

FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013



# Massachusetts Municipal Wholesale Electric Company

Financial Statements  
and  
Supplementary Information

Years Ended December 31, 2014 and 2013

# Massachusetts Municipal Wholesale Electric Company

## FINANCIAL STATEMENTS Years Ended December 31, 2014 and 2013

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Massachusetts Municipal Wholesale Electric Company  
Ludlow, Massachusetts

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Massachusetts Municipal Wholesale Electric Company, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Massachusetts Municipal Wholesale Electric Company's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Massachusetts Municipal Wholesale Electric Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Massachusetts Municipal Wholesale Electric Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors  
Massachusetts Municipal Wholesale Electric Company

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Municipal Wholesale Electric Company as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

The financial statements of Massachusetts Municipal Wholesale Electric Company as of December 31, 2013 were audited by other auditors whose report dated March 31, 2014, expressed an unmodified opinion on those statements.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The project statement of net position, project statement of revenues expenses and changes in net position and project statement of cash flows as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the project statement of net position, project statement of revenues, expenses and changes in net position and project statement of cash flows are fairly stated in all material respects in relation to the basic financial statements as a whole.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Debt Service Coverage, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion or provide any assurance on it.



Madison, Wisconsin  
March 31, 2015

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)  
Years Ended December 31, 2014 and 2013

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The following discussion and analysis of the Massachusetts Municipal Wholesale Electric Company (MMWEC) provides an overview and analysis of MMWEC's financial performance during the years ended December 31, 2014 and 2013. This discussion and analysis should be read in conjunction with MMWEC's financial statements and the accompanying notes.

## OVERVIEW OF THE FINANCIAL STATEMENTS

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts formed to be a joint action agency to develop a bulk power supply for its member Massachusetts cities and towns having municipal electric systems (Members) and other utilities, both private and public. Among other things, MMWEC is authorized to construct, own or purchase ownership interests in energy facilities and to issue revenue bonds for such purposes. MMWEC's ownership interest in energy generation facilities is through various Projects. Pursuant to its General Bond Resolution (GBR), the bonds of any bond issue relating to a Project are secured solely by revenues derived from that Project. Project revenues are derived primarily from Power Sales Agreements (PSAs) with MMWEC's Members and other utilities that are Participants in a Project (Project Participants). MMWEC's bulk power supply program consists of power purchase arrangements, power brokering services, planning and financial services, and the Projects relating to generating facilities built and operated either by MMWEC or other entities.

MMWEC has determined it has a fiduciary responsibility over two defined benefit pension plans that are provided to its employees. The financial statement presentation is of the business-type activities only and excludes the fiduciary fund financial statements for the defined benefit pension plans.

The accounting records of MMWEC are maintained using the Governmental Accounting Standards Board (GASB), the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Generally Accepted Accounting Principles of the United States (GAAP) using the economic resources measurement focus and the accrual basis of accounting. Application of the accounting methods for regulatory operations is also included in these financial statements. This accounting guidance relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process, which is governed by the Board of Directors.

This annual report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Statements of Net Position report year-end assets and liabilities based on the original cost adjusted for any depreciation, amortization or unrealized gains/losses as appropriate. The Statements of Revenues, Expenses and Changes in Net Position present MMWEC's operating revenues and expenses incurred as a result of MMWEC's business activity. The Statements of Cash Flows report the cash provided and used for operating activities, as well as investing activities and capital and related financing activities.

## MMWEC FINANCIAL ANALYSIS

An analysis of MMWEC's financial position begins with the review of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows. A summary of MMWEC's Condensed Statements of Net Position is presented in Table 1. The Condensed Statements of Revenues, Expenses and Changes in Net Position is summarized in Table 2 and the Condensed Statements of Cash Flows is summarized in Table 3.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)  
Years Ended December 31, 2014 and 2013

## MMWEC FINANCIAL ANALYSIS...continued

**Table 1**  
**Condensed Statements of Net Position**

	<u>2014</u>	<u>2013</u> (In Thousands)	<u>2012</u>
Current assets, less current portion of restricted special funds	\$ 96,093	\$ 107,074	\$ 96,313
Restricted assets, including interest receivable and current portion of restricted special funds	237,249	223,535	222,864
Other assets	124,281	112,965	102,246
Capital assets	<u>593,333</u>	<u>600,172</u>	<u>606,966</u>
Total assets	<u>\$ 1,050,956</u>	<u>\$ 1,043,746</u>	<u>\$ 1,028,389</u>
Current liabilities	\$ 233,182	\$ 221,184	\$ 212,402
Noncurrent liabilities	816,372	820,619	813,525
Deferred inflows of resources	<u>1,402</u>	<u>1,943</u>	<u>2,462</u>
Total liabilities and deferred inflows of resources	<u>\$ 1,050,956</u>	<u>\$ 1,043,746</u>	<u>\$ 1,028,389</u>
Net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Table 2**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	<u>2014</u>	<u>2013</u> (In Thousands)	<u>2012</u>
Operating revenues	\$ 324,917	\$ 310,262	\$ 287,403
Depreciation expense	16,588	16,282	15,566
Other operating expenses	<u>268,528</u>	<u>235,686</u>	<u>207,929</u>
Total operating expenses	<u>285,116</u>	<u>251,968</u>	<u>223,495</u>
Operating income	<u>39,801</u>	<u>58,294</u>	<u>63,908</u>
Investment income	10,641	8,899	7,893
Interest and amortization expense	(2,768)	(3,333)	(6,146)
Increase in amounts payable under terms of the power sales agreements	<u>(47,674)</u>	<u>(63,860)</u>	<u>(65,655)</u>
Total non-operating expenses	<u>(39,801)</u>	<u>(58,294)</u>	<u>(63,908)</u>
Change in net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)  
Years Ended December 31, 2014 and 2013

## MMWEC FINANCIAL ANALYSIS...continued

**Table 3**  
**Condensed Statements of Cash Flows**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(In Thousands)		
Net cash provided by operating activities	\$ 72,603	\$ 71,565	\$ 98,087
Net cash provided by (used in) investing activities	(10,610)	(5,806)	62,324
Net cash used in capital and related financing activities	<u>(69,107)</u>	<u>(89,503)</u>	<u>(101,316)</u>
Net change in cash and cash equivalents	(7,114)	(23,744)	59,095
Cash and cash equivalents – beginning of year	<u>50,640</u>	<u>74,384</u>	<u>15,289</u>
Cash and cash equivalents – end of year	<u>\$ 43,526</u>	<u>\$ 50,640</u>	<u>\$ 74,384</u>

## STATEMENTS OF NET POSITION

The majority of MMWEC's Statements of Net Position consists of the financial activity relating to various Projects, representing ownership interests in various electric generation facilities for which MMWEC has corresponding PSAs with each Project Participant. MMWEC's joint ownership interests are shown in Note 11 – Project Joint Ownership Agreements in the accompanying notes of the accompanying financial statements.

### Comparison of 2013 Financial Results to 2012 Financial Results

Current assets, excluding the current portion of restricted funds, increased by \$10.8 million.

Cash and temporary investments decreased by \$19.7 million, primarily due to the decrease in Stony Brook Intermediate working capital funds for fuel oil purchases during 2013 and expenditures related to the Stony Brook Intermediate major fall outage, where the Unit 1C rotor was replaced in addition to other major maintenance performed. There were also timing differences in the Stony Brook Peaking and Intermediate portfolio, resulting in a corresponding increase in restricted special funds for investments with a maturity of greater than one year in the Stony Brook Peaking and Intermediate Projects of \$9.0 million.

The increase in accounts receivable and unbilled revenue of \$18.1 million is chiefly attributable to higher amounts billed due to higher average locational marginal prices for Massachusetts in December 2013 related to Member power purchases than at the same time in the prior year. Inventories increased \$12.3 million from the prior year due to approximately 154,000 barrels of fuel oil purchased for the Stony Brook Intermediate Project in 2013, offset by fuel burn in both of the Stony Brook Projects.

Current and noncurrent restricted funds, including related interest receivable, increased by \$0.7 million, primarily due to an increase of \$9.0 million in Stony Brook Intermediate and Peaking restricted funds as described above, and an increase of \$1.6 million in Seabrook Station operating reserve due to collections made in advance for the Spring 2014 refueling outage. These increases were offset by a decrease of \$4.9 million in Member power purchase working capital funds due to the higher average power prices in December 2013 as compared to December 2012 and a decrease of \$5.0 million in Millstone operating reserves due to expenditures paid for the refueling and maintenance outage in 2013.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)  
Years Ended December 31, 2014 and 2013

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## STATEMENTS OF NET POSITION...continued

### Comparison of 2013 Financial Results to 2012 Financial Results...continued

Noncurrent charges increased by \$10.7 million from 2012 to 2013, reflecting improved investment performance of and monthly contributions made to the nuclear decommissioning trust funds; higher market valuation of and increased contributions made to pension assets; higher advances made to the lead owners for the Project operating costs of the Millstone Projects offset by lower advances made to the lead owners for the Project operating costs of the Seabrook Projects.

In 2013, total capital assets had a net decrease of \$6.8 million due primarily to continued depreciation of \$16.3 million and continued amortization of nuclear fuel of \$12.0 million, offset primarily by net in-service asset and construction work in progress additions of \$11.6 million, net of asset retirements of \$0.3 million and net purchases of nuclear fuel of \$9.6 million.

The \$9.4 million increase in current liabilities, excluding current maturities of long-term debt, was attributable to increased collections for future planned maintenance and capital purchases for the Projects, which increased the amount of advances the Members and Project Participants had at MMWEC by \$8.5 million. In addition, accounts payable and accrued expenses decreased by \$3.3 million as payments to vendors for operational expenses were greater prior to year-end during 2013, whereas in the prior year, such payments were made after year-end. There were also increased draws on the lines of credit of \$4.2 million primarily due to fuel oil purchases made in the last quarter of 2013, which were funded through use of the line of credit, resulting in a higher short-term debt balance than in the prior year.

Long-term debt, including current maturities, decreased by \$65.4 million primarily due to principal payments and maturities on long-term debt made during 2013.

Other noncurrent liabilities, excluding long-term debt, increased \$71.9 million due to accretion of asset retirement obligations, and increases in amounts payable under the terms of the PSAs, which include temporary offsets of unbilled expenses, such as depreciation, unrealized gains/losses, and bond payment activity.

Deferred inflows of resources decreased by \$0.5 million due to amortization of the deferred gain on extinguishment of debt.

### Comparison of 2014 Financial Results to 2013 Financial Results

Current assets, excluding the current portion of restricted funds, decreased by \$11.0 million.

Cash and temporary investments decreased by \$7.5 million, primarily due to the decrease of \$9.7 million in Stony Brook Intermediate and Peaking and Wyman working capital funds for fuel oil purchases made in late 2014, offset by an increase of \$2.2 million in Nuclear Mix One cash, due to the release of funds from former bond reserve accounts, as the bonds related to Nuclear Mix One were retired on July 1, 2014. There were also timing differences in the Stony Brook Peaking and Intermediate and Wyman portfolios, resulting in a corresponding increase in restricted special funds for investments with a maturity of greater than one year in the Stony Brook Peaking and Intermediate Projects of \$10.4 million.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)  
Years Ended December 31, 2014 and 2013

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## STATEMENTS OF NET POSITION...continued

### Comparison of 2014 Financial Results to 2013 Financial Results...continued

The decrease in accounts receivable and unbilled revenue of \$5.8 million is chiefly attributable to lower amounts billed due to decreased generation and fuel oil burn forecasts for the Stony Brook Intermediate Project (\$6.3 million), lower billings in the Seabrook Station Projects because of lower lead owner expenses and capital requirements (\$3.0 million) and lower average locational marginal prices for Massachusetts related to Member power purchases (\$1.4 million) in December 2014 than at the same time in the prior year, offset by an increase of \$2.9 million in loans receivable under MMWEC's pooled loan program which was established in 2014 and increases totaling \$2.0 million in Wyman and Stony Brook Peaking Project billings due to higher generation and fuel oil burn forecasts for those Projects in December 2014 than at the same time in the prior year. Inventories increased \$2.6 million from the prior year due to approximately 301,000 barrels of fuel oil purchased during the last few months for the Stony Brook Intermediate and Peaking Project in 2014. Stony Brook fuel oil purchases totaled 154,000 barrels for the same period in the prior year.

Current and noncurrent restricted funds, including related interest receivable, increased by \$13.7 million, primarily due to an increase of \$10.4 million in Stony Brook Intermediate and Peaking and Wyman restricted funds as described above. These increases were offset by a decrease of \$5.6 million in Millstone and Seabrook Station operating reserves and bond reserve funds due to expenditures paid for the refueling and maintenance outages in 2014 and retirements of debt, respectively.

Noncurrent charges increased by \$11.3 million from 2013 to 2014, reflecting improved investment performance of and monthly contributions made to the nuclear decommissioning trust funds; higher market valuation of and increased contributions made to pension assets; higher advances made to the lead owners for the Project operating costs of the Seabrook Station Projects offset by lower advances made to the lead owners for the Project operating costs of the Millstone Projects.

In 2014, total capital assets had a net decrease of \$6.8 million due primarily to continued depreciation of \$16.3 million and continued amortization of nuclear fuel of \$10.9 million, offset primarily by net in-service asset and construction work in progress additions of \$10.0 million, net of asset retirements of \$0.4 million, and net purchases of nuclear fuel of \$10.8 million.

The \$15.6 million increase in current liabilities, excluding current maturities of long-term debt, was attributable to increased draws on the lines of credit of \$20.4 million primarily due to fuel oil purchases made in the last quarter of 2014, which were funded through use of the line of credit and draws for MMWEC's pooled loan program line of credit, which was established in 2014, resulting in a higher short-term debt balance than in the prior year. In addition, accounts payable and accrued expenses increased by \$5.3 million as more payments were made to vendors after year-end for operational expenses incurred in 2014, whereas in the prior year, such payments were made previous to year-end. Finally, MMWEC utilized reserves to fund the planned maintenance and refueling outages for both the Millstone and Seabrook Station Projects in 2014, which decreased the amount of advances the Members and Project Participants had at MMWEC by \$10.1 million.

Long-term debt, including current maturities, decreased by \$62.9 million primarily due to principal payments made and maturities of long-term debt during 2013.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)  
Years Ended December 31, 2014 and 2013

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## **STATEMENTS OF NET POSITION...continued**

### Comparison of 2014 Financial Results to 2013 Financial Results...continued

Other noncurrent liabilities, excluding long-term debt, increased \$54.9 million due to accretion of asset retirement obligations, additional collections made for Intermediate fuel working capital in 2014 and increases in amounts payable under the terms of the PSAs, which include temporary offsets of unbilled expenses, such as depreciation, unrealized gains/losses, and bond payment activity.

Deferred inflows of resources decreased by \$0.5 million due to amortization of the deferred gain on extinguishment of debt.

## **STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

The majority of MMWEC's Statements of Revenues, Expenses and Changes in Net Position consists of the financial activity relating to revenues and expenses from power purchases and the PSAs for the Projects. Project revenues are derived, primarily, from PSAs with Project Participants. Under all PSAs, the Project Participants are required to pay their respective shares of MMWEC's actual costs relating to the Projects, including debt service. Thus, MMWEC's revenues for an individual Project are dependent on debt service and the costs associated with that particular Project. Revenues for the individual Projects vary from year to year as the costs MMWEC incurs relating to a Project vary. MMWEC bills under the PSAs only the expenses and costs it incurs from the lead owner of the generating facility and its own expense associated with each Project plus certain other amounts required pursuant to MMWEC's General Bond Resolution.

### Comparison of 2013 Financial Results to 2012 Financial Results

For 2013, revenue increased by \$22.9 million due to higher power prices, higher generation in the Seabrook Station and Wyman Projects and increased fuel costs in the Stony Brook Intermediate Project, offset by lower generation in the Stony Brook Peaking and Millstone Projects. Purchased power expenses increased by \$23.2 million during 2013 as compared to 2012 due to more extreme temperatures than in the prior year and instability in the natural gas markets, resulting in increased power prices.

The \$6.5 million increase in fuel used in electric generation was driven by increased generation at Seabrook Station and Wyman and higher fuel costs at Stony Brook Intermediate, offset by decreased generation at Millstone. Millstone had a planned refueling and maintenance outage in 2013, whereas in the prior year Seabrook Station had a planned refueling outage. Stony Brook Intermediate utilized more fuel oil than natural gas for generation in 2013, resulting in higher overall fuel costs, despite lower generation than in the prior year.

Other operating expense increased \$0.9 million reflecting increased operations activity at Millstone and Stony Brook Intermediate due to planned outages in 2013.

Maintenance expense decreased \$2.6 million in 2013, primarily driven by Seabrook Station as only Millstone had a planned refueling and maintenance outage in 2013, whereas in the prior year Seabrook Station had a planned refueling and maintenance outages and the costs associated with the Seabrook Station outage were more significant.

In 2013, depreciation expense increased \$0.7 million. This was the result of higher depreciation from fixed asset additions offset by retirements during 2013.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)  
Years Ended December 31, 2014 and 2013

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## **STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION...continued**

### Comparison of 2013 Financial Results to 2012 Financial Results...continued

The \$0.2 million decrease in taxes other than income was attributable to lower generation taxes paid due to the suspension of the generation tax at Millstone as of September 30, 2013, offset by slight increases to other property taxes paid during 2013.

Investment income, which is a result of varying fund balances and interest rates, increased by \$1.0 million in 2013, due to better investment performance in 2013 as opposed to 2012.

Interest expense decreased by \$3.1 million due to lower interest costs incurred in 2013 than in 2012 as a result of reduced long-term debt balances due to scheduled principal payments and maturities. Amortization expense decreased by \$1.0 million due to continued amortization of premiums and gains associated with various bond issues.

In 2012, MMWEC incurred \$0.9 million of debt issuance costs in connection with the issuance of the Series 2012A Bonds, which were expensed in the period paid. No bonds were issued during 2013 and thus, no debt issuance costs were paid.

The decrease in amounts payable under terms of the PSAs is discussed in Notes 1 and 7 of the accompanying financial statements.

### Comparison of 2014 Financial Results to 2013 Financial Results

For 2014, revenue increased by \$14.7 million due to higher power prices, higher generation in the Seabrook Station and Wyman Projects and increased fuel costs in the Stony Brook Intermediate and Peaking and Wyman Projects, offset by lower generation in the Seabrook Station and Millstone Projects. In addition, Service revenue increased due to non-exchange revenue of \$5.4 million for costs related to the development of Stony Brook Unit 3, which was impaired in 2014. Previous to 2014, costs related to Stony Brook were deferred and included in other noncurrent charges.

Purchased power expenses increased by \$2.4 million during 2014 as compared to 2013 due to more extreme temperatures and continued instability in the natural gas markets, primarily in the first quarter of 2014, which resulted in large spikes in power prices.

The \$11.4 million increase in fuel used in electric generation was driven by increased generation at Peaking, Intermediate and Wyman and higher fuel costs at Stony Brook Intermediate, offset by decreased generation at Millstone and Seabrook Station, as both Millstone and Seabrook Station had planned refueling and maintenance outages in 2014.

Other operating expense increased \$6.3 million primarily due to the impairment of Stony Brook Unit 3 in 2014.

Maintenance expense increased \$2.6 million in 2014, primarily driven by Seabrook Station as both Seabrook Station and Millstone had planned refueling and maintenance outages in 2014, whereas in the prior year only Millstone had a planned refueling and maintenance outage.

In 2014, depreciation expense increased \$0.3 million. This was the result of higher depreciation from fixed asset additions offset by retirements during 2014.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)  
Years Ended December 31, 2014 and 2013

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## **STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION...continued**

### Comparison of 2014 Financial Results to 2013 Financial Results...continued

The inventory market adjustment of \$11.0 million reflects an adjustment made to present fuel oil inventory at the lower of cost or market. Market value of fuel oil purchased for the Wyman, Stony Brook Peaking and Intermediate declined sharply in December 2014, below the purchased cost of the fuel oil. In the prior year, market prices were at or below the purchased cost of the inventory and no adjustment for valuation was necessary.

The \$0.9 million decrease in taxes other than income was attributable to lower generation taxes paid in 2014 due to the suspension of the generation tax at Millstone as of September 30, 2013.

Investment income, which is a result of varying fund balances and interest rates, increased by \$1.7 million in 2014, due to better investment performance in 2014 as opposed to 2013.

Interest expense decreased by \$2.5 million due to lower interest costs incurred in 2014 than in 2013 as a result of reduced long-term debt balances due to scheduled principal payments and maturities.

Amortization expense decreased by \$2.0 million due to continued amortization of premiums and gains associated with various bond issues.

The increase in amounts payable under terms of the PSAs is primarily related to bond payments made during the period and is discussed in Notes 1 and 7 of the accompanying financial statements.

## **STATEMENTS OF CASH FLOWS**

For purposes of the Statements of Cash Flows, cash equivalents are cash and investments having an original maturity of three months or less from the date of acquisition. Cash and cash equivalents decreased by \$23.7 million from 2012 to 2013. This is due to purchases of investments during 2013 and decreased operating cash due to timing of payments for operational activities in 2013. Cash and cash equivalents decreased by \$7.1 million from 2013 to 2014. This is primarily due to purchases of investments during 2014 and decreased operating cash due to timing of payments for operational activities in 2014.

## **DEBT SERVICE COVERAGE**

For the PSAs' contract years ended June 30, 2014 and June 30, 2013, MMWEC met the GBR debt service coverage requirements for all of MMWEC's Projects. In accordance with the provisions of MMWEC's GBR, MMWEC covenants that it will fix, revise and collect rates, tolls, rents and other fees and charges sufficient to produce revenues to pay all Project operating and maintenance expenses as well as principal, premium, if any, and interest on the Bonds associated with each Project. Revenues for each Project, which include applicable interest earnings from investments associated with funds required to be maintained by the GBR, are required to equal 1.10 times the annual debt service for the PSA contract year ending June 30, after deduction of certain operating and maintenance expenses and exclusive of depreciation. Further details can be found in the Supplementary Information to the financial statements.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)  
Years Ended December 31, 2014 and 2013

## DEBT RATINGS

During 2014, following their annual credit review of MMWEC, two major credit rating agencies rated the MMWEC bonds as follows:

<u>Investment Type</u>	<u>Standard &amp; Poor's</u>	<u>Fitch Ratings</u>
Nuclear Project No. 3, Series 2011	A+	A+
Nuclear Project No. 4, Series 2011	A+	A+
Nuclear Project No. 5, Series 2011	A	A+
Project No. 6, Series 2011	A-	A+
Nuclear Project No. 3, Series One	A+	A+
Nuclear Project No. 4, Series One	A+	A+
Nuclear Project No. 5, Series One	A	A+
Project No. 6, Series One	A-	A+
Nuclear Project No. 4, Series 2012A	A+	A+
Nuclear Project No. 5, Series 2012A	A	A+
Project No. 6, Series 2012A	A-	A+

## SIGNIFICANT EVENTS

In 2014, MMWEC began a Pooled Loan Program which enables MMWEC to borrow funds to either make loans to Members that would be used by the utility to finance the acquisition of various utility assets, or purchase and own various utility assets that would be leased to member utilities. The Program utilizes a \$50 million loan facility to provide initial funding of the loans and leases, as described in Note 5 – Short-term Debt. MMWEC issues Promissory Notes to Members who borrow funds under this program and the interest and any fees associated with the Notes are payable solely by each Member who utilizes the program funds for their portion of the funds used. As of December 31, 2014, one Member is participating in this program. On March 20, 2015, a second Member joined the program.

During 2014, MMWEC determined that the construction and operation of Stony Brook Unit 3, a 280-megawatt combined-cycle dual fuel generating unit, were not feasible. The impairment expense and non-exchange revenue from this transaction totaled \$5.4 million and are included in other operating expenses and operating revenues as of December 31, 2014.

# Massachusetts Municipal Wholesale Electric Company

Management's Discussion and Analysis (unaudited)  
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## MMWEC PROJECT OPERATIONS

The following table provides 2014 operating information for the MMWEC Projects. See Note 11 – Project Joint Ownership Agreements in the accompanying financial statements for additional information.

### MMWEC Project Operations January 1 through December 31, 2014

	<u>Stony Brook Intermediate</u>	<u>Stony Brook Peaking</u>	<u>Seabrook</u>	<u>Millstone 3</u>	<u>Wyman</u>
Availability	94.90%	97.40%	93.49%	88.65%	89.47%
Capacity Factor	6.58%	0.66%	93.15%	88.22%	4.05%
Generation MWH	178,911	9,138	1,178,768	448,179	7,874

*The capacity factor represents the percentage of electricity actually produced as compared with potential production.*

## CONTACT INFORMATION

This financial report is designed to provide a general overview of MMWEC's finances. Questions or requests for additional information should be addressed to MMWEC Attn: Director of Accounting & Financial Reporting, PO Box 426, Ludlow, Massachusetts 01056.

# Massachusetts Municipal Wholesale Electric Company

Statements of Net Position  
December 31, 2014 and 2013  
(In Thousands)

	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and temporary investments	\$ 4,089	\$ 11,614
Accounts receivable	33,711	39,344
Unbilled revenues	19,224	19,414
Inventories	37,614	35,042
Prepaid expenses	1,455	1,660
Current portion of restricted special funds	71,712	53,784
Total current assets	<u>167,805</u>	<u>160,858</u>
Noncurrent assets:		
Restricted assets:		
Restricted special funds	165,091	169,266
Interest receivable	446	485
Noncurrent charges:		
Nuclear decommissioning trust	97,976	88,686
Other noncurrent charges	26,305	24,279
Total noncurrent assets	<u>289,818</u>	<u>282,716</u>
Capital assets:		
In service	1,396,329	1,386,798
Accumulated depreciation	(846,883)	(831,164)
Construction work in progress	17,147	17,698
Nuclear fuel, net of amortization	26,740	26,840
Total capital assets	<u>593,333</u>	<u>600,172</u>
Total assets	<u>\$ 1,050,956</u>	<u>\$ 1,043,746</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 10,492	\$ 6,727
Member and participant advances	113,339	123,444
Short-term debt	25,520	5,089
Accrued expenses	25,253	22,286
Current liabilities payable from restricted assets:		
Accrued interest payable	3,114	4,486
Current maturities of long-term debt, net of premiums	55,464	59,152
Total current liabilities	<u>233,182</u>	<u>221,184</u>
Noncurrent liabilities:		
Long-term debt, net of premiums and current maturities	116,584	175,779
Asset retirement obligations	137,850	131,287
Amounts payable under terms of the power sales agreements	499,590	451,916
Long-term member and participant advances	62,348	61,637
Total noncurrent liabilities	<u>816,372</u>	<u>820,619</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred gain on extinguishment of debt, net of amortization	1,402	1,943
Total liabilities and deferred inflows of resources	<u>\$ 1,050,956</u>	<u>\$ 1,043,746</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 424,657	\$ 369,822
Restricted for:		
General bond resolution	18,149	13,334
Unrestricted	(442,806)	(383,156)
Total net position	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

# Massachusetts Municipal Wholesale Electric Company

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2014 and 2013

(In Thousands)

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Revenues	<u>\$ 324,917</u>	<u>\$ 310,262</u>
Operating expenses:		
Fuel used in electric generation	35,905	24,553
Purchased power	150,425	148,011
Other operating	53,379	47,104
Maintenance	12,997	10,373
Depreciation	16,588	16,282
Inventory market adjustment	11,045	-
Taxes other than income	4,777	5,645
	<u>285,116</u>	<u>251,968</u>
Operating income	<u>39,801</u>	<u>58,294</u>
Non-operating revenues (expenses):		
Investment income	10,641	8,899
Interest expense on long-term debt	(8,022)	(10,568)
Amortization of premium	4,713	6,711
Amortization of gain on extinguishment of debt	541	519
Interest charged to projects during construction	-	5
Increase in amounts payable under terms of the power sales agreements	(47,674)	(63,860)
Total non-operating expenses	<u>(39,801)</u>	<u>(58,294)</u>
Change in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

# Massachusetts Municipal Wholesale Electric Company

## Statements of Cash Flows

Years Ended December 31, 2014 and 2013

(In Thousands)

	2014	2013
Cash flows from operating activities:		
Received from sales to members and participants	\$ 320,061	\$ 302,502
Paid to suppliers for goods and services	(239,812)	(223,502)
Paid to employees	(7,646)	(7,435)
Net cash provided by operating activities	<u>72,603</u>	<u>71,565</u>
Cash flows from investing activities:		
Net purchases of investments	(13,342)	(4,621)
Investment income (loss) received	2,732	(1,185)
Net cash used in investing activities	<u>(10,610)</u>	<u>(5,806)</u>
Cash flows from capital and related financing activities:		
Construction expenditures and purchases of nuclear fuel	(20,611)	(21,532)
Proceeds from issuance of short-term debt	33,485	5,705
Principal payments on long-term debt	(58,170)	(58,725)
Principal payments on short-term debt	(13,054)	(1,478)
Decommissioning trust payments	(1,342)	(1,596)
Debt issuance costs paid	-	(20)
Interest payments on long-term debt	(9,415)	(11,857)
Net cash used in capital and related financing activities	<u>(69,107)</u>	<u>(89,503)</u>
Net change in cash and cash equivalents	(7,114)	(23,744)
Cash and cash equivalents, beginning of year	<u>50,640</u>	<u>74,384</u>
Cash and cash equivalents, end of year	<u>\$ 43,526</u>	<u>\$ 50,640</u>

The accompanying notes are an integral part of these financial statements.

# Massachusetts Municipal Wholesale Electric Company

Statements of Cash Flows...continued

Years Ended December 31, 2014 and 2013

(In Thousands)

	2014	2013
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 39,801	\$ 58,294
Noncash items included in operating income:		
Depreciation	16,588	16,282
Amortization of nuclear fuel and accretion of asset retirement obligations	17,425	18,299
Loss on market valuation of inventory	11,045	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	5,633	(12,812)
Unbilled revenues	190	(5,240)
Inventories	(13,617)	(12,274)
Prepaid expenses	205	(130)
Other deferred charges	(2,026)	862
Increase (decrease) in:		
Accounts payable	3,765	(9,673)
Member and participant advances	(10,894)	10,292
Accrued expenses	2,988	7,665
Long term member and participant advances	1,500	-
Net cash provided by operating activities	<u>\$ 72,603</u>	<u>\$ 71,565</u>
<b>Reconciliation of cash and cash equivalents to the statement of net position:</b>		
Cash and temporary investments	\$ 4,089	\$ 11,614
Total restricted special funds	<u>236,803</u>	<u>223,050</u>
Total cash and investments	<u>240,892</u>	<u>234,664</u>
Less - investments included in restricted special funds	<u>(197,366)</u>	<u>(184,024)</u>
Total cash and cash equivalents	<u>\$ 43,526</u>	<u>\$ 50,640</u>
<b>Supplemental disclosures of cash flow information:</b>		
Noncash investing, capital and financing transactions:		
Amortization of debt premiums	<u>\$ 4,713</u>	<u>\$ 6,711</u>
Amortization of gain on extinguishment of debt	<u>\$ 541</u>	<u>\$ 519</u>

The accompanying notes are an integral part of these financial statements.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

### Reporting Entity/Nature of Business

The Massachusetts Municipal Wholesale Electric Company (MMWEC) is a public corporation and a political subdivision of the Commonwealth of Massachusetts formed to be a joint action agency to develop a bulk power supply for its member Massachusetts cities and towns having municipal electric systems (Members) and other utilities, both public and private. Among other things, MMWEC is authorized to construct, own, or purchase ownership interests in energy facilities and to issue revenue bonds for such purposes. MMWEC's ownership interest in energy generation facilities are through various Projects (Note 11). Pursuant to its General Bond Resolution (GBR), the bonds of any bond issue relating to a Project are secured solely by revenues derived from that Project. Project revenues are derived primarily from Power Sales Agreements (PSAs) with MMWEC's Members and other utilities who are Participants in a Project (Project Participants). MMWEC's bulk power supply program consists of power purchase arrangements, power brokering services, planning and financial services, and the Projects relating to generating facilities built and operated either by MMWEC or other entities.

A Massachusetts city or town having a municipal electric system, authorized by majority vote of the city or town, may become a Member of MMWEC by applying for admission and agreeing to comply with the terms and conditions of membership as MMWEC By-Laws may require. As of December 31, 2014 and 2013, twenty-one (21) Massachusetts cities and towns having municipal electric systems were Members.

MMWEC has determined it has a fiduciary responsibility over two defined benefit pension plans that are provided to its employees. The financial statement presentation is of the business-type activities only and excludes the fiduciary fund financial statements for the defined benefit pension plans.

### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounting records of MMWEC are maintained using the Governmental Accounting Standards Board (GASB), the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) and the Generally Accepted Accounting Principles of the United States (GAAP) using the economic resources measurement focus and the accrual basis of accounting. Application of the accounting methods for regulatory operations is also included in these financial statements. This accounting guidance relates to the deferral of revenues and expenses to future periods in which the revenues are earned or the expenses are recovered through the rate-making process, which is governed by the Board of Directors.

### Assets, Liabilities and Deferred Inflows of Resources

#### Cash and Investments

For purposes of the Statements of Cash Flows, cash equivalents are cash and investments having an original maturity of three months or less from the date of acquisition. Unrestricted cash and cash equivalents are presented within cash and temporary investments in the accompanying Statements of Net Position. Restricted cash and cash equivalents are presented within the current or long-term portion of restricted special funds in the accompanying Statements of Net Position.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

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## 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS**...continued

### Assets, Liabilities and Deferred Inflows of Resources...continued

#### Cash and Investments...continued

MMWEC has adopted an investment policy, which is approved annually by MMWEC's Board of Directors as required by MMWEC's GBR. Although certain cash and temporary investment amounts used for power purchases and working capital requirements of MMWEC are not subject to the provisions of the GBR, they are subject to the provisions of the investment policy.

Investments are stated at fair value, as defined under fair value measurements above. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the Statements of Revenues, Expenses and Changes in Net Position as increases or decreases in investment income.

Through its investment policy, MMWEC is restricted to investing in certain types of securities and investments, which are:

- a. Direct obligations of the United States of America
- b. Bonds, debentures, notes or other indebtedness issued by various federal agencies
- c. New housing authority bonds issued by public agencies or municipalities
- d. Bonds or notes issued by states and municipalities that are rated in one of the two highest rated categories by rating agencies
- e. Bank time deposits
- f. Repurchase agreements
- g. Federal funds or bankers acceptances
- h. Investment agreements

#### Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Based on the validity of contracts and collection history, an allowance for doubtful accounts is not considered necessary. Should these circumstances change, an allowance for doubtful accounts would be provided for those accounts receivable considered to be uncollectible at the end of the year, and the bad debts would be written off against the allowance when identified.

#### Unbilled Revenue

Unbilled revenues are revenues that are not yet billed under the MMWEC Member and Participant agreements and other power arrangements and represent a portion of December services rendered that are collectible in January of the subsequent year.

#### Prepaid Expenses

Prepaid expenses represent insurance premiums, property taxes, payment in lieu of taxes and other similar contracts and arrangements paid in the current fiscal year benefiting future periods.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

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## 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS**...continued

### Assets, Liabilities and Deferred Inflows of Resources...continued

#### Inventories

Fuel oil and spare parts inventories are valued at the lower of cost or market and recorded and accounted for by the average cost method. At December 31, 2014 and 2013, total fuel oil inventory was at \$24.0 million and \$22.2 million, respectively, and spare parts inventory amounted to \$13.6 million and \$12.8 million, respectively.

Adjustments resulting from valuation of inventory are charged to inventory market adjustment on the accompanying Statements of Revenues, Expenses and Changes in Net Position. Such adjustments totaled \$11.0 million and \$0 for the years ended December 31, 2014 and 2013, respectively.

#### Nuclear Fuel

Nuclear fuel, net of amortization, includes MMWEC's ownership interest in spent nuclear fuel, fuel in reactor, in stock and in process for both Millstone Unit 3 and Seabrook Station. The cost of nuclear fuel is amortized to fuel used in electric generation for each nuclear unit based on the relationship of energy produced in the current period to total expected energy production for fuel in the reactor. Fuel used in electric generation includes the annual assessment, under the Energy Policy Act of 1992, for the cost of decontamination and decommissioning of uranium enrichment plants operated by the U.S. Department of Energy (DOE). This assessment was discontinued as of May 15, 2014. In addition, a provision for fuel disposal costs is included in fuel used in electric generation based upon disposal contracts with the DOE. MMWEC, along with all of the other joint owners of both Millstone Unit 3 and Seabrook Station, has filed claims against the DOE in the United States Court of Claims for partial breach of the disposal contracts with the DOE.

With respect to Seabrook Station, in 2009, MMWEC and the other Seabrook Station joint owners settled their claims against the DOE, with the U.S. Department of Justice (DOJ), who represented the DOE.

As the DOE has agreed in principle to settlements in regard to ongoing costs incurred related to the disposal contracts, accounts receivable related to these ongoing cost settlements have been recorded at December 31, 2014 and 2013 in the amount of \$363,000 and \$1.3 million, respectively. During 2014, \$2.8 million in cost settlements were received by MMWEC. No amounts were received during 2013. Of the amounts received in 2014, \$1.3 million were disbursed to Seabrook Station and Millstone Unit 3 Participants as a credit on billings. The remaining \$1.4 million will be disbursed to Seabrook Station Participants in 2015.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Assets, Liabilities and Deferred Inflows of Resources...continued

#### Capital Assets – In Service

Capital assets – in service are generally defined by MMWEC as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets of MMWEC are recorded at cost at the date of acquisition. MMWEC capitalizes interest as an element of the cost of electric plant and nuclear fuel in process. The amount of interest capitalized is based on the cost of debt, including amortization of premiums, related to each Project, net of investment gains and losses, and interest income derived from unexpended restricted special funds. MMWEC capitalized interest costs of \$0 and \$5,000 for the years ended December 31, 2014 and 2013, respectively.

Provisions for depreciation are computed using the straight-line method based on estimated useful lives for the underlying assets at Stony Brook and the administrative and general office on MMWEC's site (Service). Seabrook Station, Millstone and Wyman are depreciated based on the group life basis. The lives are as follows:

#### Stony Brook

Building	25 years
Building improvements	20 years
Equipment	20-30 years
Computer equipment and vehicles	3-4 years

#### Service

Office equipment and software	3-8 years
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#### Other Generation Facilities

Seabrook Station	60 years
Millstone Unit 3	60 years
W.F. Wyman No. 4	51 years

NextEra Energy Seabrook, LLC, the lead owner of Seabrook Station, has filed for approval from the Nuclear Regulatory Commission to extend Seabrook Station's operating license for an additional 20 years to 2050. The estimated useful life of 60 years for Seabrook Station incorporates the assumption that the license extension will be granted.

#### Construction Work in Progress

Construction work in progress is stated at cost. Any internal costs that are capitalized are limited to those costs that can be directly identified with the design, engineering or construction of a specific Project and do not include any costs related to production, general corporate overhead or similar activities. Depreciation of these costs will commence once placed in service.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Assets, Liabilities and Deferred Inflows of Resources...continued

#### Nuclear Decommissioning Trust

As required by the Nuclear Regulatory Commission (NRC) and respective state statutes and/or regulations, as well as MMWEC's own determinations, MMWEC has funded trust funds maintained by external trustees to provide for the estimated future decommissioning activities of Millstone Unit 3 and Seabrook Station. The balances at December 31, 2014 and 2013 for Millstone Unit 3 were \$38.2 million and \$34.6 million, respectively, and for Seabrook Station were of \$59.8 million and \$54.1 million, respectively, and are stated at fair value and are included in noncurrent charges and amounts recoverable (payable) under terms of the PSAs on the Statements of Net Position. Decommissioning balances for the Seabrook Station include funds in the New Hampshire Nuclear Decommissioning Trust and in an escrow account into which payments are made by MMWEC as a funding assurance mechanism. Depending on future circumstances, the funds held in the escrow account will be placed either in the Decommissioning Trust Fund for Seabrook Station, or will be returned to MMWEC, per order of the Nuclear Decommissioning Financing Committee of the State of New Hampshire.

#### Other Noncurrent Charges

MMWEC advances both Millstone Unit 3 and Seabrook Station operating and capital expenditures based on budgeted levels. These advances are reduced when actual expenditures are incurred. At December 31 2014 and 2013, these advances totaled \$14.7 million and \$8.4 million, respectively and are included in other noncurrent charges on the Statements of Net Position.

The Massachusetts Municipal Wholesale Electric Company Pension Plans (Plans) are two single-employer, defined benefit pension plans administered by MMWEC. One plan covers union employees (union plan) and the other plan covers non-union employees (administration plan). All full-time active administration employees hired before December 1, 2006, and all full-time active union employees hired before January 1, 2008 are covered by their respective plans. At December 31, 2014 and 2013, the net pension obligation (NPO) was \$10.9 million and \$10.0 million, respectively and is included in other noncurrent charges.

Deferred costs of \$5.4 million related to the development of Stony Brook Unit 3, a 280-megawatt combined-cycle dual fuel generating unit, are included in other noncurrent charges as of December 31, 2013. In 2014, MMWEC determined that the construction and operation of Stony Brook Unit 3 were not feasible. The impairment expense and non-exchange revenue from this transaction totaled \$5.4 million and are included in other operating expenses and operating revenues as of December 31, 2014.

#### Amounts Recoverable (Payable) Under Terms of the Power Sales Agreements

Billings to Project Participants are structured to recover costs in accordance with the PSAs, which generally provide for billing debt service, operating expenses and reserve requirements. Expenses are reflected in the Statements of Revenues, Expenses and Changes in Net Position in accordance with GAAP. The timing difference between amounts billed and expensed is charged, or credited, to amounts recoverable (payable) under terms of the PSAs.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Assets, Liabilities and Deferred Inflows of Resources...continued

#### Amounts Payable Under Terms of the Power Sales Agreements...continued

The principal differences include depreciation, fuel amortization, costs associated with canceled Projects (or assets abandoned within a Project), asset retirement obligations, cost of refinancing, billing for certain interest, reserves, net unrealized gains or losses on investments and other costs. Individual Projects have cumulative billings in excess of costs, which total \$499.6 million and \$451.9 million at December 31, 2014 and 2013, respectively. In accordance with the PSAs, these amounts have been offset in amounts payable under terms of the PSAs on the Statements of Net Position.

The December 31, 2014 and 2013 amounts payable balances of \$499.6 million and \$451.9 million, respectively, reflect the Statements of Revenues, Expenses and Changes in Net Position net increase of \$47.7 million and \$63.9 million for the years then ended.

#### Accounts Payable and Accrued Expenses

At December 31, 2014, accounts payable and accrued liabilities total \$38.9 million which include \$10.5 million related to standard operating supplier and vendor accounts payable; \$19.5 million for power purchase accruals; \$3.1 million for accrued interest on long term debt; and \$5.8 million for other miscellaneous accounts payable and accrued liabilities.

At December 31, 2013, accounts payable and accrued liabilities total \$33.5 million, which include \$6.7 million related to standard operating supplier and vendor accounts payable; \$19.0 million for power purchase accruals; \$4.5 million for accrued interest on long term debt; and \$3.3 million for other miscellaneous accounts payable and accrued liabilities.

#### Member and Participant Advances and Reserves

MMWEC maintains numerous operating reserves and advances from its Members and Project Participants in accordance with the PSAs, Power Purchase Agreements (PPAs) and other contractual arrangements. Member and Participant advances that are considered current liabilities, were \$113.3 million and \$123.4 million for the years ended December 31, 2014 and 2013, respectively. Other Member and Participant reserves for 2014 and 2013, which are considered long-term, were \$62.3 million and \$61.6 million, respectively. A reconciliation of the beginning and ending aggregate carrying amount of long-term Member and Participant Advances for the years ended December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
	(In Thousands)	
Long-term member and participant advances, beginning of year	\$ 61,637	\$ 59,883
Additions	1,500	1,786
Deletions	<u>(789)</u>	<u>(32)</u>
Long-term member and participant advances, end of year	<u>\$ 62,348</u>	<u>\$ 61,637</u>

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Assets, Liabilities and Deferred Inflows of Resources...continued

#### Asset Retirement Obligations

MMWEC has identified certain asset retirement obligations (AROs), which are primarily associated with the decommissioning of MMWEC's ownership interest in Millstone Unit 3 and Seabrook Station and Wyman. There were no additional liabilities incurred nor revisions to the estimated cash flows during 2014 and 2013. A reconciliation of the beginning and ending aggregate carrying amount of AROs for the years ended December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
	(In Thousands)	
Asset retirement obligations, beginning of year	\$ 131,287	\$ 125,037
Accretion expense	<u>6,563</u>	<u>6,250</u>
Asset retirement obligations, end of year	<u>\$ 137,850</u>	<u>\$ 131,287</u>

Accretion expense is included in other operating expenses in the Statements of Revenues, Expenses and Changes in Net Position. MMWEC's AROs, other than those associated with these assets, are not significant.

AROs are recorded at the present value of amounts expected to be paid and capitalized as part of the cost of the related tangible long-lived assets. In the absence of quoted market prices, MMWEC estimated the present value of AROs using techniques involving discounted cash flow analysis. Using such measurement techniques is dependent upon many subjective factors, including the selection of discount and cost escalation rates, identification of planned retirement activities and related cost estimates, and assertions of probability regarding the timing, nature and costs of such activities. Inputs and assumptions are based on the best information available at the time the estimates are made. However, estimates of future cash flows are highly uncertain by nature and may vary significantly from actual results.

#### Long-term Obligations

Long-term debt and other obligations are reported as noncurrent liabilities. Bond premiums are amortized over the life of the bonds using the effective interest method. Gains on prior refundings are amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance at year end for premiums is shown as an increase to long-term debt in the liability section of the accompanying Statements of Net Position. The balance at year-end for the gain on extinguishment of debt is shown as a deferred inflow accompanying Statements of Net Position.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Revenues and Expenses

#### Revenues

Operating revenues include electric sales for resale provided through MMWEC's bulk power supply program. Revenues consist, in significant part, of billings under the PSAs, PPAs, and other power arrangements. MMWEC also records service revenues by providing its Members with power supply planning and related services, which are billed pursuant to the MMWEC Service Agreement or the All-Requirements Bulk Power Sales Agreement. Revenues related to financing and other activities are reflected as non-operating. Non-exchange revenues consist of amounts incurred related to the development of the Stony Book Unit 3, which were initially deferred and subsequently impaired in 2014.

Revenues are comprised of the following:

	<u>2014</u>	<u>2013</u>
	(In Thousands)	
Electric sales for resale	\$ 314,805	\$ 305,053
Non-exchange	5,389	-
Service and other	<u>4,723</u>	<u>5,209</u>
	<u>\$ 324,917</u>	<u>\$ 310,262</u>

#### Taxes

Chapter 775 of the Massachusetts Acts of 1975 (the Act) specifically exempts MMWEC from paying any taxes upon its income, existence or franchise, and any revenues from the transfer or sale of bonds issued by MMWEC. Chapter 775 exempts real and personal property situated within the Commonwealth from property taxation. However, the Act requires MMWEC to pay an amount in lieu of property taxes with respect to MMWEC assets in Massachusetts to any governmental body authorized to levy local taxes in Massachusetts. MMWEC pays an amount in lieu of property taxes for its interest in the Stony Brook Peaking and Intermediate fossil-fuel burning plants located in Ludlow, Massachusetts.

MMWEC pays property taxes for its ownership interest in Millstone Unit 3 located in Waterford, Connecticut, Seabrook Station, which is mostly located in Seabrook, New Hampshire and Wyman Unit 4 fossil-fuel burning plant, which is located in Yarmouth, Maine. In addition, MMWEC pays taxes for electric generation related to Millstone Unit 3.

#### Restricted Funds

MMWEC's practice is to use restricted funds on hand before using unrestricted funds when an expense is incurred for purposes for which both restricted and unrestricted funds are available.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

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## 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS**...continued

### Net Position Classification

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - consists of capital assets, net of accumulated depreciation and costs recoverable from future billings, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted - consists of restricted assets, reduced by liabilities related to those assets, with constraints placed on their use either by a) external groups such as creditors (such as through debt covenants), contributors, or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation.

Unrestricted - consists of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the net investment in capital assets or restricted component of net position.

### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the financial statements. Estimates are used for, but not limited to, the selection of the useful lives of capital assets, provision necessary for contingent liabilities, accrued expenses, asset retirement obligations and other similar charges. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

### Comparative Data

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the Statements of Net Position and Statements of Revenues, Expenses, and Change in Net Position.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Future Pronouncements of Accounting Principles

In 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This new standard significantly modifies how costs and liabilities associated with pension benefits will be measured by governmental entities and, when adopted, will result in more comprehensively and comparably measured pension reporting. Through expanded notes and required supplementary disclosures, the guidance is intended to enhance the accountability of government sponsors of pension benefits and improve the transparency with which the costs associated with such benefits are reported.

The provisions of GASB Statement No. 68 will be adopted by MMWEC beginning in its fiscal year ending December 31, 2015. When the new standard is adopted, MMWEC may be required to report a net pension liability that will be significantly higher compared to the net pension obligation currently measured and reported in accordance with GASB Statement No. 27. The adoption of GASB Statement No. 68 will be recognized retroactively for all periods reported concurrently with fiscal year 2015. MMWEC will use regulatory accounting, as permitted under GASB Statement No. 62, to account for the adjustment that will be required to offset the increased pension liability recognized with the implementation of GASB Statement No. 68 pension accounting methods.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, was provided to address an issue regarding application of the transition provisions of GASB Statement No. 68. The amendment relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. MMWEC may be required to recognize a deferred outflow of resources in 2015 for any contributions made subsequent to the measurement date of the net pension liability as a result of this guidance.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 2. CASH AND INVESTMENTS

MMWEC'S cash and investments at December 31, 2014 and 2013 were comprised of the following:

Type of Investment or Cash Equivalent	2014		2013		Associated Risks
	Carrying Value	Bank & Investment Value	Carrying Value	Bank & Investment Value	
(In Thousands)					
Cash and Cash Equivalents:					
Government Money Market Funds	\$ 731	\$ 731	\$ 453	\$ 453	Credit Risk, Custodial Credit Risk, Interest Rate Risk
Bank Cash Management Accounts	-	-	75	75	Custodial Credit Risk
U.S. Treasury Bills	23,058	23,058	32,163	32,163	Credit Risk, Interest Rate Risk
U.S. Agency Bonds	-	-	151	151	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Agency Discount Notes	6,527	6,527	12,390	12,390	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
Municipal Bonds	-	-	2,406	2,406	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
Deposits	13,210	13,600	3,002	3,733	Custodial Credit Risk
Total Cash and Cash Equivalents	<u>43,526</u>	<u>43,916</u>	<u>50,640</u>	<u>51,371</u>	
Other Investments:					
U.S. Treasury Bills	21,432	21,432	7,114	7,114	Credit Risk, Interest Rate Risk
U.S. Treasury Notes	35,965	35,965	38,830	38,830	Credit Risk, Interest Rate Risk
U.S. Agency Bonds	92,423	92,423	98,308	98,308	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Agency Discount Notes	23,502	23,502	29,153	29,153	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
Municipal Bonds	<u>24,044</u>	<u>24,044</u>	<u>10,619</u>	<u>10,619</u>	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
Total Other Investments	<u>197,366</u>	<u>197,366</u>	<u>184,024</u>	<u>184,024</u>	
Totals	<u>\$ 240,892</u>	<u>\$ 241,282</u>	<u>\$ 234,664</u>	<u>\$ 235,395</u>	

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 2. CASH AND INVESTMENTS...continued

Investments are stated at fair value. Fair values are based on quoted market prices of identical or similar securities. No investments are reported at amortized cost. The difference between the bank and investment value and carrying value is due to outstanding checks and/or deposits in transit.

### Custodial Credit Risk

#### Deposits

Custodial credit risk is the risk that, in the event of a financial institution failure, MMWEC's deposits may not be returned to MMWEC. The aggregate amount of noninterest bearing and interest bearing accounts are insured by the FDIC up to at least \$250,000. There was \$13.3 million and \$3.4 million uninsured and uncollateralized bank balances subject to custodial credit risk at December 31, 2014 and 2013, respectively.

MMWEC's investment policy does not address custodial credit risk.

#### Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MMWEC will not be able to recover the value of its investment or collateral securities that are in the possession of the custodians.

At December 31, 2014 and 2013, all investments were held in MMWEC's name by custodians consisting of the Bond Fund Trustee (as defined in the GBR), or MMWEC's depository bank.

### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of December 31, 2014, MMWEC's investments were rated as follows:

<u>Investment Fair Value</u> (In Thousands)	<u>Standard &amp; Poor's</u>	<u>Fitch Ratings</u>	<u>Moody's Investors Service</u>
\$ 202,800	AA+	AAA	Aaa
8,469	AAA	AAA	Aa1
6,040	AA-	AA	Aa3
185	AA-	AA-	Aa3
2,000	AAA	Not rated	Aa1
1,109	AA	Not rated	Aa2
508	AA+	Not rated	Aa2
221	Not rated	Not rated	Aaa
6,350	Not rated	Not rated	Not rated

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2014 and 2013

## 2. CASH AND INVESTMENTS...continued

### Credit Risk...continued

As of December 31, 2013, MMWEC's investments were rated as follows:

<u>Investment Fair Value</u> (In Thousands)	<u>Standard &amp; Poor's</u>	<u>Fitch Ratings</u>	<u>Moody's Investors Service</u>
\$ 219,597	AA+	AAA	Aaa
5,997	AA-	AA	Aa3
351	AA+	Not rated	Aa2
5,642	Not rated	Not rated	Not rated

MMWEC's investment policy addresses credit risk by defining allowable investments and a maximum allocation to each asset class.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of MMWEC's investment in a single issuer.

At December 31, 2014 and 2013, MMWEC's investment portfolio was concentrated as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Portfolio</u>	
		<u>2014</u>	<u>2013</u>
Federal National Mortgage Assn.	U.S. Agency Securities	16.59%	26.52%
Federal Farm Credit Bank	U.S. Agency Securities	8.18%	8.50%
Federal Home Loan Bank	U.S. Agency Securities	10.43%	12.89%
Federal Home Loan Mortgage	U.S. Agency Securities	15.39%	11.56%
Municipal Bond Anticipation Notes	Municipal Bonds	9.98%	5.54%

MMWEC's investment policy minimizes concentration of credit risk in a single issuer by diversification of investment types using the following maximum limits, which are established for MMWEC's total portfolio at December 31, 2014 and 2013, as follows:

Repurchase Agreements	10%
Certificates of Deposits	10%
U.S. Treasury Securities	100%
U.S. Agencies	65%
Municipal Securities	20%

Deviation from the approved portfolio limits requires written authorization and approval from the MMWEC Board of Directors.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2014 and 2013

## 2. CASH AND INVESTMENTS...continued

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

At December 31, 2014, the maturities of MMWEC's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity In Years</u>		
		<u>Less than 1</u>	<u>1 – 5</u>	<u>Over 5</u>
		(In Thousands)		
U.S. Treasury Securities	\$ 80,455	\$ 51,180	\$ 26,954	\$ 2,321
U.S. Agency Securities	122,452	30,063	88,620	3,769
Municipal Bonds	24,044	6,118	13,627	4,299
Money Market Funds	731	731	-	-
Totals	<u>\$ 227,682</u>	<u>\$ 88,092</u>	<u>\$ 129,201</u>	<u>\$ 10,389</u>

At December 31, 2013, the maturities of MMWEC's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity In Years</u>		
		<u>Less than 1</u>	<u>1 – 5</u>	<u>Over 5</u>
		(In Thousands)		
U.S. Treasury Securities	\$ 78,107	\$ 43,713	\$ 31,881	\$ 2,513
U.S. Agency Securities	140,002	41,594	84,942	13,466
Municipal Bonds	13,025	5,642	7,383	-
Money Market Funds	453	453	-	-
Totals	<u>\$ 231,587</u>	<u>\$ 91,402</u>	<u>\$ 124,206</u>	<u>\$ 15,979</u>

MMWEC's investment policy specifies that MMWEC shall seek to maximize the return on investments consistent with requirements for safety, minimization of risk and liquidity. Monies will not be invested for terms in excess of the projected use of funds nor exceed an average life of ten years.

For the years ended December 31, 2014 and 2013, net unrealized gains on investments totaled \$6.6 million and \$5.1 million, respectively. The net unrealized gains are excluded from operating revenue and are reported within investment income on the Statements of Revenues, Expenses and Changes in Net Position.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 2. CASH AND INVESTMENTS...continued

### Interest Rate Risk...continued

During the years ended December 31, 2014 and 2013, investment income consisted of interest income, realized gains/(losses) and unrealized gains/(losses) as follows:

	<u>2014</u>	<u>2013</u>
	(In Thousands)	
Interest income:		
Restricted funds	\$ 1,944	\$ 1,880
Cash and temporary investments	-	224
Decommissioning funds	<u>2,004</u>	<u>1,579</u>
Total interest income	<u>3,948</u>	<u>3,683</u>
Realized gains (losses):		
Restricted funds	87	101
Cash and temporary investments	-	40
Decommissioning funds	<u>(5)</u>	<u>22</u>
Net realized gains	<u>82</u>	<u>163</u>
Unrealized gains (losses):		
Restricted funds	662	(2,737)
Cash and temporary investments	-	(593)
Decommissioning funds	<u>5,949</u>	<u>8,383</u>
Net unrealized gains	<u>6,611</u>	<u>5,053</u>
Total investment income	<u>\$ 10,641</u>	<u>\$ 8,899</u>

## 3. SPECIAL FUNDS/RESTRICTED ASSETS

Mandatory segregations of assets are presented as special funds. Such segregations are required by bond agreements and other external parties.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

### 3. SPECIAL FUNDS/RESTRICTED ASSETS...continued

Numerous special funds are required by the GBR pursuant to which MMWEC issued its long-term debt. The special funds are invested in accordance with the provisions of the GBR. Certain working capital and other funds are not mandated by the GBR; however, they are invested in accordance with the provisions of the investment policy under the GBR. The restricted net position is less than the total restricted funds shown below as the advances collected from participants are in excess of the related restricted funds. The composition of special funds is as follows:

<u>Fund</u>	<u>2014</u>	<u>2013</u>
	(In Thousands)	
Bond Fund Interest, Principal and Retirement Accounts to pay principal and interest on bonds	\$ 30,564	\$ 33,579
Bond Fund Reserve Account set at the maximum annual interest obligation to make up any deficiencies in the Bond Fund Interest, Principal and Retirement Account	37,983	38,643
Reserve and Contingency Fund to make up deficiencies in the Bond Funds and pay for repairs and extraordinary costs	20,446	23,746
Revenue Fund to receive revenues and disburse them to the Bond Funds and other funds	48,972	56,078
Working Capital Funds to maintain funds to cover operating expenses	23,675	22,111
Capital Reserve Fund to pay Nuclear Capital Expenditures	7,906	5,832
Funds obtained from terminated power purchase contract	9,198	9,226
Other Funds for indemnification or purchase of insurance, funds contributed for an agreement where +MMWEC acts as agent and long-term investments for the Nuclear Mix No. 1, Intermediate, Peaking and Wyman Projects and fuel and pooled loan lines of credit	<u>58,505</u>	<u>34,320</u>
Restricted Special Funds and Interest Receivable	237,249	223,535
Less - current portion	(71,712)	(53,784)
Interest receivable	<u>(446)</u>	<u>(485)</u>
Total Restricted Special Funds, Long-Term	<u>\$ 165,091</u>	<u>\$ 169,266</u>

For financial reporting purposes, interest receivable has been disclosed separately on the Statements of Net Position.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2014 and 2013 is as follows:

	<u>Balance</u> <u>1/1/2014</u>	<u>Additions/</u> <u>Reclassi-</u> <u>fications</u>	<u>Deletions/</u> <u>Reclassi-</u> <u>fications</u>	<u>Balance</u> <u>12/31/2014</u>
	(In Thousands)			
Capital assets not being depreciated:				
Land	\$ 3,649	\$ -	\$ -	\$ 3,649
Capital assets being depreciated:				
Plant in service	1,383,149	10,507	(976)	1,392,680
Less - accumulated depreciation	<u>831,164</u>	<u>16,588</u>	<u>(869)</u>	<u>846,883</u>
Net plant	<u>\$ 555,634</u>	<u>\$ (6,081)</u>	<u>\$ (107)</u>	<u>\$ 549,446</u>

	<u>Balance</u> <u>1/1/2013</u>	<u>Additions/</u> <u>Reclassi-</u> <u>fications</u>	<u>Deletions/</u> <u>Reclassi-</u> <u>fications</u>	<u>Balance</u> <u>12/31/2013</u>
	(In Thousands)			
Capital assets not being depreciated:				
Land	\$ 3,649	\$ -	\$ -	\$ 3,649
Capital assets being depreciated:				
Plant in service	1,373,557	9,931	(339)	1,383,149
Less - accumulated depreciation	<u>815,053</u>	<u>16,282</u>	<u>(171)</u>	<u>831,164</u>
Net plant	<u>\$ 562,153</u>	<u>\$ (6,351)</u>	<u>\$ (168)</u>	<u>\$ 555,634</u>

A summary of changes in nuclear fuel for 2014 and 2013 is as follows:

<u>Year</u>	<u>Balance at</u> <u>January 1,</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amortization</u>	<u>Balance at</u> <u>December 31,</u>
	(In Thousands)				
2014	<u>\$ 26,840</u>	<u>\$ 10,861</u>	<u>\$ (3)</u>	<u>\$ (10,958)</u>	<u>\$ 26,740</u>
2013	<u>\$ 29,258</u>	<u>\$ 11,020</u>	<u>\$ (1,389)</u>	<u>\$ (12,049)</u>	<u>\$ 26,840</u>

## 5. SHORT-TERM DEBT

MMWEC maintains a \$25 million loan facility which allows for borrowings by MMWEC to finance, temporarily, certain power purchases made by MMWEC for resale to the Members and other municipal systems under various power contracts between MMWEC and the municipal systems (Power Contracts). Borrowings attributable to a Power Contract under this loan facility are secured by the following: a lien on and/or security interest in all proceeds of any loans prior to disbursement by MMWEC, all amounts payable to MMWEC by the Power Contract Participants under the Power Contract, and earnings from MMWEC's temporary investments of such proceeds and amounts payable. The amount payable by a Power Contract Participant with respect to a Power Contract is limited to the amount allocated to that Participant.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

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## 5. SHORT-TERM DEBT...continued

Borrowings outstanding under the loan facility were \$714,000 and \$944,000 as of December 31, 2014 and 2013, respectively. During 2014 and 2013, the maximum outstanding balance under the line of credit was \$3.8 million and \$1.4 million, respectively. The interest rate for the borrowings under this line of credit after December 31, 2014 is at MMWEC's election prior to the last day of any interest period of either the LIBOR rate plus 1.50% per annum, or at a variable rate selected by MMWEC, which is either the prime rate or the BBA LIBOR Daily Floating Rate plus 1.50%. At December 31, 2014, the outstanding borrowings are at 1.669% (LIBOR plus 1.50%). In addition, a commitment fee of .250% per annum is charged on the unused portion of the loan facility based on the average daily principal amount of the borrowing outstanding. This loan facility expires April 24, 2015. MMWEC has historically renewed this line of credit annually.

MMWEC also maintains a \$15 million revolving line of credit for the purpose of financing purchases of fuel oil and selling such fuel oil from the Stony Brook Fuel Oil Project to the Intermediate and Peaking Projects. In 2014, the revolving line of credit was amended to \$20 million, until the earlier of June 30, 2015 or the line of credit expiration date. Borrowings under this line of credit are secured by the following: a lien on and/or security interest in all proceeds of any borrowings prior to disbursement by MMWEC, all amounts payable by the Intermediate and Peaking Projects to the Stony Brook Fuel Oil Project for fuel oil, and all earnings from MMWEC's investments of any such proceeds and amounts payable to the bank. Borrowings outstanding under the loan facility were \$15.0 million and \$4.1 million as of December 31, 2014 and 2013 respectively. During 2014 and 2013, the maximum outstanding balance under the line of credit was \$15 million and \$4.1 million respectively. The interest rate for the borrowings under this line of credit after December 31, 2014 is at MMWEC's election prior to the last day of any interest period of either the LIBOR rate plus 1.50% per annum, or at a variable rate selected by MMWEC, which is either the prime rate or the BBA LIBOR Daily Floating Rate plus 1.50%. If no such selection is made, the variable rate is in effect. At December 31, 2014, the outstanding borrowings are at 1.669% (LIBOR plus 1.50%). In addition, a commitment fee of .250% per annum is charged on the unused portion of the loan facility based on the average daily principal amount of the borrowing outstanding. This line of credit expires April 24, 2015. MMWEC has historically renewed this line of credit annually.

In 2014, MMWEC established a \$50 million short term revolving facility for the purpose of borrowing funds to either make loans to Members to finance the acquisition of various utility assets, or to purchase various utility assets to be leased to Members. At December 31, 2014, the outstanding balance under this line of credit was \$9.8 million, which was also the maximum outstanding balance during 2014. Subject to certain tax and default events, the interest rate for the borrowings under the line of credit is set at a rate per annum equal to the sum of (i) 70% of the LIBOR daily floating rate plus (ii) 1.15%. At December 31, 2014, the outstanding borrowings are at 1.27%. In addition, a commitment fee of .250% per annum is charged on the unused portion of the revolving loan facility based on the average daily principal amount of the borrowing outstanding. On January 23, 2015, this loan facility was amended to \$30 million. This loan facility expires December 16, 2015.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements  
Years Ended December 31, 2014 and 2013

## 5. SHORT-TERM DEBT...continued

The following short-term debt activity occurred in 2014 and 2013:

<u>Year</u>	<u>Balance</u> <u>1/1</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>12/31</u>
		(In Thousands)		
2014	\$ 5,089	\$ 33,485	\$ (13,054)	\$ 25,520
2013	\$ 862	\$ 5,705	\$ (1,478)	\$ 5,089

## 6. LONG-TERM DEBT

### General Bond Resolution and Power Supply System Revenue Bonds

MMWEC issued separate issues of Bonds for each Project, which are payable solely from, and secured solely by, the revenues derived from the Project to which such issue relates, plus available funds pledged under the GBR for the Bonds of such issues. The revenues derived from each Project are used solely to provide for the payment of the Bonds of any Bond issue relating to such Project, and to pay MMWEC's cost of owning and operating such Project, and are not used to provide for the payment of the Bonds of any Bond issue relating to any other Project.

Pursuant to all of the Project PSAs, each Project Participant is obligated to pay its share of the actual costs relating to the Project's generating units, and its share of all principal, premium and interest associated with the Bonds for the Projects in which the Project Participant has a PSA, and for which the Project Participant is obligated to set rates at levels sufficient to pay such costs. These obligations are not contingent upon the operational status of the Project's units.

MMWEC's issuance of debt, other than obligations with a maturity of less than one year, requires authorization by the Massachusetts Department of Public Utilities.

### Series 2012A Revenue Bonds

Interest on the Series 2012A is payable in semi-annual installments beginning July 1, 2012 and on January 1 and July 1 for each year thereafter. The Series 2012A Bonds bear interest at a fixed rate ranging from 3.0% to 5.0% for the various issues.

### Series 2011 Revenue Bonds

Interest on the Series 2011 is payable in semi-annual installments on January 1 and July 1. The Series 2011 Bonds bear interest at a fixed rate ranging from 3.0% to 5.0% for the various issues.

### Series One Revenue Bonds

The Series One Bonds of each issue are subject to redemption at the option of MMWEC, in whole or in part, at a redemption price of 100% of the principal amount.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 6. LONG-TERM DEBT...continued

### General Bond Resolution and Power Supply System Revenue Bonds...continued

#### Power Supply System Revenue Bonds

At December 31, 2014 and 2013, bonds payable on the accompanying Statement of Net Position consist of serial and variable-rate bonds dated November 2001, June 2011 and January 2012 and are comprised of the following issues:

<u>Issue</u>	<u>Net Interest Cost</u>	<u>December 31,</u>	
		<u>2014</u>	<u>2013</u>
		(In Thousands)	
Nuclear Project No. 4, Series 2012A (Original Issue \$35,275)	0.9%	\$ 4,920	\$ 17,840
Nuclear Project No. 5, Series 2012A (Original Issue \$11,270)	1.0%	2,810	6,300
Project No. 6, Series 2012A (Original Issue \$104,570)	1.2%	44,795	70,160
Nuclear Mix No. 1, Series 2011(Original Issue \$3,965)	1.9%	-	2,215
Nuclear Project No. 3, Series 2011 (Original Issue \$31,895)	2.4%	18,760	25,985
Nuclear Project No. 4, Series 2011 (Original Issue \$22,065)	2.6%	22,065	22,065
Nuclear Project No. 5, Series 2011 (Original Issue \$2,580)	2.7%	2,580	2,580
Project No. 6, Series 2011 (Original Issue \$36,180)	3.1%	36,180	36,180
Nuclear Mix No. 1, Series One (Original Issue \$11,350)	Variable	-	2,080
Nuclear Project No. 3, Series One (Original Issue \$62,975)	Variable	13,900	18,775
Nuclear Project No. 4, Series One (Original Issue \$35,325)	Variable	5,275	5,275
Nuclear Project No. 5, Series One (Original Issue \$9,025)	Variable	4,475	4,475
Project No. 6, Series One (Original Issue \$52,100)	Variable	<u>11,350</u>	<u>11,350</u>
Long-term debt		167,110	225,280
Unamortized premium		4,938	9,651
Less: Current maturities, including unamortized premiums		<u>(55,464)</u>	<u>(59,152)</u>
Total Long-Term Debt, net of premiums and current maturities		<u>\$ 116,584</u>	<u>\$ 175,779</u>

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 6. LONG-TERM DEBT...continued

### General Bond Resolution...continued

#### Power Supply System Revenue Bonds...continued

The estimated fair values of MMWEC's debt, based on similar issuances with similar remaining maturities, are as follows:

<u>Issue</u>	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
	(In Thousands)	
Nuclear Project No. 4, Series 2012A	\$ 5,035	\$ 18,481
Nuclear Project No. 5, Series 2012A	2,876	6,559
Project No. 6, Series 2012A	46,547	74,359
Nuclear Mix No. 1, Series 2011	-	2,256
Nuclear Project No. 3, Series 2011	19,812	27,923
Nuclear Project No. 4, Series 2011	23,396	24,169
Nuclear Project No. 5, Series 2011	2,764	2,839
Project No. 6, Series 2011	39,906	40,959
Nuclear Mix No. 1, Series One	-	1,986
Nuclear Project No. 3, Series One	13,900	17,836
Nuclear Project No. 4, Series One	5,275	5,275
Nuclear Project No. 5, Series One	4,475	4,117
Project No. 6, Series One	<u>11,350</u>	<u>9,818</u>
Total Long-Term Debt at estimated fair value	<u>\$ 175,336</u>	<u>\$ 236,577</u>

The following is a summary of total estimated debt service requirements for bonds outstanding at December 31, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(In Thousands)		
2015	\$ 54,600	\$ 8,050	\$ 62,650
2016	56,715	5,355	62,070
2017	45,115	2,626	47,741
2018	3,570	514	4,084
2019	<u>7,110</u>	<u>346</u>	<u>7,456</u>
Totals	<u>\$ 167,110</u>	<u>\$ 16,891</u>	<u>\$ 184,001</u>

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 6. LONG-TERM DEBT...continued

### General Bond Resolution...continued

#### Power Supply System Revenue Bonds...continued

Future interest requirements on variable rate debt were calculated using 4.5% per annum.

The interest rates on the Series One variable rate Bonds may be converted, at the option of MMWEC, to a daily, weekly, flexible, term or fixed mode. The realized interest rate on the Series One variable rate Bonds during 2014 and 2013 was .11% and .12%, respectively.

Financial and credit market disruption in 2008 resulted in failed auctions for MMWEC Series One variable rate debt. MMWEC Series One variable rate bonds have subsequently priced at the Maximum Auction Rate. The Maximum Auction Rate means, as of any Auction Date, the product of the Index multiplied by the Auction Mode Multiple. The index on any Auction Date with respect to the Series One Bonds of a particular Issue in any Auction Period of 35 days or less will be the Seven-Day "AA" Composite Commercial Paper Rate on such date. The Auction Mode Multiple, means, as of any Auction Date and with respect to the Series One Bonds of a particular Issue, the Percentage of Index determined based on the prevailing Rating of the Series One Bonds.

At December 31, 2014, the following are the detail terms of all variable rate debt:

<u>Project</u>	<u>2014 Average Auction Rate</u>	<u>Auction Mode</u>
Nuclear Project No. 3, Series One	.11%	Weekly
Nuclear Project No. 4, Series One	.11%	Daily
Nuclear Project No. 5, Series One	.11%	Weekly
Project No. 6, Series One	.11%	Daily

The following summarizes changes in long-term debt, net of premiums, for 2014 and 2013:

<u>Year</u>	<u>Balance January 1,</u>	<u>Additions</u>	<u>Payments</u>	<u>Amortization of Premium</u>	<u>Balance December 31,</u>
2014	\$ <u>234,931</u>	\$ <u>-</u>	\$ <u>(58,170)</u>	\$ <u>(4,713)</u>	\$ <u>172,048</u>
2013	\$ <u>300,367</u>	\$ <u>-</u>	\$ <u>(58,725)</u>	\$ <u>(6,711)</u>	\$ <u>234,931</u>

Interest paid for long-term debt during 2014 and 2013 was \$9.4 million and \$11.9 million, respectively.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 7. AMOUNTS PAYABLE IN THE FUTURE

Differences between amounts billed to Members and Project Participants and revenues and expenses recognized are included in amounts payable in the future under the terms of the power sales agreements. These differences are made up of debt service collections, including amounts collected for the Reserve & Contingency fund, capital expenditures funded through reserve billings and unbilled operating and non-operating expenses and revenues. A summary of the items included in amounts payable in the future under the terms of the power sales contract for the years ended December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance - January 1	\$ 451,916	\$ 388,056
Unbilled operating and nonoperating expenses and revenues:		
Depreciation/amortization	(15,992)	(15,517)
Accretion	(6,564)	(6,251)
Change in net pension obligation	912	555
Amortization of bond premiums	4,717	6,712
Inventory market adjustment	(11,044)	-
Realized and unrealized gains (losses) and interest income	8,622	6,609
Capital funded through reserve billings	9,751	11,708
Decommissioning fund contributions, net of fees	1,342	1,596
Debt service collections:		
Billed principal on long-term debt	<u>55,930</u>	<u>58,448</u>
Ending Balance - December 31	<u>\$ 499,590</u>	<u>\$ 451,916</u>

## 8. LABOR AGREEMENTS

At December 31, 2014, approximately 28% of MMWEC's 85 employees work under collective bargaining agreements, whose existing labor agreements expire on December 31, 2018. At December 31, 2013, approximately 28% of MMWEC's 89 employees worked under the collective bargaining agreements.

## 9. POOLED LOAN PROGRAM

In 2014, MMWEC began a Pooled Loan Program which enables MMWEC to borrow funds to either make loans to Members that would be used by the utility to finance the acquisition of various utility assets, or purchase and own various utility assets that would be leased to member utilities. The Program utilizes a short term revolving loan facility to provide initial funding of the loans and leases, as described in Note 5.

MMWEC issues Promissory Notes to Members who borrow funds under this program and the interest and any fees associated with the Notes are payable solely by each Member who utilizes the program funds for their portion of the funds used.

As of December 31, 2014, loans receivable of \$2.9 million relating to one Member are included in accounts receivable on the accompanying Statement of Net Position. On March 20, 2015, a second Member joined the program with related loans receivable of \$6.3 million.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 10. BENEFIT PLANS

The Massachusetts Municipal Wholesale Electric Company Pension Plans (Plans) are two single-employer, defined benefit pension plans administered by MMWEC. One plan covers union employees (union plan) and the other plan covers non-union employees (administration plan). All full-time active administration employees hired before December 1, 2006, and all full-time active union employees hired before January 1, 2008 are covered by their respective plans. The Plans provide a defined benefit to employees based on years of service and average earnings. The Plans provide retirement, disability, and death benefits to plan members and beneficiaries. Administrative or union employees hired after these dates qualify for a Defined Contribution plan as described below. Certain other financial information concerning the plans, in addition to the information contained here, is provided annually to plan participants. No standalone financial statements are issued for the Plans.

All contributions to the plans are authorized by the Board of Directors and made by MMWEC. Since 2008, MMWEC has made additional contributions in excess of the required contributions with the goal of establishing a funding ratio of approximately 100%.

The annual pension cost and net pension asset for both plans as of and for the years ended December 31, 2014 and 2013 are as follows:

	Administration Plan		Union Plan	
	2014	2013	2014	2013
	(In Thousands)			
Annual required contribution	\$ 48	\$ 290	\$ 65	\$ 173
Interest on net pension obligation	(568)	(531)	(135)	(132)
Adjustment to annual required contribution	654	612	155	152
Annual pension cost	134	371	85	193
Contributions made	(876)	(895)	(255)	(223)
Increase in net pension asset	(742)	(524)	(170)	(30)
Net pension asset beginning of year	(8,111)	(7,587)	(1,921)	(1,891)
Net pension asset end of year	<u>\$ (8,853)</u>	<u>\$ (8,111)</u>	<u>\$ (2,091)</u>	<u>\$ (1,921)</u>

The net pension asset is included in other noncurrent charges on the Statements of Net Position.

The annual required contribution for the current year was determined as part of the January 1, 2014 actuarial valuation using the entry age normal with frozen initial liability cost method. The actuarial assumptions included a 7.0% investment rate of return and a 3% projected salary increase. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a thirty year open basis. The remaining amortization period at December 31, 2014 was 30 years.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 10. BENEFIT PLANS...continued

Three-year trend information for MMWEC's pension cost and contributions is as follows:

	Annual Pension Cost (APC)	Employer Contribution	Percentage of APC Contributed	Net Pension Asset
	(In Thousands)			
<u>Administration Plan</u>				
2012	\$ 383	\$ 891	232.6%	\$ 7,587
2013	371	895	241.2%	8,111
2014	134	876	653.7%	8,853
<u>Union Plan</u>				
2012	\$ 172	\$ 226	131.4%	\$ 1,891
2013	193	223	115.5%	1,921
2014	85	255	300.0%	2,091

All MMWEC employees are eligible to make a voluntary contribution in accordance with prescribed annual dollar limits to a deferred compensation plan sponsored by the Commonwealth of Massachusetts. The deferred compensation plan is maintained pursuant to Section 457(b) of the Internal Revenue Code and the General Laws of Massachusetts.

A schedule of funding progress for the Plans is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
<b>Administrative Plan</b>						
1/1/2012	\$ 16,390	\$ 16,738	\$ 348	97.9%	\$ 3,248	10.7%
1/1/2013	18,451	19,302	851	95.6%	3,042	28.0%
1/1/2014	22,675	20,516	(2,159)	110.5%	3,104	N/A
<b>Union Plan</b>						
1/1/2012	\$ 5,033	\$ 5,026	\$ (7)	100.1%	\$ 1,469	-0.5%
1/1/2013	5,072	5,414	342	93.7%	1,343	25.5%
1/1/2014	5,597	5,223	(374)	107.2%	1,210	-30.9%

The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Financial Statements, presents additional multiyear trend information about whether the actuarial value of assets of each plan are increasing or decreasing over time relative to the actuarial accrued liability for benefits.



# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 12. RELATED PARTY TRANSACTIONS

MMWEC, together with Massachusetts municipal utility systems, has formed six cooperatives under Massachusetts General Laws to conduct business for the mutual benefit of the members of the cooperatives. The following is a summary of each Cooperative and the associated Cooperative members and purpose for each Cooperative.

<u>Cooperative Name</u>	<u>Other Cooperative Members</u>	<u>Year Founded</u>	<u>Cooperative Purpose</u>
Southwest Cooperative Corporation	Westfield Gas & Electric Light Department (WG&E)	2006	Financing, constructing and operating a natural gas pipeline to provide natural gas transportation service to WG&E
Massachusetts Municipal Light Department Wind Energy Cooperative Corporation	Princeton Municipal Light Department and Templeton Municipal Light Department	2007	Financing, owning, constructing and operating wind generation facilities located in the town of Princeton & Templeton
Berkshire Wind Power Cooperative Corporation	Fourteen municipal light departments	2008	Financing, owning, constructing and operating wind turbines and ancillary equipment located in Hancock and Lanesborough, Massachusetts
Massachusetts Municipal Light Department Solar Energy Cooperative Corporation	West Boylston Municipal Light Plant	2008	Financing, owning, constructing and operating a solar energy production facility in West Boylston, Massachusetts
Wakefield Municipal Cooperative Corporation	Wakefield Municipal Gas & Light Department	2012	Financing, constructing, purchasing, owning, leasing, maintaining and operating real and personal property located in Wakefield
Massachusetts Clean Energy Cooperative Corporation	Holyoke Gas & Electric Department (HG&E)	2013	Purchasing, acquiring, generating, transforming, distributing, selling, reselling, supplying and providing energy, telecommunications, or any related products or service and financing, owning, leasing or otherwise acquiring, holding, using and improving interests therein for the benefit of HG&E

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 12. RELATED PARTY TRANSACTIONS...continued

Pursuant to contracts, MMWEC provides accounting, financial, power supply and administrative services to all six of these cooperatives. As such, although MMWEC is a member of each cooperative and has one representative on the Board of each cooperative, MMWEC has no rights to the entities' assets nor has management oversight of the six cooperatives. Thus, the entities are not required to be reported as component units of MMWEC under rules established GASB 61, *The Financial Reporting Entity*.

MMWEC billed a total of \$300,000 and \$500,000 for MMWEC services and outside professional services during 2014 and 2013, respectively, for all cooperatives. At December 31, 2014 and 2013, \$249,000 and \$158,000 was due to MMWEC from all cooperatives. There were no amounts due to the Cooperatives from MMWEC at December 31, 2014 or 2013.

## 13. CONTRACTS AND COMMITMENTS

### Long-Term Contracts – Cooperatives

MMWEC has contracts with each Cooperative described in Note 12, whereby MMWEC is to serve as the Cooperative's agent in the sale of power, transportation or lease to the municipal utility systems. The sale agreements between MMWEC and the Cooperatives are offset in each case by a purchase agreement between the Cooperative and the municipal utility systems, the revenues and expenses associated with these agreements are not included in the accompanying Statements of Revenues, Expenses and Changes in Net Position and are disclosed below.

<u>Contract</u>	<u>Purchases and Sales for the</u>	
	<u>Year Ended</u>	
	<u>2014</u>	<u>2013</u>
	<u>(In Thousands)</u>	
Transportation Agreement between MMWEC and the Southwest Cooperative Corporation	\$ 201	\$ 417
Power Sales Agreement between MMWEC and the Massachusetts Municipal Light Department Wind Energy Cooperative Corporation	1,220	1,195
Power Sales Agreement between MMWEC and the Berkshire Wind Power Cooperative Corporation	6,834	6,935
Power Sales Agreement between MMWEC and the Massachusetts Municipal Light Department Solar Energy Cooperative Corporation	47	189
Lease Agreement between MMWEC and the Wakefield Municipal Cooperative Corporation	720	616
Power Sales Agreement between MMWEC and the Massachusetts Clean Energy Cooperative Corporation	1,583	1,782
Total	<u>\$ 10,605</u>	<u>\$ 11,134</u>

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

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## 13. **CONTRACTS AND COMMITMENTS**...continued

### Long-Term Contracts – Power Purchases

MMWEC entered into agreements for participation in the transmission interconnection between New England utilities and the Hydro-Quebec electric system near Sherbrooke, Quebec (Phase I), which began commercial operation in October 1986. The New England portion of the interconnection was constructed at a total cost of approximately \$140 million, of which 3.65% (or initially \$5 million) was MMWEC's share to support Phase I. In 1990, MMWEC's participation share in Phase I changed to 3.45% (or initially \$4.8 million). MMWEC also entered into similar agreements for participation in the interconnection between New England utilities and the Hydro-Quebec electric system. This agreement is for the expansion of the Hydro-Quebec interconnection (Phase II), which went into commercial operation in November 1990. MMWEC's Phase II equity investment is approximately 0.6% (or initially \$3.3 million). MMWEC has corresponding agreements with certain of its Members and another utility to recover MMWEC's share of the costs associated with the Phase II interconnection. Beginning in 1995, capital refunds from Phase II have been received, reducing MMWEC's total equity investment. The remaining equity balance of \$34,000 and \$35,000 at December 31, 2014 and 2013, respectively, is included in other noncurrent charges on the Statement of Net Position.

On a limited basis, MMWEC may enter into agreements providing financial assurance to third parties. At December 31, 2014 and 2013, outstanding guarantees consisted of \$0 and \$607,000, respectively, related to its equity interest in the Hydro-Quebec transmission companies. Management believes that the likelihood MMWEC would be required to perform or otherwise incur any significant losses associated with this guarantee is remote.

In 2013 and 2014, MMWEC entered into a twenty-year power purchase agreement with Clement Dam Hydroelectric LLC, Franklin Power LLC, Greggs Falls Hydroelectric Associates LP, Pembroke Hydro Associates LP and HDI Associates I Partnership for 100% of the output of five hydroelectric generating facilities in New Hampshire with a combined nominal rating at 11.53 MW, effective January 1, 2014. This resource has been subscribed to by thirteen Members.

Also, in 2013, MMWEC entered into a twenty-five year power purchase agreement with Hancock Wind LLC for 73.5% of the output of a wind generating facility in Hancock County, Maine (Hancock Facility) with a nominal rating at 51 MW. The Hancock Facility is expected to achieve commercial operations in 2016. This resource has been subscribed to by seventeen Members.

### Claims and Judgments

During 2012 and 2011, MMWEC received invoices totaling \$0.6 million and \$3.5 million, respectively, (cumulatively \$4.1 million), from North Atlantic Energy Services Corporation (NAESCO) for costs allegedly related to pensions as associated with NAESCO's former employees at Seabrook. The calculation and basis of those invoices were unclear to MMWEC. MMWEC conveyed its questions to NAESCO. On May 29, 2013, NAESCO (and another Northeast Utilities subsidiary) filed a demand for arbitration against MMWEC seeking payment of those invoices and other pension related costs not yet billed, plus interest, attorneys' fees and arbitration costs. On January 6, 2015, the Arbitrator ruled that the amount of pensions billed to MMWEC was incorrect as it was based on contribution cost and that MMWEC did owe NAESCO Seabrook-related pension expense beginning in 1993 to date, with interest beginning in 2014. The amount of the Seabrook-related pension expense owed to NAESCO is still being determined and MMWEC estimates the amount will be in the range of \$1.3 million to \$2.2 million. MMWEC has recorded a liability of \$1.3 million for these expenses, which is included in accrued expenses at December 31, 2014.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

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## 13. **CONTRACTS AND COMMITMENTS**...continued

### Claims and Judgments...continued

In 2009, seven municipal light departments that are Participants under PSAs with MMWEC (Claimants) submitted a demand for arbitration of a dispute relating to charges under the PSAs. MMWEC and the Claimants executed a settlement agreement dated as of July 18, 2013, which provided, in part, that, with the exception of the charges contained in the Monthly Power Costs (as defined in the PSAs), neither party shall pay damages, attorneys' fees or costs to the other party as part of or resulting from the dispute. On August 13, 2013, MMWEC and the Claimants executed and forwarded to the arbitrator a stipulation dismissal of the action with prejudice.

In 2013, a complaint was filed by the owner of property for which MMWEC had recorded an Order of Taking in 2012 seeking an assessment of damages in connection with taking. The assessment of damages of \$220,000 was received and paid to the property owner in February 2015 and is collectible under MMWEC's service agreement with the cooperative for which MMWEC recorded the Order of Taking.

MMWEC is involved in various legal actions. Management believes that the ultimate resolution of litigation in which MMWEC is currently involved will not have a material, adverse effect on the financial position of MMWEC.

## 14. **RISK MANAGEMENT**

MMWEC is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles. There were no settled claims in any of the past three years. There has been no material decrease in insurance coverage of MMWEC in the past year.

### Nuclear Insurance

The Price-Anderson Act (the Act), a federal statute, mandates an industry-wide program of liability insurance for nuclear facilities. The \$375 million primary layer of insurance for the liability has been purchased in the commercial insurance market. As adjusted for inflation in 2008, secondary coverage is to be provided through an assessment on each of the currently licensed nuclear units in the United States of approximately \$127 million, not to exceed \$19 million per incident in any year. The assessment is to be adjusted for inflation every five years. Under the Act, MMWEC's ownership interests in Millstone Unit 3 and Seabrook Station could result in a maximum assessment of approximately \$6.1 million and \$14.8 million, respectively, limited to payments of \$0.9 million and \$2.3 million per incident per year, respectively. Originally enacted in 1957, the Act has been renewed several times and in July 2005, Congress extended the Act until the end of 2025, as part of the Energy Policy Act of 2005.

Insurance has been purchased from Nuclear Electric Insurance Limited (NEIL) to cover the cost of repair, replacement, decontamination or premature decommissioning of utility property resulting from insured occurrences at Millstone Unit 3 and Seabrook Station. The NEIL insurance is subject to retroactive assessments if losses exceed the accumulated funds available to the insurer. MMWEC is potentially subject to a \$0.9 million and \$2.3 million assessment for its participation in Millstone Unit 3 and Seabrook Station, respectively, for excess property damage, decontamination and premature decommissioning.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

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## 15. CONCENTRATION OF CREDIT RISK / SIGNIFICANT CUSTOMERS

Credit risk represents the risk of loss that would occur if customers do not meet their financial obligations to MMWEC. Concentration of credit risk occurs when significant customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same events.

As of December 31, 2014, MMWEC had two municipal customers who are considered a significant customer, which accounted for approximately \$43.0 million (13%) and \$35.3 million (10%) of MMWEC revenues in 2014. In 2013, MMWEC had one municipal customer who was considered a significant customer, which accounted for approximately \$42.6 million (14%) of MMWEC revenues in 2013. As of December 31, 2014, two municipal customers had significant account receivable balances of \$3.5 million (12%) and \$3.0 million (10%). At December 31, 2013, one municipal customer had a significant account receivable balance of \$3.9 million (11%).

## 16. ENVIRONMENTAL AND OTHER ISSUES

Nothing has come to management's attention concerning any material pollution liability claims made during 2014 and 2013 or outstanding as of December 31, 2014 and 2013.

MMWEC has established a trust fund to enhance its Directors' and Officers' liability coverage. The purpose of the trust fund is to make available funds for the purchase of Directors' and Officers' liability insurance and/or as a supplement to insurance for indemnification of the Directors or Officers. At December 31, 2014 and 2013, MMWEC has \$10.8 million and \$10.9 million, respectively, recorded in restricted special funds related to the trust fund with a corresponding liability in the same amount, representing advances from Members.

MMWEC has a guaranty with ISO New England, Inc. (ISO-NE) with respect to certain MMWEC Members' financial assurance obligations to ISO-NE. These Members do not have credit ratings and MMWEC provides financial assurances for their transactions in ISO-NE. MMWEC's financial assurance is backed by the NEPEX Account Agreement between MMWEC and each of these Members. Pursuant to the NEPEX Account Agreement, each Member has an absolute and unconditional obligation to pay MMWEC for its respective ISO-NE transactions. Management believes that the likelihood MMWEC would be required to perform or otherwise incur any significant losses associated with this guarantee is remote.

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 17. SEGMENT INFORMATION

MMWEC issues separate revenue bonds for each Project, which are payable solely from, and secured solely by, the revenues derived from the Project to which such bond issue relates, plus available funds pledged under the GBR for the bonds of such issues. Each Project operates various electric generation facilities, as shown in Note 11 – Project Joint Ownership Agreements. Following is a summary of the financial information for each Project.

	2014			
	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJ. 6
CONDENSED STATEMENT OF NET POSITION				
Assets:				
Advances from projects	\$ (97)	\$ (107)	\$ (39)	\$ (167)
Other current assets	12,026	15,990	4,445	31,656
Noncurrent assets	42,552	47,910	12,452	94,129
Capital assets, net	64,206	155,867	41,634	274,295
Total assets	118,687	219,660	58,492	399,913
Liabilities:				
Current liabilities	25,680	36,929	10,111	65,568
Noncurrent liabilities	92,559	182,451	48,330	333,722
Deferred inflows of resources	448	280	51	623
Total liabilities and deferred inflows of resources:	118,667	219,660	58,492	399,913
Net position:				
Net investment in capital assets	\$ 30,842	\$ 114,914	\$ 29,739	\$ 193,136
Restricted for general bond resolution	9,213	5,649	(485)	3,772
Unrestricted	(40,055)	(120,563)	(29,254)	(196,908)
Total net position	\$ -	\$ -	\$ -	\$ -

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 17. SEGMENT INFORMATION...continued

	2014			
	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJ. 6
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
Operating revenues	\$ 25,776	\$ 30,066	\$ 7,931	\$ 53,864
Depreciation	(1,848)	(4,043)	(1,086)	(7,257)
Other operating expenses	(11,543)	(15,892)	(4,080)	(22,099)
Operating income	12,385	10,131	2,765	24,508
Non-operating revenues (expenses):				
Investment income	2,381	2,258	583	3,128
Interest expense on long-term debt	(1,165)	(1,625)	(341)	(4,696)
Other nonoperating expenses	744	1,119	239	3,101
(Increase) decrease in amounts payable under terms of the power sales agreements	(14,345)	(11,883)	(3,246)	(26,041)
Total non-operating expenses	(12,385)	(10,131)	(2,765)	(24,508)
Change in net position	-	-	-	-
Net position, beginning of year	-	-	-	-
Net position, end of year	\$ -	\$ -	\$ -	\$ -
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided by (used in):				
Operating activities	\$ 18,670	\$ 17,729	\$ 4,891	\$ 36,729
Investing activities	(2,488)	(137)	(46)	(13,066)
Capital and related financing activities	(19,351)	(19,484)	(5,194)	(37,079)
Net change in cash and cash equivalents	(3,169)	(1,892)	(349)	(13,416)
Cash and cash equivalents, beginning of year	4,755	5,720	1,345	19,337
Cash and cash equivalents, end of year	\$ 1,586	\$ 3,828	\$ 996	\$ 5,921

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 17. SEGMENT INFORMATION...continued

	2013				
	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJ. 6
<b>CONDENSED STATEMENT OF NET POSITION</b>					
<b>Assets:</b>					
Advances from projects	\$ (36)	\$ (55)	\$ (87)	\$ (26)	\$ (126)
Other current assets	4,957	12,342	19,427	4,962	34,482
Noncurrent assets	21,416	41,764	41,841	11,119	85,530
Capital assets, net	<u>32,409</u>	<u>63,563</u>	<u>157,939</u>	<u>42,222</u>	<u>278,830</u>
Total assets	<u>58,746</u>	<u>117,614</u>	<u>219,120</u>	<u>58,277</u>	<u>398,716</u>
<b>Liabilities:</b>					
Current liabilities	10,658	26,556	37,997	10,093	62,541
Noncurrent liabilities	48,063	90,482	180,704	48,108	335,328
Deferred inflows of resources	<u>25</u>	<u>576</u>	<u>419</u>	<u>76</u>	<u>847</u>
Total liabilities and deferred inflows of resources:	<u>58,746</u>	<u>117,614</u>	<u>219,120</u>	<u>58,277</u>	<u>398,716</u>
<b>Net position:</b>					
Net investment in capital assets	\$ 27,235	\$ 18,268	\$ 103,133	\$ 26,589	\$ 169,443
Restricted for general bond resolution	4,421	8,877	(2,066)	(485)	2,587
Unrestricted	<u>(31,656)</u>	<u>(27,145)</u>	<u>(101,067)</u>	<u>(26,104)</u>	<u>(172,030)</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>					
<b>Operating revenues</b>					
Operating revenues	\$ 13,001	\$ 25,814	\$ 30,257	\$ 7,933	\$ 52,011
Depreciation	(894)	(1,819)	(3,967)	(1,066)	(7,152)
Other operating expenses	<u>(6,601)</u>	<u>(11,926)</u>	<u>(15,126)</u>	<u>(3,890)</u>	<u>(21,043)</u>
Operating income	<u>5,506</u>	<u>12,069</u>	<u>11,164</u>	<u>2,977</u>	<u>23,816</u>
<b>Non-operating revenues (expenses):</b>					
Investment income	1,245	2,214	2,473	636	3,182
Interest expense on long-term debt	(215)	(1,530)	(2,259)	(498)	(5,941)
Other nonoperating revenues	169	953	1,650	371	4,092
(Increase) decrease in amounts payable under terms of the power sales agreements	<u>(6,705)</u>	<u>(13,706)</u>	<u>(13,028)</u>	<u>(3,486)</u>	<u>(25,149)</u>
Total non-operating expenses	<u>(5,506)</u>	<u>(12,069)</u>	<u>(11,164)</u>	<u>(2,977)</u>	<u>(23,816)</u>
Change in net position	-	-	-	-	-
Net position, beginning of year	-	-	-	-	-
Net position, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# Massachusetts Municipal Wholesale Electric Company

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

## 17. SEGMENT INFORMATION...continued

	2013				
	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJ. 6
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided by (used in):					
Operating activities	\$ 5,583	\$ 11,441	\$ 21,968	\$ 5,807	\$ 41,569
Investing activities	1,307	115	(2,588)	(758)	(7,390)
Capital and related financing activities	<u>(8,350)</u>	<u>(13,695)</u>	<u>(21,618)</u>	<u>(5,783)</u>	<u>(40,105)</u>
Net change in cash and cash equivalents	1,460	2,139	(2,238)	(734)	(5,926)
Cash and cash equivalents, beginning of year	<u>3,034</u>	<u>6,894</u>	<u>7,958</u>	<u>2,079</u>	<u>25,263</u>
Cash and cash equivalents, end of year	<u>\$ 1,574</u>	<u>\$ 4,755</u>	<u>\$ 5,720</u>	<u>\$ 1,345</u>	<u>\$ 19,337</u>

## 18. SUBSEQUENT EVENTS

MMWEC has evaluated subsequent events through March 31, 2015, the date which the financial statements were available to be issued, and did not note any additional subsequent events requiring recording or disclosure in the financial statements for the year ended December 31, 2014 other than those already disclosed.

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REQUIRED SUPPLEMENTARY INFORMATION

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# Massachusetts Municipal Wholesale Electric Company

Pension Schedules of Funding Progress (Unaudited)

December 31, 2014

(in Thousands)

A schedule of funding progress for the Plans is as follows:

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) - Entry Age ( b )	Unfunded AAL (UAAL) ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ((b-a) / c)
<b>Administrative Plan</b>						
1/1/2012	\$ 16,390	\$ 16,738	\$ 348	97.9%	\$ 3,248	10.7%
1/1/2013	18,451	19,302	851	95.6%	3,042	28.0%
1/1/2014	22,675	20,516	(2,159)	110.5%	3,104	N/A
<b>Union Plan</b>						
1/1/2012	\$ 5,033	\$ 5,026	\$ (7)	100.1%	\$ 1,469	-0.5%
1/1/2013	5,072	5,414	342	93.7%	1,343	25.5%
1/1/2014	5,597	5,223	(374)	107.2%	1,210	-30.9%

# Massachusetts Municipal Wholesale Electric Company

Pension Schedules of Employer Contributions (Unaudited)

December 31, 2014

(In Thousands)

Six-year trend information for MMWEC's pension cost and contributions is as follows:

Year Ended December 31,	Employer Contributions			
	Administration Plan		Union Plan	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2009	\$ 940	111.2%	\$ 286	333.8%
2010	668	248.4%	182	242.6%
2011	284	310.1%	130	181.5%
2012	315	282.7%	154	146.8%
2013	289	309.1%	173	128.8%
2014	48	1838.6%	65	392.8%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest valuation follows:

	Administration Plan	Union Plan
Valuation date	1/1/2014	1/1/2014
Actuarial cost method	Entry Age Normal with Frozen Initial Liability	Entry Age Normal with Frozen Initial Liability
Amortization method	Level dollar open	Level dollar open
Remaining amortization period	30 years	30 years
Asset valuation method	Fair Market Value	Fair Market Value
Actuarial assumptions:		
Investment rate of return	7.0%	7.0%
Projected salary increases	3.0%	3.0%
Cost-of-living adjustments	N/A	N/A

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SUPPLEMENTARY INFORMATION

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# Massachusetts Municipal Wholesale Electric Company

Project Statement of Cash Flows

Year Ended December 31, 2014

(In Thousands)

	NUCLEAR		NUCLEAR		NUCLEAR		NUCLEAR		HYDRO		TOTAL	
SERVICE	MIX 1	PROJ. 3	PROJ. 4	PROJ. 5	PROJ. 6	PEAKING	INTERMEDIATE	WYMAN	QUEBEC	PHASE II		
<b>Cash flows from operating activities:</b>												
Received from sales to members and participants	\$ 152,662	\$ 9,208	\$ 25,021	\$ 29,883	\$ 7,895	\$ 53,408	\$ 4,766	\$ 34,583	\$ 2,264	\$ 371	\$ 320,061	
Paid to suppliers for goods and services	(159,805)	(3,692)	(6,351)	(12,154)	(3,004)	(16,679)	(4,258)	(31,572)	(1,944)	(353)	(239,812)	
Paid to employees	(4,575)	-	-	-	-	-	(647)	(2,424)	-	-	(7,646)	
Net cash provided by (used in) operating activities	(11,718)	5,516	18,670	17,729	4,891	36,729	(139)	587	320	18	72,603	
<b>Cash flows from investing activities:</b>												
Net maturities and purchases of investments	458	3,636	(2,780)	(566)	(164)	(13,672)	(952)	715	(17)	-	(13,342)	
Interest received	557	141	292	429	118	606	181	385	23	-	2,732	
Net cash provided by (used in) investing activities	1,015	3,777	(2,488)	(137)	(46)	(13,066)	(771)	1,100	6	-	(10,610)	
<b>Cash flows from capital and related financing activities:</b>												
Construction expenditures and purchases of nuclear fuel	(227)	(2,925)	(5,497)	(4,344)	(1,098)	(6,008)	(35)	(470)	(7)	-	(20,611)	
Proceeds from issuance of short-term debt	33,485	-	-	-	-	-	-	-	-	-	33,485	
Principal payments on long-term debt	-	(4,295)	(12,100)	(12,920)	(3,490)	(25,365)	-	-	-	-	(58,170)	
Principal payments on short-term debt	(13,054)	-	-	-	-	-	-	-	-	-	(13,054)	
Decommissioning trust payments	-	(215)	(408)	(273)	(69)	(377)	-	-	-	-	(1,342)	
Interest payments on long-term debt	(85)	(89)	(1,346)	(1,947)	(537)	(5,329)	(2)	(80)	-	-	(9,415)	
Net cash provided by (used in) capital and related financing activities	20,119	(7,524)	(19,351)	(19,484)	(5,194)	(37,079)	(37)	(550)	(7)	-	(69,107)	
Net change in cash and cash equivalents	9,416	1,769	(3,169)	(1,892)	(349)	(13,416)	(947)	1,137	319	18	(7,114)	
Cash and cash equivalents, beginning of year	12,626	1,574	4,755	5,720	1,345	19,337	1,872	2,430	981	-	50,640	
Cash and cash equivalents, end of year	\$ 22,042	\$ 3,343	\$ 1,586	\$ 3,828	\$ 996	\$ 5,921	\$ 925	\$ 3,567	\$ 1,300	\$ 18	\$ 43,526	
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>												
Operating income (loss)	\$ 377	\$ 1,299	12,385	\$ 10,131	\$ 2,765	\$ 24,508	\$ (545)	\$ (9,872)	\$ (1,247)	\$ -	\$ 39,801	
<b>Noncash items included in operating income:</b>												
Depreciation	431	912	1,848	4,043	1,086	7,257	114	828	69	-	16,588	
Amortization of nuclear fuel and accretion of ARO	-	2,020	3,696	4,431	1,121	6,137	-	-	20	-	17,425	
Inventory market adjustment	-	-	-	-	-	-	359	9,527	1,159	-	11,045	
<b>Changes in assets and liabilities:</b>												
<b>(Increase) decrease in:</b>												
Accounts receivable	(2,416)	391	138	1,210	309	1,630	(1,238)	6,343	(743)	9	5,633	
Unbilled revenues	190	-	-	-	-	-	-	-	-	-	190	
Inventories	(11,188)	1	-	23	6	32	(213)	(2,202)	(76)	-	(13,617)	
Prepaid expenses	5	3	-	82	21	113	(16)	(4)	1	-	205	
Other deferred charges	4,647	631	1,498	(3,171)	(803)	(4,393)	27	(472)	9	1	(2,026)	
<b>Increase (decrease) in:</b>												
Accounts payable	146	33	(45)	1,481	397	2,051	17	(86)	(217)	(12)	3,765	
Member and participant advances	(5,303)	218	(851)	(893)	(210)	(1,380)	1,359	(4,812)	958	20	(10,894)	
Accrued expenses	1,393	8	1	392	199	774	(3)	(163)	387	-	2,988	
Other noncurrent liabilities	-	-	-	-	-	-	-	1,500	-	-	1,500	
Net cash provided by (used in) operating activities	\$ (11,718)	\$ 5,516	\$ 18,670	\$ 17,729	\$ 4,891	\$ 36,729	\$ (139)	\$ 587	\$ 320	\$ 18	\$ 72,603	
<b>Reconciliation of cash and cash equivalents to the statement of net position:</b>												
Cash and temporary investments	\$ 1,390	\$ 2,173	\$ -	\$ -	\$ -	\$ -	\$ 125	\$ 383	\$ -	\$ 18	\$ 4,089	
Restricted special funds	51,124	7,139	24,783	31,542	8,667	79,792	11,861	20,105	1,790	-	236,803	
Total cash and investments	52,514	9,312	24,783	31,542	8,667	79,792	11,986	20,488	1,790	18	240,892	
Less - long-term investments	(30,472)	(5,969)	(23,197)	(27,714)	(7,671)	(73,871)	(11,061)	(16,921)	(490)	-	(197,366)	
Total cash and cash equivalents	\$ 22,042	\$ 3,343	\$ 1,586	\$ 3,828	\$ 996	\$ 5,921	\$ 925	\$ 3,567	\$ 1,300	\$ 18	\$ 43,526	

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OTHER INFORMATION

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# Massachusetts Municipal Wholesale Electric Company

Pension Schedules of Employer Contributions (Unaudited)

December 31, 2014

(In Thousands)

## NET REVENUE AVAILABLE FOR DEBT SERVICE

In accordance with the provisions of MMWEC's GBR, MMWEC covenants that it shall fix, revise and collect rates, tolls, rents and other fees and charges sufficient to produce revenues to pay all Project operating and maintenance expenses, and principal, premium, if any, and interest on the Bonds. Revenues for each Project, which include applicable interest earnings from investments, are required to equal 1.10 times the annual debt service for each contract year ending June 30, after deduction of certain operating and maintenance expenses and exclusive of depreciation. As such, the balances included in the table below do not reflect December 31 balances. For the contract years ended June 30, 2014 and 2013, MMWEC met the GBR debt service coverage requirements for all of MMWEC's Projects.

	Contract Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
Revenues	\$ 118,861	\$ 127,552
Other billings	-	-
Reserve and contingency fund billings	<u>6,674</u>	<u>7,522</u>
Total	125,535	135,074
Less – operating and maintenance expenses	<u>(52,125)</u>	<u>(55,463)</u>
Available revenues net of expenses	<u>\$ 73,410</u>	<u>\$ 79,611</u>
Debt service requirement	<u>\$ 66,735</u>	<u>\$ 72,114</u>
Coverage (110% required)	<u>110%</u>	<u>110%</u>