

MUNICIPAL LIGHT DEPARTMENT

To the citizens of the Town of Marblehead:

The Marblehead Municipal Light Department is pleased to provide its 113th annual report and financial statements for the calendar year ending December 31, 2007.

For the customers of the Marblehead Municipal Light Department, 2007 was a reasonably stable year as electricity prices remained relatively constant. Natural gas, which fuels more than 40 percent of the regions electric generating plants, had been in a downward trending market providing for reasonable wholesale energy prices throughout most of the year. In addition, significant adjustments to the regional generation market structure were implemented which further reduced our wholesale power supply costs for 2007 and going forward.

For the first nine months of the year, the light department was able to maximize the value of its own internal diesel generation facilities by participating in what is called the Locational Forward Reserve Market (LFRM). This market, by way of an auction, established a price for generators located within the Northeast Massachusetts load zone that could be fast start (30 minutes or less) in order to supply capacity to the grid during a capacity deficiency. The light department submitted a bid utilizing its 5 mW diesel plant and was selected to participate in the LFRM. The leveraging of this internal asset saved our customers in excess of \$400,000 for 2007.

While we continue to meet the day to day needs of our customers through a mix of ownership interests in various generating units, bilateral power purchase contracts, and spot market purchases, we continue to evaluate new sources of energy to meet longer-term needs as generating units retire and bilateral contracts expire.

To that end we continued to participate in the development of new renewable as well as new conventional generation facilities.

Of notable mention was a late year change in the development of the Berkshire Wind Power project. Through our membership in the Massachusetts Municipal Wholesale Electric Company (MMWEC) and together with 14 other municipal light plants, the light department is participating in an initiative to purchase the assets of Berkshire Wind Power, LLC. Initially back in 2002, the municipal group agreed to purchase all of the energy output from the project developer through long term

contracts. But with many delays in the project schedule the municipal group ultimately authorized MMWEC to pursue outright ownership of project assets. The initiative to purchase the Berkshire Wind Power project represents an opportunity to add a source of clean renewable energy to our overall energy portfolio. Depending on availability of turbines and other factors, the project could be online by 2010.

With regard to conventional generation facilities, the light department continued its participation in the development stage of a combined cycle natural gas fired unit located at the Stony Brook Energy Center in Ludlow MA. The plant being proposed by MMWEC, which is scheduled to be online by 2011, is projected to provide much needed capacity and energy to its participants at below market rates. Our ultimate participation in this project will be evaluated and determined at the conclusion of the development stage expected sometime in 2008.

While we continue to investigate new sources of generation supply, we also recognize the importance of energy efficiency and demand side management programs within our community. The light department still manages one of the best residential energy conservation and appliance rebate programs in the Commonwealth. Our program provides various rebates when customers buy certain appliances that meet specific energy efficiency standards. In addition, the program includes a 50 percent rebate on the cost of a programmable thermostat, and a substantial rebate on home insulation. For further information on the light department's energy conservation programs please visit our website at www.marbleheadelectric.com.

In 2007 the light commission approved a proposal to convert the town's traffic signals and pedestrian lights to light emitting diodes (LEDs). This particular project is proposed to be spread out over 3 years with the light department providing the funding and the wire inspector to provide most of the labor. The LED replacement project will significantly reduce energy consumption with an added benefit of reduced maintenance due to their long life as compared to conventional bulbs.

Although there were no new photovoltaic (solar) installations in town for 2007, the light department continued to provide a funding mechanism similar to that offered by the Massachusetts Technology Collaborative (MTC) for residential and small commercial photovoltaic installations. There were however several projects in the investigative stage and we expect to see increased activity in 2008.

Because of the many projects contemplated in our 5-year budget and work-plan, the light department continues to prioritize and reprioritize major projects in an effort to maintain appropriate project funding levels sufficient to maintain our internal infrastructure, but also to balance those needs against maintaining a competitive rate structure for our customers.

With that balance in mind, reliability upgrades continued to be a top priority for the light department in 2007.

Line crews began the installation of a new distribution feeder from the recently upgraded Clifton substation. The Westminster circuit required the installation of a new underground cable from the substation behind Temple Emanuel out to Clifton Avenue. From there a new aerial spacer cable circuit was installed along Clifton Avenue to Westminster Road. This new circuit was installed to reduce loading on the existing Tedesco feeder as well as provide additional capacity due to the new YMCA complex.

Following completion of the Westminster circuit, line crews began a new multiyear project along Atlantic Avenue. This project replaced most of the poles from Central Street to Bubier Road and included the installation of a new aerial spacer cable circuit bypassing an old and aging duct and manhole system. Additionally, the existing open wire Devereaux circuit was replaced with new aerial spacer cable. By the end of 2007 the Devereaux had been completed, with the remainder of the project to be completed and energized by early 2008.

Through a pilot program established by the Light Commission in 2006, the department continued to evaluate an exciting new technology called broadband over power lines, or BPL. Electric utilities are interested in BPL because it can give them access to smart-grid technologies resulting in lower electric power costs, less pollution, and greater reliability and security.

BPL has the potential to leverage an electrical distribution system as a round-the-clock information network, accessing significant utility information such as automated meter reading, load management, outage detection, and power quality monitoring. BPL also has the capability to deliver IP services to our customers.

In 1995, the actual installed cost of the electric plant in service totaled \$9,047,488. By the end of 2007 the actual installed cost totaled \$22,448,421 demonstrating the light department's commitment to infrastructure improvement.

Net surplus revenue that was returned to the Town to reduce the tax levy in 2007 was \$330,000. The ten-year cumulative amount through 2007 totaled \$3,190,000.

For the second summer in a row, 2007 was not considered to be extremely hot. Peak demand for electricity was down from an all time high of 30,181 kW last year to 25,920 kW this year. However, overall energy consumption was up, with 104,155,025 kWh used in 2007 as compared to 102,286,146 kWh used in 2006.

The light department saw several changes in personnel this year as one long time employee retired and one Commissioner decided not to seek re-election. Sonja Knight had worked for the light department in the business office for 26 years and Alan Chipman served as a Commissioner and Chairman of the Board for 6 years. We wish them both, health, happiness, and continued success. As part of the changes we also brought on two new employees, Megan Cassidy and Cindy Snow, as well as one new Commissioner, Walter Homan. Welcome aboard!

In 2007, the Light Department again received a Safety Award from the American Public Power Association for the year 2006. For MMLD, this is our 13th consecutive safety award and our 17th in the last 18 years, an unprecedented record of which we are extremely proud. We continue to emphasize the importance of safety, not only in the workplace, but also through our successful school safety programs.

Appreciation is tendered to the Board of Selectmen, Town Officials, Department Heads, and to all Town employees for their support and contributions.

Respectfully Submitted,

Robert V. Jolly, Jr., General Manager

Philip W. Sweeney, Chairman
Wilbur E. Bassett, Commissioner
Calvin T. Crawford, Commissioner
Walter E. Homan, Commissioner
Charles O. Phillips, Commissioner

MUNICIPAL LIGHT DEPARTMENT

BALANCE SHEET

For the year ending December 31, 2007

Assets

Plant Investments		11,923,277.36
Current Assets:		
Cash - Operating	2,117,943.60	
Petty Cash	500.00	
Construction	25,760.38	
Accounts Receivable	1,789,777.35	
Interest Receivable	1,596.71	
Materials & Supplies	68,595.01	
Total Current Assets		4,004,173.05
Depreciation Fund		2,867,533.57
Insurance Escrow Account		904,811.31
Hydro Savings Reserve		67,538.01
MMWEC - NEPEX Reserve Trust		520,444.19
Rate Stabilization Reserve		600,000.00
Consumer Deposits		40,021.00
Prepayments		1,229,277.26
Total Assets		<u>22,157,075.75</u>

Liabilities And Surplus

Accounts Payable:		
Depreciation	3,661.19	
Operating	1,141,133.38	
Construction	17,120.91	
Consumer Deposits	3,080.00	
Total Accounts Payable		1,164,995.48
Consumer Deposits		36,941.00
Reserve for Uncollectible Accounts		214,835.03
Reserve for Future Compensated Absences		133,766.52
Accumulated Provision For Rate Stabilization		600,000.00
Unappropriated Earned Surplus		20,006,537.72
Total Liabilities And Surplus		<u>22,157,075.75</u>

MUNICIPAL LIGHT DEPARTMENT

STATEMENT OF INCOME

For the year ending December 31, 2007

Operating Revenue		13,410,727.65
Less Expenses:		
Operating	11,185,025.01	
Maintenance	850,013.64	
Depreciation	<u>875,718.15</u>	
Total Expenses		<u>12,910,756.80</u>
Operating Income		499,970.85
Interest Income		160,364.11
Less Miscellaneous Income Deductions		<u>0.00</u>
Net Income Transferred to Surplus		<u>660,334.96</u>

STATEMENT OF SURPLUS

For the year ending December 31, 2007

Balance December 31, 2006		18,573,260.67
Add: Credit balance transferred from income		660,334.96
National Grid/IRS Settlement		980,570.98
Power Refunds to surplus		<u>383,508.94</u>
Subtotal		20,597,675.55
Deduct: Amount transferred to Town Treasurer to reduce the Tax Levy		(330,000.00)
In Lieu Of Tax Payment to City Of Salem		(7,703.32)
Auditor's adjusting entries for year ended December 2006		44,220.49
Year End adjusting entries for year ended December 2007		<u>(297,655.00)</u>
Balance December 31, 2007		<u>20,006,537.72</u>

MUNICIPAL LIGHT DEPARTMENT

OPERATING EXPENSES

For the year ending December 31, 2007

Power Generation Expenses:		
Fuel	28,942.24	
Generating Expense - Lubricants	841.78	
Misc. Other Power Generating Expense	1,707.14	
Maint. of Other Power Generation	<u>135,281.72</u>	
Total Power Generation Expense		166,772.88
Power Supply Expenses:		
Electric Energy Purchased	8,050,975.99	
Misc. Purchased Power Expense	<u>1,008,637.91</u>	
Total Power Supply Expenses		9,059,613.90
Transmission Expense:		
Maintenance of Overhead Lines		0.00
Distribution Expenses:		
Station Expense - Labor & Other	16,039.63	
Station Expense - Heat & Electricity	54,581.45	
Street Lighting	3,798.12	
Meter Expense - Inspection, Testing, Removing, Resetting	96,233.59	
Customer Installation Expense	66,042.55	
Misc. Distribution Expense	133,139.88	
Maintenance of Structures	21,718.44	
Maintenance of Station Equipment	33,558.37	
Maint. of Overhead & Underground Lines	603,090.23	
Maintenance of Line Transformers	2,123.39	
Maintenance of Meters	<u>971.55</u>	
Total Distribution Expenses		1,031,297.20
Customer Account Expenses:		
Supervision of Customer Accounting	82,300.78	
Meter Reading - Labor & Expenses	68,016.83	
Customer Records & Collections	295,183.60	
Uncollectible Accounts	56,000.00	
Interest Paid on Consumer Deposits	<u>1,895.98</u>	
Total Customer Account Expenses		503,397.19
Advertising, Conservation, Energy Audits		94,442.87
Administrative & General Expenses:		
Administrative Salaries	135,627.74	
Office Supplies & Expenses	155,062.52	
Outside Services Employed	26,719.54	
Property Insurance	31,503.00	
Injuries & Damages	10,419.72	
Employee's Pensions & Benefits	713,580.67	
Maintenance of General Plant	15,154.84	
Transportation	38,115.10	
Miscellaneous General Expense	<u>53,331.48</u>	
Total Administrative & Gen. Expenses		<u>1,179,514.61</u>
Total Operating & Maintenance Expenses		<u>12,035,038.65</u>

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NOTE TO THE FINANCIAL STATEMENTS

For the year ending December 31, 2007

The Marblehead Municipal Light Department has since 1971 entered into power agreements for the supply of electric energy to the Town of Marblehead. The agreements are of varying terms with multiple suppliers ranging out to 2026. The aggregate amount of certain obligations under the agreements as of December 31, 2007 and estimated for future years is \$11,653,000.00. This sum represents a significant part of the fixed cost portion of existing contracts for electric energy and is accounted for in the monthly billing process. Complete audited financial statements and supplementary reports are available at the Marblehead Municipal Light Department.