

REPORT OF THE MUNICIPAL LIGHT BOARD

During Fiscal Year 2006 (“FY06”) Wellesley’s residents and businesses once again established record highs in their demand for electricity. Electricity usage increased by 4.4% in FY06 compared to the previous year. Since 1997 the Municipal Light Plant (“MLP”) has experienced a 62% increase in the Town’s annual peak demand.

Under the leadership of the Municipal Light Board (“Board”) the MLP has been systematically upgrading its distribution infrastructure in an attempt to seamlessly absorb this load growth. In the last year alone the MLP completed three major distribution upgrades. These were: the \$2.9 million replacement of Weston Road Substation; the addition of a third supply line from Needham and an investment of \$1.1 million for the purchase of an additional 20 megawatts of substation capacity from NStar. The Board consists of two members appointed by the Board of Selectmen, Gordon F. Kingsley and Thomas E. Peisch, as well as the three members of the Board of Public Works, William E. Charlton, David A. T. Donohue and Michael D. Humphrys.

Wellesley residents and businesses will receive immediate and long-term benefits from the emphasis the Board has placed on improving the system. The immediate benefits are in the form of improved reliability. Unfortunately Wellesley’s dependency on the surrounding transmission grid and the New England weather makes it virtually impossible to eliminate some outages. The decision to upgrade the MLP’s infrastructure, however, has resulted in a significant decrease in power outages. In 1994 Wellesley electric customers were without electricity for an average of 190 minutes during the year; in FY06 that average was reduced to 49 minutes. The Board’s decision to allocate available cash to upgrade the system rather than raise electric rates or borrow funds will produce both short-term and long-term rate benefits. The average monthly consumption for a residential customer is 923 kilowatt-hours a month. As of April 2006 a Wellesley resident paid \$86.45 for electricity compared to \$191.27 paid by a homeowner located in Newton, Needham or Weston. This provides an annual savings of \$1,260 for MLP customers. Although electric rates will increase over the next few years as the Constellation power supply contract expires, Wellesley’s rates should remain considerably less than those charged by investor-owned utilities well into the future.

The Board also experienced success in a number of initiatives that will benefit all Wellesley ratepayers. Some of these initiatives are summarized below:

- **Devens Maintenance** – the MLP completed its second year of providing operations and maintenance services to the former Army Base. Profits received from Devens are used to improve electric services and rates within the Town.
- **Rate Stabilization Fund** – in February 2006 the MLP established a \$3 million rate stabilization fund to partially offset future rate increases.
- **U.S. Court of Appeals Decision** – in March 2006 the MLP received a favorable decision from the First Circuit U.S. Court of Appeals. This decision upheld the MLP’s position that the past purchase of “Use Rights” prevented NStar from charging local network transmission services. The Court of Appeals decision eliminated average monthly charges of \$28,000

from June 2002 through March 2006, a savings of \$1,260,000. The MLP will realize comparable savings in the future.

- **Distributed Antenna System (“DAS”)** – the MLP is exploring the business opportunity for the installation of pole-mounted antennas to improve cellular telephone service within the Town. DAS technology not only could provide additional revenues to the Town but also eliminate the potential need to install large cell towers.
- **Energy Conservation** – the MLP’s “Appliance Rebate Program” enjoyed its most successful year ever. In the first three years of the program 401 appliance rebates were provided; in FY06 alone 432 rebates were received and processed.

The Municipal Light Plant has a number of major challenges to address in the not too distant future. The already complex power supply decision is further complicated by Wellesley’s location in an area designated by ISO-New England as the Northeastern Massachusetts (“NEMA”) Congestion Zone. The NEMA designation requires the MLP to pay a premium for power supply and transmission services. As if record setting fossil fuel prices and congestion zone premiums were not enough, the MLP’s future power supply must take into consideration projected capacity shortfalls in New England beginning in 2009.

Fortunately, the MLP is well positioned to take on these challenges. Ten years of aggressive capital work plans will allow the MLP to reduce its cash requirements for infrastructure improvements once the Constellation contract expires. The MLP will also be able to absorb some of the increased power costs within existing rates as a result of a 23% decrease in its workforce since 1998. The Municipal Light Board and MLP staff are confident that Wellesley residents and businesses will continue to receive highly reliable electric service at rates significantly below those paid by surrounding communities well into the future.