

REPORT OF THE MUNICIPAL LIGHT BOARD

The Municipal Light Plant (“MLP”) is an independent Town department established and governed by Massachusetts General Law, Chapter 164. In Fiscal Year 2015 (“FY15”) the Municipal Light Board (“Board”) consisted of two members appointed by the Board of Selectmen, Katharine Gibson, Chair and Edward J. Stewart, III and the three members of the Board of Public Works, Paul L. Criswell, David A. T. Donohue and Owen H. Dugan. The Board strives to protect the interests of Wellesley electric consumers by focusing on four, broad Mission Statement objectives: 1) reliability; 2) competitive rates; 3) financial benefits to the Town; and 4) public and employee safety. The importance the Board places on reliability and rates was re-enforced by an independent survey completed by Opinion Dynamics “...**The results from this survey show that reliability is the most important WMLP objective among residential consumers, while price is the most important among commercial consumers. Both reliability and price are deemed more important than other objectives – like renewable energy, energy efficiency in Town buildings, conservation education and profits.**”

Wellesley’s electric rates are among the lowest in Massachusetts. As of April 2015 the MLP’s electric rates were in the lower 20% compared to the other thirty-nine public systems and six investor-owned utilities. The Board has consistently been able to maintain lower rates by encouraging the staff to operate the MLP in a business-like manner. In this regard the MLP has been able to offset increases in operating costs by expanding non-operating revenues. During FY15 profits were generated from external work at Mass Development-Devens, Town of Acton streetlights, dark fiber lease with Lightower and a proprietary distributed antenna system (“DAS”) with T-Mobile. By the end of the first quarter of calendar year 2016 the Board expects to increase external revenues through a DAS partnership with American Tower Corporation. Not only will this partnership provide additional revenues but many areas of Town where cellular telephone service is poor, or in some cases non-existent, will receive coverage.

The benchmark most often used to measure reliability is SAIDI (System Average Interruption Duration Index). This formula calculates the amount of time, on average, electric consumers are without power during specific intervals. For FY15 Wellesley’s SAIDI was nine minutes. To put this in perspective most electric utilities in New England would be satisfied with a SAIDI in the one to two hour range. The Board’s past decision to upgrade the sub-transmission and distribution infrastructure by utilizing excess profits is most responsible for reliability improvements. With no major capital projects on the horizon the MLP expects to fund its capital work plan with annual depreciation funds during Fiscal Years 2016 - 2018.

The annual payment-in-lieu-of-tax (“PILOT”) of \$1 million to the Town is the highest of all 40 Massachusetts public power systems as a percent of revenue. Despite major increases in ISO-New England regulated capacity and transmission costs the MLP has managed to maintain its generous payment. If Wellesley was served by an investor-owned utility, the Town’s comparable PILOT would be \$636,000 based on the commercial real estate tax rate. In addition to the annual cash payment the

Town receives numerous other financial benefits. These include fiber connectivity to all Town buildings, discounted electric rates, traffic signal maintenance and the funding of energy efficiency programs.

The MLP was able to achieve its Mission Statement objectives in FY15. With \$60 million of net plant assets and no debt, the MLP is positioned to take on future challenges. The biggest challenge will be the continued absorption of major cost increases for capacity and transmission. Transmission costs have risen steadily since 2007 and are projected to increase in the foreseeable future. ISO-New England regulated capacity costs are expected to more than triple in the next four years, increasing from \$3.1 million in FY14 to an estimated \$ 9.6 million in Fiscal Year 2018. Capacity and transmission increases will not be unique to Wellesley but will be felt by all electric consumers in New England. Although rate increases are likely inevitable to cover these costs, the MLP expects to be able to provide reliable electric service at competitive rates well into the future.