



FROM THE DESK OF THE GENERAL MANAGER

Dear PMLD Customer,

September 2012

Upon taking the job as General Manager in October of 2011, I realized the need to be transparent and forthright with the operations and financials concerning the Princeton Municipal Light Department. Unfortunately, there has not always been good news to report. I recently worked closely with local Princeton resident and retired CPA, Jon Fudeman, to produce a financial analysis and report on the financial status of the PMLD. I would like to thank Jon for his expertise and hard work on this project. The following is a summary of our findings and some conclusions.

We recently received the 2011 audited financial statements for the PMLD. The financial statements include our basic operations as well as the wind turbine project. In brief, for 2011 our revenues were \$3,026,000, our profit was \$451,000 and our net worth at December 31, 2011 was \$4,406,000. You can read the entire audit report on the PMLD website.

However, to simply report that the PMLD is profitable and has a solid net worth does not give a complete picture of our financial position. Here is some additional information:

- In 2011 the wind turbine project lost \$628,000. Since January 1, 2010 and through June 20, 2012 the wind turbine project has lost \$1,875,000. This is after credits for renewable energy production. These losses fall to the PMLD customers.
- In 2011 PMLD electric rates were 36% higher than the average rate for Massachusetts residential customers. The average PMLD customer using a little over 800 kWh a month paid \$516 more for electricity in 2011 than the average Massachusetts customer paid. Compared to average Massachusetts residential rates Princeton customers paid in total an additional \$774,000 in 2011.
- The original projections for the wind turbine project showed that Princeton residents would receive a financial advantage. In fact, Princeton residents have suffered a financial loss. The original projections overstated both the kilowatt hours produced, as well as the price of electricity and understated the expenses associated with the project.
- Before the wind turbine project the PMLD was in a more solid financial position than it is today. The PMLD had relatively little debt and its customers paid just slightly more than the average Massachusetts customer for electricity. For example, in 2005 our total liabilities were just under \$1 million. The high water mark was 2009 with total liabilities of \$9.5 million. At the end of 2011 are total liabilities were just under \$8 million.
- The PMLD has also experienced other financial losses. Between 2006 and 2011 the PMLD lost \$757,000 providing Internet service and in 2008 it recognized \$407,000 in internet related expenses that should have been recognized in earlier years. We are no longer in the internet business.

As best I can look into the future, I would expect the wind turbine losses to continue at the rate of around \$600,000 a year. This assumes current wholesale electricity rates, no need for extraordinary repairs and that both turbines continue operating. If any major repairs are required this will be an additional expense for the PMLD. The original warranties on the turbines have expired and extended warranty options are not available.

The original projections were based on the wind turbines producing roughly 9,000 MWh (megawatt hours) a year. Based on 2 1/2 years of experience, a better estimate is 6,500 MWh a year with both turbines running. This is roughly 28% less than originally expected. Furthermore, the original projections were made when wholesale electricity rates were higher and assumed our excess wind turbine production would sell for \$80 a MWh. The average wholesale rate during the first six months of this year was \$31 a MWh. It is currently running at around \$35 a MWh. The breakeven point for the wind turbine project is a wholesale electricity rate of \$125 per MWh.

The wind turbine losses have two direct effects on PMLD operations. First, we must charge the Princeton ratepayer more in order to cover the losses. Therefore, Princeton has one of the most expensive rate structures in the Commonwealth. The second effect is that without raising the rates over today's level the PMLD must run a lean operation in other areas. In particular, our ability to build up a reserve (which is needed in case of a major storm or other catastrophe), and upgrade and renew our infrastructure is limited. In cutting back on infrastructure investment we both increase the risk of more frequent short-term power outages for customers, as well as increase the risk of more widespread and longer-term power outages in case of a major event such as a storm.

The commissioners and I are discussing alternative courses of action. One possibility is to maintain the wind turbines in Princeton but to offload all or a portion of the electricity output, the associated costs and of course future risk and benefits. I personally like this option. Princeton will continue to be a leader in green energy production without having to burden its residents. Several utility companies have expressed an interest. I have also met with legislators and others to discuss options and possible financial assistance for the PMLD. These discussions are continuing and we are hopeful that we will see a positive response.

In August, 2011 one of the two wind turbines was taken out of production due to a mechanical problem. It went back into production in July, 2012. The PMLD had a three year warranty on the turbines when they were installed. Therefore, in theory, the PMLD should not have any costs for this repair. Unfortunately, the situation is not that simple. The original supplier was a German company, Fuhrlander. The German company was represented in the US by an agent who in turn used another company to install the turbines. Furthermore, there have been problems between these three companies unrelated to the PMLD. The matter is in litigation. The most favorable outcome for the PMLD would be a full recovery of expenses and lost revenue, while the worst outcome would be no recovery of lost revenue and the cost of repair falling entirely to the PMLD. We may see some recovery of costs and lost revenue through the litigation and insurance claim process but this has not yet been determined and may take some time to work through.

The Board of Light Commissioners and I will continue to work on these issues until they are resolved. Our desire is to resolve the issues at hand and restore the electric rates to a more appropriate level while still providing the level of service that you would expect from a local utility. I firmly believe that a local light department should be just that, a light department. We should concentrate our efforts on our core business, and do it better than anyone else. My staff and I work continually to strive toward this goal.

I will continue to keep you posted with respect to important issues involving your electric department.

Sincerely,
Brian Allen, General Manager