\$ 502,245	\$ -	\$ (57,990)	\$ -	\$ 444,255

Interest paid for long-term debt during 2011 and 2010 was \$14.7 million and \$18.4 million, respectively.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2011 and 2010

## 7. LABOR AGREEMENTS

At December 31, 2011, approximately 31% of MMWEC's 78 employees work under collective bargaining agreements, whose existing labor agreements expires on December 31, 2014. At December 31, 2010, approximately 30% of MMWEC's 80 employees worked under the collective bargaining agreements.

## 8. BENEFIT PLANS

The Massachusetts Municipal Wholesale Electric Company Pension Plans (Plans) are two single-employer, defined benefit pension plans administered by MMWEC. One plan covers union employees (union plan) and the other plan covers non-union employees (administration plan). All full-time active administration employees hired before December 1, 2006, and all full-time active union employees hired before January 1, 2008 are covered by their respective plans. The Plans provide a defined benefit to employees based on years of service and average earnings. Administrative or union employees hired after these dates qualify for a Defined Contribution plan as described below. Certain other financial information concerning the plans, in addition to the information contained here, is provided annually to plan participants.

All contributions to the plans are authorized by the Board of Directors and made by MMWEC. Since 2008, MMWEC has made additional contributions in excess of the required contributions with the goal of establishing a funding ratio of approximately 100%.

The annual pension cost and net pension asset for both plans as of and for the years ended December 31, 2011 and 2010 are as follows:

	Administration Plan		Union Plan	
	2011	2010	2011	2010
	(In Thousands)			
Annual required contribution	\$ 284	\$ 668	\$ 130	\$ 182
Interest on net pension obligation	(491)	(421)	(131)	(113)
Adjustment to annual required contribution	<u>554</u>	<u>475</u>	<u>148</u>	<u>127</u>
Annual pension cost	347	722	147	196
Contributions made	<u>(881)</u>	<u>(1,659)</u>	<u>(236)</u>	<u>(441)</u>
Decrease in net pension obligation (asset)	(534)	(937)	(89)	(245)
Net pension asset beginning of year	<u>(6,545)</u>	<u>(5,608)</u>	<u>(1,748)</u>	<u>(1,503)</u>
Net pension asset end of year	<u>\$ (7,079)</u>	<u>\$ (6,545)</u>	<u>\$ (1,837)</u>	<u>\$ (1,748)</u>

The net pension asset is included in other deferred charges on the Balance Sheets.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

## 8. BENEFIT PLANS...continued

Three-year trend information for MMWEC's pension cost and contributions is as follows:

	<u>Annual Pension Cost (APC)</u>	<u>Employer Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
	(In Thousands)			
<u>Administration Plan</u>				
2009	\$ 993	\$ 1,044	111.2%	\$ 5,608
2010	722	1,659	229.8%	6,545
2011	347	881	253.9%	7,079
<u>Union Plan</u>				
2009	\$ 294	\$ 955	333.8%	\$ 1,503
2010	196	441	224.6%	1,748
2011	147	236	160.5%	1,837

A schedule of funding progress for the Plans is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Asset (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a)/c]</u>
	(In Thousands)					
<u>Administration Plan</u>						
1/1/2009	\$ 10,917	\$ 15,642	\$ 4,725	69.8%	\$ 3,718	127.1%
1/1/2010	13,077	15,578	2,501	83.9%	3,549	70.5%
1/1/2011	15,919	16,004	85	99.5%	3,321	2.6%
<u>Union Plan</u>						
1/1/2009	\$ 2,697	\$ 3,940	\$ 1,243	68.5%	\$ 1,430	86.9%
1/1/2010	4,108	4,272	164	96.2%	1,492	11.0%
1/1/2011	4,832	4,636	(196)	104.2%	1,469	(13.3)%

The annual required contribution for the current year was determined as part of the January 1, 2010 actuarial valuation using the entry age normal with frozen initial liability cost method. The actuarial assumptions included a 7.5% investment rate of return and a 4% projected salary increase. The amortization method for both plans used the level dollar open method with an amortization period of 30 years. The administration and union plans used the entry age normal with frozen initial liability cost method for all years shown.

All MMWEC employees are eligible to make a voluntary contribution in accordance with prescribed annual dollar limits to a deferred compensation plan sponsored by the Commonwealth of Massachusetts. The deferred compensation plan is maintained pursuant to Section 457(b) of the Internal Revenue Code and the General Laws of Massachusetts.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

## 8. BENEFIT PLANS...continued

In 2007, MMWEC established a defined contribution (DC) pension plan in compliance with Section 401 (a) of the Internal Revenue Code for non-union employees hired after December 1, 2006 and for union employees hired after January 1, 2008. Thereafter, all new employees are no longer eligible to participate in MMWEC Defined Benefit plans. Under the DC plan, MMWEC contributes 6% of an employee's base salary and matches 50% of employee contributions to the defined contribution plan up to a maximum employee contribution of 6%. For the years ended December 31, 2011 and December 31, 2010, MMWEC contributed \$125,000 and \$87,000 and the employees contributed \$11,000 and \$6,000, respectively.

MMWEC contributes to an employee savings plan administered by a mutual insurance company. All eligible full-time employees meeting the service and eligibility requirements participate in this plan. Under the provisions of the plan, MMWEC's contributions are vested immediately. For the years ended December 31, 2011 and 2010, MMWEC contributed \$96,000 and \$97,000, respectively, and the employees contributed \$140,000 and \$141,000, respectively. All employees eligible or participating in the DC pension plan established in 2007 are not eligible to participate in the employee savings plan.

Benefit provisions of all plans are determined and authorized by the MMWEC Board of Directors.

## 9. PROJECT JOINT OWNERSHIP AGREEMENTS

MMWEC's power supply capacity includes ownership interests in the Stony Brook Peaking and Stony Brook Intermediate Units, both of which MMWEC operates. MMWEC is a nonoperating joint owner in the W.F. Wyman Unit No. 4, Millstone Unit 3 and Seabrook Station. Electric plant in service also includes assets related to MMWEC's service company operations, which totaled \$3.7 million and \$2.6 million in 2011 and 2010, respectively. The following is a summary of the balances by Project included in electric plant in service and construction work in progress, as well as MMWEC's share of capability in megawatts (MW).

Projects	Facility and MMWEC Share of Capability in MW	Amount as of December 31,		
		2011	2010	
(In Thousands)				
Peaking Project	Stony Brook	172.7	\$ 58,622	\$ 58,612
Intermediate Project	Stony Brook	321.3	169,872	169,580
Wyman Project	W.F. Wyman No. 4	22.4	8,548	8,368
Nuclear Project No. 3	Millstone Unit 3	39.5	143,497	143,507
Nuclear Mix No. 1	Millstone Unit 3	19.8	58,263	58,269
Nuclear Mix No. 1	Seabrook Station	2.0	9,981	9,769
Nuclear Project No. 4	Seabrook Station	54.0	295,999	290,340
Nuclear Project No. 5	Seabrook Station	13.7	80,244	78,810
Project No. 6	Seabrook Station	74.7	552,057	544,221
Totals			<u>\$ 1,377,083</u>	<u>\$ 1,361,476</u>

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

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## 10. RELATED PARTY TRANSACTIONS

During 2007 and 2008, MMWEC, together with Massachusetts municipal utility systems, formed four cooperatives under Massachusetts General Laws to conduct business for the mutual benefit of the members of the cooperatives.

During 2008, MMWEC and fourteen other municipal utilities formed the Berkshire Wind Power Cooperative Corporation for the purpose of financing, owning, constructing and operating wind turbines and ancillary equipment located in Hancock and Lanesborough, Massachusetts. In November of 2008, MMWEC and the West Boylston Municipal Light Plant formed the Massachusetts Municipal Light Department Solar Energy Cooperative Corporation for the purpose of financing, owning, constructing and operating a solar energy production facility in West Boylston, Massachusetts.

During 2007, the Massachusetts Municipal Light Department Wind Energy Cooperative Corporation was formed by MMWEC and the Princeton Municipal Light Department for the purpose of financing, owning, constructing and operating wind generation facilities located in the Town of Princeton. In 2009, the Templeton Municipal Light Department joined this cooperative for the purpose of financing, owning, constructing and operating wind generation facilities located in the town of Templeton. During 2006, the Southwest Cooperative (formerly the Westfield Gas & Electric Cooperative) was formed by MMWEC and the Westfield Gas & Electric Light Department (WG&E) for the purpose of financing, constructing and operating a natural gas pipeline to provide natural gas transportation service to WG&E.

Pursuant to contracts, MMWEC provides accounting, financial, power supply and administrative services to all four of these cooperatives. As such, although MMWEC is a member of each cooperative and has one representative on the Board of each cooperative, MMWEC has no rights to the entities' assets nor has management oversight of the four cooperatives. Thus, the entities are not required to be reported as component units under rules established by Governmental Accounting Standard No. 14 – "The Financial Reporting Entity." MMWEC billed a total of \$937,000 and \$765,000 for MMWEC services and outside professional services during 2011 and 2010, respectively, for all cooperatives. At December 31, 2011 and 2010, \$310,000 and \$293,000 was due to MMWEC from all cooperatives. There were no amounts due to the cooperatives from MMWEC at December 31, 2011 or 2010.

## 11. CONTRACTS AND COMMITMENTS

### Long-Term Contracts – Power Purchases

MMWEC entered into agreements for participation in the transmission interconnection between New England utilities and the Hydro-Quebec electric system near Sherbrooke, Quebec (Phase I), which began commercial operation in October 1986. The New England portion of the interconnection was constructed at a total cost of approximately \$140 million, of which 3.65% (or \$5 million) is MMWEC's share to support Phase I. In 1990, MMWEC's participation share in Phase I changed to 3.45% (or \$4.8 million). MMWEC also entered into similar agreements for participation in the interconnection between New England utilities and the Hydro-Quebec electric system. This agreement is for the expansion of the Hydro-Quebec interconnection (Phase II), which went into commercial operation in November 1990. MMWEC's Phase II equity investment is approximately 0.6% or (\$3.3 million). MMWEC has corresponding agreements with certain of its Members and another utility to recover MMWEC's share of the costs associated with the Phase II interconnection.



# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

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## 11. CONTRACTS AND COMMITMENTS...continued

### Long-Term Contracts – Power Purchases...continued

On a limited basis, MMWEC may enter into agreements providing financial assurance to third parties. At December 31, 2011 and 2010, outstanding guarantees consisted of \$131,531 and \$166,930, respectively, related to its equity interest in the Hydro-Quebec transmission companies. Management believes that the likelihood MMWEC would be required to perform or otherwise incur any significant losses associated with this guarantee is remote.

In 1990, MMWEC entered into a PPA, for a long-term purchase of 21.2 MW (or 7.86%) of the output of an independent power producer (MASSPOWER). In 2005, MMWEC filed a complaint against MASSPOWER alleging that MASSPOWER breached the PPA by ceasing to operate as a dispatchable/baseload unit. In February 2007, the Superior Court, after trial, entered judgment for MASSPOWER. MMWEC appealed that judgment to the Massachusetts Appeals Court, which, in 2008 affirmed the Superior Court's judgment in favor of MASSPOWER.

In May 2007, MMWEC exercised its "must run" right under the PPA, which permits MMWEC to request MASSPOWER to schedule the facility to operate on a must run basis under certain conditions. MASSPOWER refused. MMWEC terminated the PPA for material breach thereof. In July 2007, MASSPOWER sued MMWEC alleging among other claims, breach of the PPA and sought damages equal to the cost associated with the remainder of the PPA term and treble damages.

After hearing cross-motions for summary judgment, on February 13, 2008, the court entered judgment allowing MMWEC's motion for summary judgment and denying MASSPOWER'S cross motion. On the same day, MASSPOWER appealed the judgment. In November 2008, the Appeals Court held that the Superior Court's grant of summary judgment was improper as genuine issues of material fact existed. Accordingly, the Appeals Court remanded to the Superior Court for trial MASSPOWER's claim that MMWEC breached the PPA by terminating it improperly. The Appeals Court also remanded for trial MASSPOWER's claims that MMWEC violated the implied covenant of good faith and fair dealing and Massachusetts General Laws Chapter 93A, relative to unfair and deceptive trade practices. Trial of MASSPOWER's claims was held from March 1, 2010 through March 26, 2010, with closing arguments presented on July 14, 2010.

On January 31, 2011, the Superior Court issued its Findings of Fact, Rulings of Law and Order for Judgment. The Superior Court decided in MMWEC's favor on all counts, except for a portion of one count. The court did hold that MASSPOWER is entitled to reasonable attorney's fees and costs incurred in prosecuting its Chapter 93A claim. Other than the reasonable attorney's fees and costs that MASSPOWER may recover, MASSPOWER is not entitled to any further damages with respect to this matter. MASSPOWER filed a notice of appeal of the January 31, 2011 Superior Court decision.

As of, March 30, 2012, MASSPOWER (through an assignee) and MMWEC executed a settlement agreement, which provided that MASSPOWER and MMWEC waive, release and discharge each other and their respective officers, directors, members, managers, participants, partners, parents, subsidiaries, affiliates, agents and attorneys from any and all existing claims and claims arising from the PPA, whether such claim is based on contract, tort, strict liability, statute, common law or any other basis. Under the terms of the agreement, MMWEC must make a payment to MASSPOWER in the amount of \$3 million by or on March 30, 2012 and MASSPOWER will withdraw its appeal two business days after receiving the settlement. The \$3 million amount owed to MASSPOWER under the settlement agreement has been recorded in accounts payable on the accompanying Balance Sheet at December 31, 2011.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

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## 11. CONTRACTS AND COMMITMENTS...continued

### Claims and Judgments

During 2011, MMWEC received invoices totaling \$3.5 million from North Atlantic Energy Services Corporation (NAESCO) for Seabrook-related pension expense. The origin, purpose, calculation and basis of these invoices remain unclear to MMWEC. Consequently, MMWEC is unable to estimate the amount of Seabrook-related pension expense that may be owed to NAESCO, but MMWEC believes that the amount of these costs, if any, will not be material. MMWEC has not recorded a liability for these potential expenses at December 31, 2011.

Seven municipal light departments that are Participants under PSAs with MMWEC have submitted a demand for arbitration of a dispute relating to charges under the PSAs. The arbitration has been stayed by agreement of the parties. MMWEC cannot predict the outcome of the arbitration demand, but in the opinion of MMWEC management, it will not have a material adverse effect on the financial position of MMWEC.

MMWEC is involved in various legal actions. Management believes that the ultimate resolution of litigation in which MMWEC is currently involved will not have a material, adverse effect on the financial position of MMWEC.

## 12. RISK MANAGEMENT

MMWEC is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. There were no settled claims in any of the past three years. There has been no material decrease in insurance coverage of MMWEC in the past year.

### Nuclear Insurance

The Price-Anderson Act (the Act), a federal statute, mandates an industry-wide program of liability insurance for nuclear facilities. The \$375 million primary layer of insurance for the liability has been purchased in the commercial insurance market. As adjusted for inflation in 2008, secondary coverage is to be provided through an assessment on each of the currently licensed nuclear units in the United States of approximately \$118 million, not to exceed \$18 million per incident in any year. The assessment is to be adjusted for inflation every five years. Under the Act, MMWEC's ownership interests in Millstone Unit 3 and Seabrook Station could result in a maximum assessment of approximately \$5.6 million and \$13.6 million, respectively, limited to payments of \$1.0 million and \$2.2 million per incident per year, respectively. Originally enacted in 1957, the Act has been renewed several times and in July 2005, Congress extended the Act until the end of 2025, as part of the Energy Policy Act of 2005.

Insurance has been purchased from Nuclear Electric Insurance Limited (NEIL) to cover the cost of repair, replacement, decontamination or premature decommissioning of utility property resulting from insured occurrences at Millstone Unit 3 and Seabrook Station. The NEIL insurance is subject to retroactive assessments if losses exceed the accumulated funds available to the insurer. MMWEC is potentially subject to a \$1.0 million and \$2.2 million assessment for its participation in Millstone Unit 3 and Seabrook Station, respectively, for excess property damage, decontamination and premature decommissioning.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

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## 13. CONCENTRATION OF CREDIT RISK / SIGNIFICANT CUSTOMERS

Credit risk represents the risk of loss that would occur if customers do not meet their financial obligations to MMWEC. Concentration of credit risk occurs when significant customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

MMWEC has two municipal customers who are considered significant customers, which accounted for approximately \$40.6 million (13%) and \$30.4 million (10%) respectively of MMWEC revenues in 2011. At December 31, 2011, one municipal customer had a significant accounts receivable balance of approximately \$2.8 million (11%). In 2010, MMWEC had two municipal customers who were considered significant customers, which accounted for approximately \$39.9 million (13%) and \$30.9 million (10%) respectively of MMWEC revenues. At December 31, 2010, two municipal customers had significant accounts receivable balances of approximately \$3.3 million (13%) and \$2.9 million (12%).

## 14. ENVIRONMENTAL AND OTHER ISSUES

Nothing has come to management's attention concerning any material pollution liability claims made during 2011 and 2010 or outstanding as of December 31, 2011 and 2010.

MMWEC has established a trust fund to enhance its Directors' and Officers' liability coverage. The purpose of the trust fund is to make available funds for the purchase of Directors' and Officers' liability insurance and/or as a supplement to insurance for indemnification of the Directors or Officers. At December 31, 2011 and 2010, MMWEC has \$10.8 million and \$10.6 million, respectively, recorded in restricted special funds related to the trust fund with a corresponding liability in the same amount.

MMWEC has a guaranty with ISO New England, Inc. (ISO-NE) with respect to certain MMWEC Members' financial assurance obligations to ISO-NE. These Members do not have credit ratings and MMWEC provides financial assurances for their transactions in ISO-NE. MMWEC's financial assurance is backed by the NEPEX Account Agreement between MMWEC and each of these Members. Pursuant to the NEPEX Account Agreement, each Member has an absolute and unconditional obligation to pay MMWEC for its respective ISO-NE transactions. Management believes that the likelihood MMWEC would be required to perform or otherwise incur any significant losses associated with this guarantee is remote.

## 15. SUBSEQUENT EVENTS

On January 26, 2012, MMWEC issued \$164.8 million face value in Series 2012A Bonds for Nuclear Mix No. 1, Nuclear Project No. 3, Nuclear Project No. 4, Nuclear Project No. 5 and Project No. 6. The Series 2012A Bonds were issued at a premium of \$14.3 million that will be amortized over the life of the bonds using the effective interest method. The Series 2012A Bonds are payable from and secured by the revenues derived from Nuclear Mix No. 1, Nuclear Project No. 3, Nuclear Project No. 4, Nuclear Project No. 5 and Project No. 6. Interest on the Series 2012A Bonds is fixed for each issue at rates between 3% and 5%. Interest on the Series 2012A is payable in semi-annual installments beginning July 1, 2012 and on January 1 and July 1 for each year thereafter. The Series 2012A Bonds mature between July 1, 2012 and July 1, 2016.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

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## 15. SUBSEQUENT EVENTS...continued

The Series 2012A bond proceeds were used to redeem the Series A Bonds prior to maturity at the option of MMWEC at a redemption price of \$216.2 million, which was redeemed at a premium in excess of the carrying value of the debt of \$214.1 million as of January 26, 2012.

On March 15, 2012, the Russell Municipal Light Department became the twenty-first Member of MMWEC.

MMWEC has evaluated subsequent events through March 30, 2011, the date which the financial statements were available to be issued, and did not note any additional subsequent events requiring recording or disclosure in the financial statements for the year ended December 31, 2011 other than those already disclosed.

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SUPPLEMENTAL INFORMATION

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# Massachusetts Municipal Wholesale Electric Company

Project Balance Sheet

December 31, 2011

(In Thousands)

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT PROJ. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
<b>ASSETS</b>											
Current assets:											
Cash and temporary investments	\$ 1,646	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,910	\$ 12,777	\$ 807	\$ -	\$ 23,140
Accounts receivable	9,987	1,220	2,015	3,084	836	5,305	478	1,802	262	19	25,008
Unbilled revenues	14,656	-	-	-	-	-	-	-	-	-	14,656
Inventories	-	89	-	2,366	599	3,278	4,232	13,177	1,153	-	24,894
Advances to (from) projects	665	(49)	(75)	(68)	(25)	(129)	(166)	(138)	(15)	-	-
Prepaid expenses	349	96	183	120	30	166	14	44	-	-	1,002
Current portion of restricted special funds	14,226	8,354	14,446	15,659	4,345	46,010	-	105	-	51	103,196
Total current assets	41,529	9,710	16,569	21,161	5,785	54,630	12,468	27,767	2,207	70	191,896
Noncurrent assets:											
Restricted assets:											
Restricted special funds	35,873	6,331	12,982	17,372	4,725	31,921	2,560	16,260	1,012	-	129,036
Interest receivable	180	17	44	93	23	106	5	50	3	-	521
Deferred charges:											
Unamortized debt issuance costs	-	100	511	482	130	1,131	-	-	-	-	2,354
Nuclear decommissioning trust	-	9,780	18,327	15,721	3,979	21,774	-	-	-	-	69,581
Other deferred charges	12,520	1,097	1,943	3,177	805	4,429	62	2,239	-	93	26,365
Total noncurrent assets	48,573	17,325	33,807	36,845	9,662	59,361	2,627	18,549	1,015	93	227,857
Capital assets:											
In service	3,025	67,036	141,348	292,523	79,364	547,243	58,545	169,304	8,548	-	1,366,936
Accumulated depreciation	(2,535)	(36,876)	(80,868)	(144,669)	(39,565)	(279,086)	(56,275)	(154,937)	(7,480)	-	(802,291)
Construction work in progress	625	1,208	2,149	3,476	880	4,814	77	568	-	-	13,797
Nuclear fuel, net of amortization	-	2,578	4,426	9,775	2,475	13,555	-	-	-	-	32,809
Total capital assets	1,115	33,946	67,055	161,105	43,154	286,526	2,347	14,935	1,068	-	611,251
Total assets	\$ 91,217	\$ 60,981	\$ 117,431	\$ 219,111	\$ 58,601	\$ 400,517	\$ 17,442	\$ 61,251	\$ 4,290	\$ 163	\$ 1,031,004
<b>LIABILITIES</b>											
Current liabilities:											
Accounts payable	\$ 6,198	\$ 234	\$ 226	\$ 2,810	\$ 710	\$ 3,904	\$ 9	\$ 311	\$ -	\$ 27	\$ 14,429
Member and participant advances	16,082	6,514	13,545	20,546	5,452	27,626	3,321	16,118	1,942	136	111,282
Short-term debt	811	-	-	-	-	-	-	-	-	-	811
Accrued expenses	10,974	508	1,331	2,274	569	5,065	69	572	51	-	21,413
Current liabilities payable from restricted assets:											
Current maturities of long-term debt, net of premiums	-	8,767	12,319	12,571	3,648	25,186	-	-	-	-	62,491
Total current liabilities	34,065	16,023	27,421	38,201	10,379	61,781	3,399	17,001	1,993	163	210,426
Noncurrent liabilities:											
Long-term debt, net of premiums and current maturities	-	12,355	59,469	63,075	18,143	155,250	-	-	-	-	308,292
Asset retirement obligations	-	7,606	12,362	37,402	9,467	51,801	-	-	446	-	119,084
Amounts payable under terms of the power sales agreements	9,690	24,997	18,179	80,433	20,612	131,685	11,376	28,457	1,851	-	327,280
Long-term member and participant advances	47,462	-	-	-	-	-	2,667	15,793	-	-	65,922
Total noncurrent liabilities	57,152	44,958	90,010	180,910	48,222	338,736	14,043	44,250	2,297	-	820,578
Total liabilities	\$ 91,217	\$ 60,981	\$ 117,431	\$ 219,111	\$ 58,601	\$ 400,517	\$ 17,442	\$ 61,251	\$ 4,290	\$ 163	\$ 1,031,004



# Massachusetts Municipal Wholesale Electric Company

Project Statement of Cash Flows

Year Ended December 31, 2011

(In Thousands)

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT PROJ. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
<b>Cash flows from operating activities:</b>											
Received from sales to members and participants	\$ 137,750	\$ 16,176	\$ 26,686	\$ 35,344	\$ 9,422	\$ 58,736	\$ 3,479	\$ 21,704	\$ 1,620	\$ 320	\$ 311,237
Paid to suppliers for goods and services	(138,152)	(5,094)	(9,237)	(13,640)	(3,493)	(19,048)	(3,245)	(18,935)	(2,041)	(306)	(213,191)
Net cash provided by (used in) operating activities	(402)	11,082	17,449	21,704	5,929	39,688	234	2,769	(421)	14	98,046
<b>Cash flows from investing activities:</b>											
Net maturities and purchases of investments	(4,117)	2,298	1,334	2,164	787	(4,937)	(546)	(4,966)	510	-	(7,473)
Interest received	825	422	694	878	239	1,823	177	528	27	25	5,638
Net cash provided by (used in) investing activities	(3,292)	2,720	2,028	3,042	1,026	(3,114)	(369)	(4,438)	537	25	(1,835)
<b>Cash flows from capital and related financing activities:</b>											
Construction expenditures and purchases of nuclear fuel	(954)	(2,083)	(3,662)	(6,606)	(1,674)	(9,149)	(28)	(337)	(65)	-	(24,558)
Proceeds from issuance of short-term debt	3,082	-	-	-	-	-	-	-	-	-	3,082
Proceeds from issuance of long-term debt	-	4,219	35,391	24,591	2,850	40,610	-	-	-	-	107,661
Principal payments on long-term debt	-	(16,007)	(51,093)	(41,154)	(7,817)	(63,699)	-	-	-	-	(179,770)
Principal payments on short-term debt	(4,340)	-	-	-	-	-	-	-	-	-	(4,340)
Decommissioning trust payments	-	(220)	(408)	(417)	(106)	(578)	-	-	-	-	(1,729)
Debt issuance costs paid	-	(91)	(460)	(374)	(74)	(707)	-	-	-	-	(1,706)
Interest payments on long-term debt	(115)	(1,146)	(1,514)	(3,078)	(951)	(8,018)	(19)	(47)	-	-	(14,888)
Net cash used in capital and related financing activities	(2,327)	(15,328)	(21,746)	(27,038)	(7,772)	(41,541)	(47)	(384)	(65)	-	(116,248)
Net change in cash and cash equivalents	(6,021)	(1,526)	(2,269)	(2,292)	(817)	(4,967)	(182)	(2,053)	51	39	(20,037)
Cash and cash equivalents, beginning of year	12,179	2,568	3,897	4,230	1,333	7,918	510	2,397	282	12	35,326
Cash and cash equivalents, end of year	\$ 6,158	\$ 1,042	\$ 1,628	\$ 1,938	\$ 516	\$ 2,951	\$ 328	\$ 344	\$ 333	\$ 51	\$ 15,289
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>											
Operating income (loss)	\$ 798	\$ 8,664	\$ 12,326	\$ 13,008	\$ 3,721	\$ 27,521	\$ (193)	\$ (609)	\$ (409)	\$ (25)	\$ 64,802
<b>Noncash items included in operating income:</b>											
Depreciation	51	834	1,711	3,817	1,028	6,945	128	678	130	-	15,322
Amortization of nuclear fuel and accretion of ARO	-	1,366	2,394	4,450	1,127	6,171	-	-	331	-	15,839
<b>Changes in assets and liabilities:</b>											
<b>(Increase) decrease in:</b>											
Accounts receivable	(2,465)	331	408	317	85	266	(106)	1,103	285	15	239
Unbilled revenues	2,635	-	-	-	-	-	-	-	-	-	2,635
Inventories	1,102	(5)	-	(132)	(33)	(184)	535	147	(598)	-	832
Prepaid expenses	(169)	(4)	(12)	49	13	68	1	2	6	-	(46)
Other deferred charges	(362)	51	163	(738)	(189)	(1,052)	10	(256)	(12)	18	(2,367)
<b>Increase (decrease) in:</b>											
Accounts payable	3,488	(431)	(868)	(216)	(55)	(288)	(63)	(595)	(465)	21	528
Member and participant advances	(3,497)	256	1,405	1,658	350	1,034	(93)	2,066	250	(15)	3,414
Accrued expenses	(1,983)	20	(78)	(509)	(118)	(793)	15	233	61	-	(3,152)
Net cash provided by (used in) operating activities	\$ (402)	\$ 11,082	\$ 17,449	\$ 21,704	\$ 5,929	\$ 39,688	\$ 234	\$ 2,769	\$ (421)	\$ 14	\$ 98,046
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>											
Cash and temporary investments	\$ 1,646	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,910	\$ 12,777	\$ 807	\$ -	\$ 23,140
Restricted special funds - noncurrent	50,099	14,685	27,428	33,031	9,070	77,931	2,560	16,365	1,012	51	232,232
Total cash and investments	51,745	14,685	27,428	33,031	9,070	77,931	10,470	29,142	1,819	51	255,372
Less - long-term investments	(45,587)	(13,643)	(25,800)	(31,093)	(8,554)	(74,980)	(10,142)	(28,798)	(1,486)	-	(240,083)
Total cash and cash equivalents	\$ 6,158	\$ 1,042	\$ 1,628	\$ 1,938	\$ 516	\$ 2,951	\$ 328	\$ 344	\$ 333	\$ 51	\$ 15,289



# Massachusetts Municipal Wholesale Electric Company

Debt Service Coverage Calculation  
Years Ended December 31, 2011 and 2010

## NET REVENUE AVAILABLE FOR DEBT SERVICE

In accordance with the provisions of MMWEC's GBR, MMWEC covenants that it shall fix, revise and collect rates, tolls, rents and other fees and charges sufficient to produce revenues to pay all Project operating and maintenance expenses, and principal, premium, if any, and interest on the Bonds. Revenues for each Project, which include applicable interest earnings from investments, are required to equal 1.10 times the annual debt service for each contract year ending June 30, after deduction of certain operating and maintenance expenses and exclusive of depreciation. As such, the balances included in the table below do not reflect December 31 balances. For the contract years ended June 30, 2011 and 2010, MMWEC met the GBR debt service coverage requirements for all of MMWEC's Projects.

	Contract Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
Revenues	\$ 127,577	124,049
Other billings	-	-
Reserve and contingency fund billings	<u>7,409</u>	<u>7,556</u>
Total	134,986	131,605
Less – operating and maintenance expenses	<u>(53,510)</u>	<u>(48,502)</u>
Available revenues net of expenses	<u>\$ 81,476</u>	<u>\$ 83,103</u>
Debt service requirement	<u>\$ 74,092</u>	<u>\$ 75,560</u>
Coverage (110% required)	<u>110%</u>	<u>110%</u>