

MUNICIPAL LIGHT DEPARTMENT

To the citizens of the Town of Marblehead:

The Marblehead Municipal Light Department is pleased to provide its 115th annual report and financial statements for the calendar year ending December 31, 2009.

2009 presented a variety of challenges as well as opportunities for the Marblehead Municipal Light Department. The economic downturn led to difficult circumstances for many individuals and companies within our community. While many industries felt the impact of these hard economic times, MMLD was well positioned to navigate this difficult period and take advantage of declining fossil fuel and wholesale energy prices and in turn pass those savings on to our customers.

This downward trend in energy prices also provided us with the opportunity to make forward purchases well into 2011 at reasonable prices thereby helping to stabilize future power supply costs.

For the second year in a row total energy consumption was down in Marblehead. A variety of factors contributed to this overall reduction such as mild summer temperatures, the sluggish economy, and an increased conservation effort by our customers. Total energy consumption in 2009 was 101,459,386 kilowatt-hours compared to 103,168,110 kilowatt-hours consumed in 2008. Although energy sales were down, the hourly peak demand was up slightly at 25,677 kilowatts compared to 24,417 kilowatts in 2008.

As part of the light department's 5-year budget and work-plan, work crews completed a multiyear project in early 2009 called the 1303 project. This project replaced approximately 30 poles from Lincoln Avenue to West Shore Drive, and included the replacement of an old 13 kV aerial spacer cable providing firm supply to the newly refurbished Beacon substation.

While work crews were busy completing the 1303 project, another multiyear project to replace the existing Commercial substation was well under way. This multi-million dollar project will completely replace the existing substation equipment including transformers, switchgear, and underground cables.

The Commercial Street facility, which was originally constructed in 1895, has seen several upgrades over its history, but this is the first significant upgrade to the

substation equipment since 1960. When completed, this upgrade plan will significantly increase reliability to our customers, reduce noise, while incorporating an aesthetic design not typically found in traditional substation projects. The substation is scheduled to be online by early 2010.

Reliability and security of the nation's electric infrastructure has always been a top priority for regulators and utilities, but new requirements issued by the Federal Energy Regulatory Commission have placed new burdens on utilities to formalize and document these efforts. MMLD has had to develop plans and procedures in order to comply with many of the North American Electric Reliability Corporation (NERC) reliability and security standards which are all subject to audit and potential fines for non compliance.

In September of 2009 MMLD was audited by the Northeast Power Coordinating Council (NPCC) audit team. The NPCC compliance program is designed to monitor, assess and enforce compliance of the NERC reliability standards.

Based on the information and documentation provided by MMLD, the audit team found MMLD to be compliant with all of the applicable requirements and NERC reliability standards. There were no possible violations found. A public version of the Compliance Audit Report is available upon request.

In August of 2009 MMLD submitted a comprehensive application to the Department of Energy (DOE) for participation in the Smart Grid Investment Grant (SGIG) program. The topic area for the MMLD application was for a town-wide integrated advanced metering infrastructure system, also known as smart metering, with a total project cost of \$2.7 million. The federal government grant is worth 50% of the proposal's total or \$1.35 million.

MMLD was one of only one hundred companies nation wide selected for negotiations for an award with the DOE. According to the DOE, the awards amount to the largest single energy grid modernization investment in the country's history. The department is currently working with DOE representatives to finalize the plan including the scope, milestones, timetables and reporting requirements.

As with any federal government interface, the negotiation can be very lengthy. MMLD anticipates the negotiations will conclude in early 2010 with actual equipment installations beginning by the fall of 2010.

In 1995, the actual installed cost of the electric plant in service totaled \$9,047,488. By the end of 2009 the actual installed cost totaled \$24,524,993, demonstrating the light department's commitment to infrastructure improvement. This increased value of electric plant in service has been accomplished without the need to issue debt.

Net surplus revenue that was returned to the Town to reduce the tax levy in 2009 was \$330,000. The ten-year cumulative amount through 2009 totaled \$3,425,000.

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. Our programs provide various rebates when customers buy certain appliances or programmable thermostats, and also include 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.

Personnel changes for 2009 included the retirement of one long time employee and the hiring of one new employee. Line Foreman David McKinnon, who had worked for the light department for 41 years, retired in February. We wish him health, happiness, and continued success. As a result of Dave's retirement we hired Kevin Stone in March to the position of Second Class Lineman, welcome aboard Kevin!

In 2009, the Light Department again received a Safety Award from the American Public Power Association for the year 2008. For MMLD, this is our 15th consecutive safety award and our 19th in the last 20 years, an unprecedented record of which we are extremely proud. We continue to emphasize the importance of safety in the workplace as well as 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, 2009

Assets

| | | |
|-----------------------------|------------------|----------------------|
| Plant Investments | | 12,971,493.11 |
| Current Assets: | | |
| Cash - Operating | 2,660,794.26 | |
| Petty Cash | 500.00 | |
| Construction | 38,759.46 | |
| Accounts Receivable | 1,689,215.77 | |
| Interest Receivable | 1,440.54 | |
| Materials & Supplies | <u>78,730.27</u> | |
| Total Current Assets | | 4,469,440.30 |
| Depreciation Fund | | 2,408,338.37 |
| Insurance Escrow Account | | 944,020.63 |
| Hydro Savings Reserve | | 76,623.26 |
| MMWEC - NEPEX Reserve Trust | | 552,050.32 |
| Rate Stabilization Reserve | | 900,000.00 |
| Consumer Deposits | | 17,818.66 |
| Prepayments | | <u>1,265,186.89</u> |
| Total Assets | | <u>23,604,971.54</u> |

Liabilities And Surplus

| | | |
|--|--------------|----------------------|
| Accounts Payable: | | |
| Depreciation | 34,281.55 | |
| Operating | 1,170,975.22 | |
| Construction | 0.00 | |
| Consumer Deposits | 600.00 | |
| Total Accounts Payable | | 1,205,856.77 |
| Consumer Deposits | | 16,618.66 |
| Reserve for Uncollectible Accounts | | 389,002.44 |
| Reserve for Future Compensated Absences | | 158,035.64 |
| Accumulated Provision For Rate Stabilization | | 900,000.00 |
| Unappropriated Earned Surplus | | <u>20,935,458.03</u> |
| Total Liabilities And Surplus | | <u>23,604,971.54</u> |

MUNICIPAL LIGHT DEPARTMENT

STATEMENT OF INCOME

For the year ending December 31, 2009

| | | |
|--------------------------------------|---------------------|----------------------|
| Operating Revenue | | 14,233,656.08 |
| Less Expenses: | | |
| Operating | 11,501,992.98 | |
| Maintenance | 853,696.19 | |
| Depreciation | <u>1,104,407.59</u> | |
| Total Expenses | | <u>13,460,096.76</u> |
| Operating Income | | 773,559.32 |
| Interest Income | | 55,399.62 |
| Less Miscellaneous Income Deductions | | <u>0.00</u> |
| Net Income Transferred to Surplus | | <u>828,958.94</u> |

STATEMENT OF SURPLUS

For the year ending December 31, 2009

| | |
|--|----------------------|
| Balance December 31, 2008 | 20,443,105.25 |
| Add: Credit balance transferred from income | 828,958.94 |
| Adjustment to transfer prior years | |
| Power Refunds to surplus | <u>0.00</u> |
| Subtotal | 21,272,064.19 |
| Deduct: Amount transferred to Town Treasurer to reduce the Tax Levy | (330,000.00) |
| In Lieu Of Tax Payment to City Of Salem | (7,095.16) |
| Auditor's adjusting entries for year ended December 2008 | <u>489.00</u> |
| Balance December 31, 2009 | <u>20,935,458.03</u> |

MUNICIPAL LIGHT DEPARTMENT

OPERATING EXPENSES

For the year ending December 31, 2009

| | | |
|---|---------------------|----------------------|
| Power Generation Expenses: | | |
| Fuel | 16,972.71 | |
| Generating Expense - Lubricants | 894.39 | |
| Misc. Other Power Generating Expense | 1,880.57 | |
| Maint. of Other Power Generation | <u>54,563.31</u> | |
| Total Power Generation Expense | | 74,310.98 |
| Power Supply Expenses: | | |
| Electric Energy Purchased | 7,824,576.79 | |
| Misc. Purchased Power Expense | <u>1,352,711.20</u> | |
| Total Power Supply Expenses | | 9,177,287.99 |
| Transmission Expense: | | |
| Maintenance of Overhead Lines | | 0.00 |
| Distribution Expenses: | | |
| Station Expense - Labor & Other | 16,587.19 | |
| Station Expense - Heat & Electricity | 53,002.32 | |
| Street Lighting | 4,311.21 | |
| Meter Expense - Inspection, Testing, Removing, Resetting | 113,781.24 | |
| Customer Installation Expense | 72,570.74 | |
| Misc. Distribution Expense | 132,909.97 | |
| Maintenance of Structures | 3,408.78 | |
| Maintenance of Station Equipment | 62,359.76 | |
| Maint. of Overhead & Underground Lines | 635,791.21 | |
| Maintenance of Line Transformers | 7,394.00 | |
| Maintenance of Meters | <u>31.98</u> | |
| Total Distribution Expenses | | 1,102,148.40 |
| Customer Account Expenses: | | |
| Supervision of Customer Accounting | 92,049.41 | |
| Meter Reading - Labor & Expenses | 61,777.40 | |
| Customer Records & Collections | 288,762.39 | |
| Uncollectible Accounts | 85,000.00 | |
| Interest Paid on Consumer Deposits | <u>461.29</u> | |
| Total Customer Account Expenses | | 528,050.49 |
| Advertising, Conservation, Energy Audits | | 161,345.28 |
| Administrative & General Expenses: | | |
| Administrative Salaries | 154,776.89 | |
| Office Supplies & Expenses | 154,014.27 | |
| Outside Services Employed | 31,860.00 | |
| Property Insurance | 33,325.50 | |
| Injuries & Damages | 2,197.06 | |
| Employee's Pensions & Benefits | 815,080.19 | |
| Maintenance of General Plant | 43,726.60 | |
| Transportation | 46,420.55 | |
| Miscellaneous General Expense | <u>31,144.97</u> | |
| Total Administrative & Gen. Expenses | | <u>1,312,546.03</u> |
| Total Operating & Maintenance Expenses | | <u>12,355,689.17</u> |

MUNICIPAL LIGHT DEPARTMENT

NOTE TO THE FINANCIAL STATEMENTS

For the year ending December 31, 2009

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, 2009 and estimated for future years is \$8,533,000.00. 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.