

MMWEC

Public Power News

A NEWSLETTER OF THE MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY

November 2006

What's inside . . .

Stony Brook recognized for 25 years as valuable public power resource

See Page 2

Permitting and other work is continuing on MMWEC's proposed new unit

See Page 2

FERC transmission decision holds mixed results for public power

See Page 3

MMWEC is a non-profit, public corporation and political subdivision of Massachusetts, providing a variety of energy services, primarily to public power utilities.

CONTACT US:

P.O. Box 426, Ludlow, MA 01056-0426
Phone: (413) 589-0141
Fax: (413) 589-1585
E-mail: mmwec@mmwec.org
Internet: www.mmwec.org

PUBLIC POWER . . .



The
Original
Customer Choice

Other ratings affirmed; outlook stable

S&P upgrades two MMWEC power supply projects

Standard & Poor's (S&P) credit rating agency has upgraded the ratings on two of the seven MMWEC power supply projects, citing an improvement in the overall credit quality of project participants.

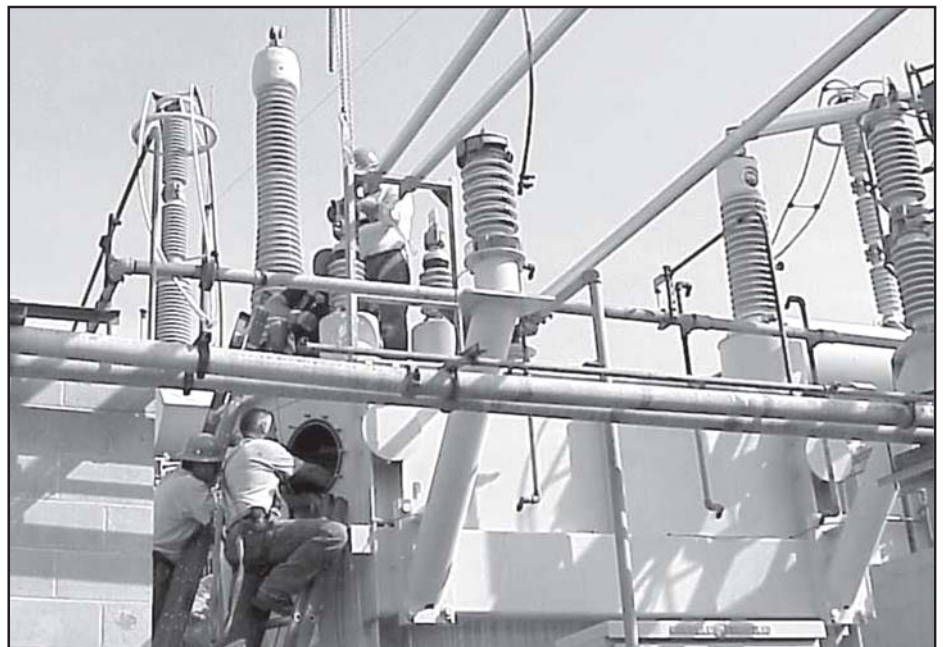
Following its annual credit review of MMWEC, S&P raised from 'A-' to 'A' its rating on MMWEC's Nuclear Project No. 5, through which MMWEC owns a share in the Seabrook Station nuclear power plant in New Hampshire. S&P also raised from 'BBB+' to 'A-' its rating on MMWEC's Wyman Project, through which MMWEC owns a share in the oil-fired Wyman Unit No. 4 in Maine.

S&P reaffirmed its ratings on MMWEC's five other power supply projects, which reflect MMWEC's ownership in the gas-and-oil-fired Stony Brook power plant, the Millstone Unit No. 3 nuclear plant in Connecticut as well as additional ownership in Seabrook Station. Four of these projects are rated 'A-', and one is rated 'BBB+.' S&P assigned a stable outlook to all of its MMWEC ratings.

"The credit ratings on MMWEC's power supply projects have been moving upward steadily over the past few years, reflecting the stable and improving credit quality of

Continued on Page 4

Maintenance outage completed at Stony Brook



MMWEC Instrument Technicians/Electricians Bill Densmore and George Goncalves (above at lower left) work with contractor Ray Brown on the connections of a new bushing on the Stony Brook power plant's 345-kV autotransformer during the plant's recent scheduled maintenance outage.

MMWEC celebrates 25 years of operation for Stony Brook public power plant

MMWEC recently marked 25 years of operation for its Stony Brook power plant, the first major power plant in New England to use combined-cycle generating technology, a highly efficient process that captures waste heat to produce additional electricity.

Speakers at a luncheon held on the plant's steam turbine deck recounted the successful operating history of Stony Brook and discussed MMWEC's plans to build a new combined-cycle generator adjacent to the existing plant.

"The existing Stony Brook plant has served public power in Massachusetts extremely well and, together with the new unit, represents a crucial part of the future power supply for the state's consumer-owned, municipal utilities," said MMWEC General Manager Glenn O. Steiger.

A citation from the Massachusetts General Court recognizing Stony Brook's 25 years of operation was presented to MMWEC by state Sen. Brian P. Lees, who with Ludlow state Rep. Thomas M. Petrolati ushered the citation through the Massachusetts House and Senate.

MMWEC Chairman Michael J. Flynn congratulated MMWEC staff and participating municipal utilities for their foresight and perseverance in constructing the plant and working to maintain its value.

"We have seen many changes in the electric industry over the past 25 years and huge changes in the structure of the power marketplace," Flynn said. "Through it all, MMWEC has stayed on top of these changes and managed

to maintain the value and viability of Stony Brook in the new marketplace."

Attorney Maurice J. Ferriter, MMWEC's first general counsel, recalled the many challenges faced by municipal utilities in creating MMWEC and building the Stony Brook plant. Ferriter drafted the legislation that enabled MMWEC to become a public corporation in 1976 and helped develop the contracts used to secure financing for the 520-megawatt Stony Brook plant.



Stony Brook Power Plant

The existing Stony Brook plant includes five gas turbine generators and one steam turbine generator. In the combined-cycle process, waste heat from three gas turbines is used to produce steam and additional electricity in the steam turbine. There are dozens of combined-cycle generators operating in New England today, many of which have benefited from technological im-

provements based on Stony Brook's operating experiences.

Twenty-five Massachusetts municipal utilities and six Vermont utilities purchase Stony Brook's output through contracts with MMWEC, which is the plant's operator and principal owner.

MMWEC has started the permitting process for construction of a state-of-the-art, 280-megawatt combined-cycle plant at its Stony Brook site. Like the existing plant, the new unit will burn natural gas and oil to produce electricity. Scheduled for operation in 2010, the new unit is proposed to help meet the future requirements of the region's public power utilities.

BRIEFLY SPEAKING

New unit development work continues

Permitting and other developmental work is continuing on MMWEC's Special Project 2006A, a proposal to build a 280-megawatt, combined-cycle power plant at the Stony Brook Energy Center to meet the needs of MMWEC's members and other public power utilities.

The Massachusetts Executive Office of Environmental Affairs on Nov. 9 issued a certificate and scoping document for the project's Draft Environmental Impact Report, which is scheduled for completion in February 2007.

MMWEC also has filed an application with ISO New England for Transmission Interconnection Studies required for the new unit and is in the process of selecting an engineering firm to assist with project development activities.

Steiger serving on APPA Climate Change Task Force

MMWEC General Manager Glenn O. Steiger is serving on a blue-ribbon panel of public power executives that is developing a public power position on climate change issues and potential solutions.

The first meeting of the American Public Power Association's Climate Change Task Force was held in October. The group has developed a list of principles to guide future discussions and will meet again early in 2007 to continue its deliberations.

FERC transmission decision is both a victory and disappointment for public power

In a victory for MMWEC and other New England public power entities, the region's transmission owners will be required to issue potentially significant refunds to their transmission customers under an order issued by federal regulators on Oct. 31.

The Federal Energy Regulatory Commission (FERC) order sets the base return on equity (ROE) used to calculate regional and local transmission rates at 10.7 percent for the period from February 2005 through October 2006 and at 11.4 percent thereafter. The transmission owners had requested a base ROE of 12.8 percent, which the FERC allowed earlier, subject to refund, effective in February 2005.

The approved base ROEs for both time periods reflect a 0.5-percent "add" granted summarily to the transmission owners in recognition of their willingness to participate in RTO New England. The efforts of MMWEC and others to oppose the 0.5-percent add were unsuccessful, as the DC Circuit Court of Appeals earlier this year rejected an appeal challenging FERC's approval of the add.

As a result of the Oct. 31 decision, transmission customers will be due refunds based on the difference between the base ROE in place for the February 2005 – October 2006 time period and the ROE established in the Oct. 31 order. It appears that calculating the exact refund amount will be a time-consuming and complex task, as the transmission owners recalculate their past rates and ISO New England applies the recalculated rates to past transactions.

However, earlier estimates by MMWEC indicate the amount of refunds could be substantial.

While the ROE part of the decision represents a victory for public power, MMWEC is disappointed with the FERC's decision, in the same order, to allow transmission owners to raise their ROE an additional 1 percent as an incentive to invest in new transmission facilities. Two of the five FERC commissioners did not support approval of

the new facilities adder and issued strong dissenting opinions.

The FERC case dates back to late 2003, when the transmission owners requested the 12.8 percent ROE as well as incentive adders that would increase the ROE by 1) 0.5 percent as an incentive for joining RTO New England and 2) 1 percent as an incentive for construction of new transmission facilities, applied only to investments in new facilities.

The FERC allowed the proposed rates to go into effect on the start date of RTO New England (February 2005), subject to refund, with the exception that the 0.5-percent adder for joining the RTO was not subject to refund.

MMWEC, as part of the New England Consumer-Owned Entities group, contested the base ROE and new facilities adder in a full, evidentiary trial before a FERC administrative law judge (ALJ). In a May 2005 initial decision, the ALJ rejected the base ROE proposal and the new facilities adder, stating that the transmission owners "failed to meet their burden of demonstrating why the adder is needed to motivate investment in new transmission facilities." ALJ decisions are subject to approval by the full FERC.

While action was pending on the ALJ initial decision, the FERC in July 2006 issued a "final rule" on transmission pricing reform, pursuant to direction in the Energy Policy Act of 2005. The pricing reform rule strongly supports the use of incentive ROE adders to spur investment in new transmission facilities.

Subsequently, the FERC on Oct. 31 approved the 1-percent new facilities adder for New England transmission owners, reversing that portion of the ALJ's initial decision. However, two FERC commissioners issued dissenting opinions that reflect public power's arguments against the adder, noting the lack of any evidentiary basis to support the majority's action.

"The discussion in this order regarding the 100-basis-point incentive adder troubles me greatly, on both legal and policy grounds," Commissioner Suede Kelly wrote in her dissent.

"Because the ROE filing parties did not meet their burden of demonstrating that the 100-basis-point adder is justified, or that the adder is needed to attract new capital, I believe the majority is acting arbitrarily and capriciously and without a reasonable factual foundation . . .," Kelly states.

Likewise, Commissioner Jon Wellinghoff dissented, stating that there is insufficient evidence to conclude that the transmission owners satisfied their burden to demonstrate why the requested adder is needed to encourage investment in new facilities.

"The ROE filing parties have already committed to build the projects approved by ISO New England, and their own witness conceded that the projects would be built without the adder," Wellinghoff states.

Along with other parties, MMWEC is considering filing a request seeking rehearing of the FERC's Oct. 31 order, particularly as it relates to the new facilities ROE adder.

MMWEC Project Operations					
	Stony Brook Intermediate	Stony Brook Peaking	Seabrook	Millstone 3	Wyman 4
Month Ending September 2006					
Availability	63.76%	70.64%	89.70%	100%	51.67%
Capacity Factor	0.98%	0%	88.11%	99.01%	0%
YTD through September 2006					
Availability	95.95%	96.62%	98.81%	100%	92.13%
Capacity Factor	12.06%	0.75%	98.63%	99.81%	1.26%

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

S&P upgrades two MMWEC projectsContinued from Page 1

MMWEC and its project participants," MMWEC General Manager Glenn O. Steiger said.

"This is a sign that the MMWEC organization is in good financial shape and that MMWEC and its participants are managing their assets wisely," Steiger said. "At the same time, we're moving forward with a number of initiatives that will lead to more competitive and stable power costs for our member utilities," he said.

These initiatives include MMWEC's proposal to build a new, 280-megawatt power plant at its Stony Brook Energy Center in Ludlow as well as plans to institute an Energy Price Risk Management Program that will help members and participants mitigate risks associated with the uncertainty of energy and fuel prices.

The S&P credit report cites a number of strengths in the MMWEC organization, including solid levels of debt service coverage and liquidity, a supportive regulatory environment in Massachusetts, the ability of partici-

Standard & Poor's Credit Ratings	
Nuclear Mix No. 1	A-
Nuclear Project No. 3	A-
Nuclear Project No. 4	A-
Nuclear Project No. 5	A
Nuclear Project No. 6	BBB+
Stony Brook Int. Proj.	A-
Stony Brook Peaking Proj.	A-
Wyman Project	A-

pants to recover their power costs without state regulatory approval, and the limited direct debt and capital needs of project participants. Generally, the rates of project participant utilities are below or competitive with rates offered by the state's investor-owned utilities.

MMWEC project participants include 28 Massachusetts municipal utilities, with most of the utilities participating in multiple projects. Each project participant has contracted with MMWEC to pay its share of project costs, which include the cost of debt service on MMWEC bonds and MMWEC's share of project operating costs. MMWEC currently has approximately \$700 million in debt outstanding for all of its power supply projects.

Public Power News is a publication of the Member & Public Relations Division of the Massachusetts Municipal Wholesale Electric Company. Glenn Steiger, General Manager; David Tuohey, Corporate Communications Manager; Samantha Dias, Writer. Copyright 2006, by MMWEC. Information in this newsletter may not be reproduced without permission from the Member & Public Relations Division.



Massachusetts Municipal Wholesale Electric Co.
Moody St., P.O. Box 426
Ludlow, MA 01056

MMWEC