

Double Discount!!

The sun is shining, snow is but a distant memory, but here in Groton it is Christmas in July.

Last December, due to skyrocketing power costs, we announced our first rate increase in five years and the suspension of one of our favorite holiday traditions - the double discount. It wasn't prudent to offer a double discount given our financial reality, which was that we had incurred a significant deficit during the last four months of 2005.

Well, here we are just six months later singing Jingle Bells. The cause of our merriment? Our 2006 power costs to date have not been nearly as frightening as projected. For this, we have the mild winter weather to thank, which sent the spot energy market on a downward trajectory.

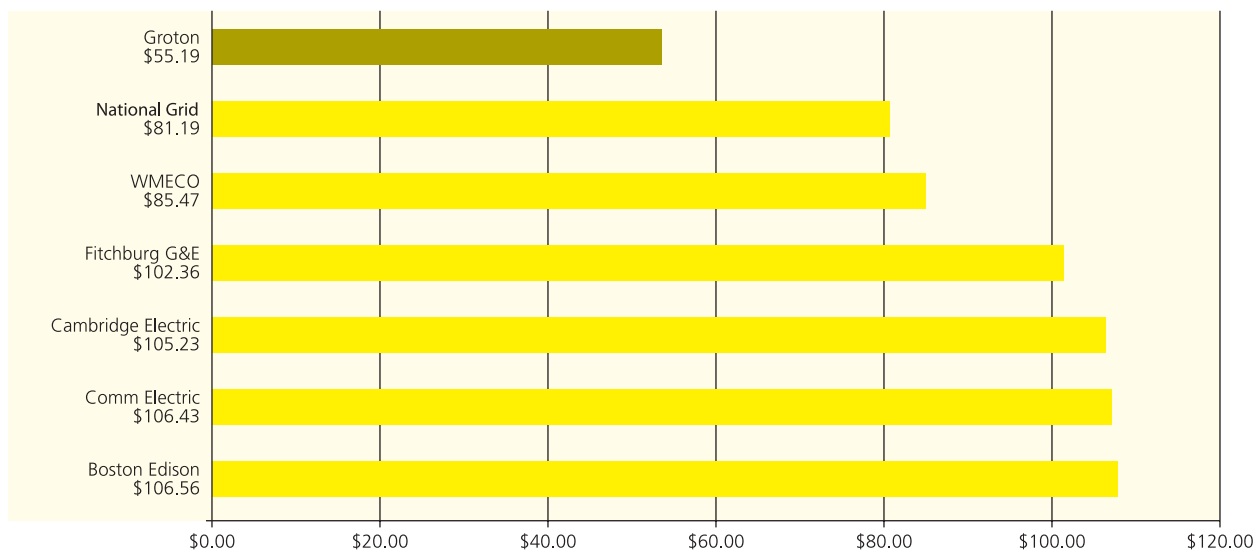
Of course, it's hard to predict what the spot market price will be over time because it is so sensitive to weather, fuel costs, and world events. To minimize this volatility for the summer, we reduced our exposure to the spot market by purchasing a short-term contract to cover a portion of our need. The purchase price is less than what we had expected to pay in the spot market, thus our positive trend in power costs.

Currently the spot market has a big affect on our power costs (see related story on the back) because prior to the purchase mentioned above, we were forecast to have a market exposure of 56% for 2006.

We are happy to announce Christmas in July with a double discount on the June 30 bill and return some of the benefit of the lower than expected power costs. The absolute deadline for receiving the special double discount is for our customers to have their account paid in full with a postmark up to July 10, 2006 or by paying at the office prior to the opening of business hours at 8:00 am on Tuesday, July 11, 2006. There is a slot in the front door of our offices for anybody who would like to pay after regular business hours.

After the January 1, 2006 rate increase, our rates are the 7th lowest in Massachusetts (for the typical residential customer) compared to 41 other utilities for a residential customer who uses 500 kWh's per month. As always, the mission of the Groton Electric Light Department is to provide power at the highest degree of reliability at the lowest cost that fiscal prudence dictates.

Residential Rate Comparison 500 kWh - March 2006



The most affordable investor owned utility had rates 47% higher than Groton Electric for a customer with a 500 kWh bill in March, 2006, while the highest rates in Massachusetts were 93% higher.

Decisions

Commissioners Weighing Power Options

The Board of the Groton Electric Light Department must decide whether to rely on the spot energy market, contracts, or support an MMWEC proposal to build a new power plant to meet our power needs in 2010.

In Groton, electric use is up while options for purchasing power are down. This is the result of growth that is significantly higher than average for New England combined with power suppliers renegeing on their contractual obligations. For 2006 our spot market exposure for energy purchases is expected to rise to 56%. Recent experience in contracting for power needs has proven that the supplier will default (enter bankruptcy) when faced with adverse economic conditions. The Groton Electric Light Department is now looking for ways to reduce our exposure to the volatility of the wholesale power market. We are not alone. The Massachusetts Municipal Wholesale Electric Company (MMWEC) recently undertook a comprehensive study to help their members to evaluate the power supply options.

In today's marketplace, there is a shortage of long-term power contracts at reasonable prices, but we have another avenue to secure power. Since Massachusetts restructured its electricity market, municipal utilities are the only utilities that may own generating plants. This means that when favorable contracts are unavailable for purchasing electricity we have an option other than the spot market. We can produce our own power by having an interest in a power plant built and run by public power through MMWEC. MMWEC is the joint action agency for the consumer-owned, municipal utilities of Massachusetts, providing a wide range of power supply and other services to meet the common needs of its Members.

The current needs of the public power sector combined with the New England region having insufficient generating capacity after 2010 led MMWEC to propose building a power plant. The Board of Directors of MMWEC has just voted to move forward on Phase II of a project that could culminate in the construction of a 280 megawatt generating unit. This dual fuel plant would generate electricity by burning either natural gas or oil. Phase II is expected to cost approximately \$5 million

and last about 24 months. This phase will cover all of the regulatory and environmental issues, preliminary planning and the permitting process. At the completion of Phase II we would have all of the information to proceed with Phase III which would be the final engineering design and construction of the plant. The cost for construction of this plant is expected to be about \$220 million. If built, the plant could provide 20% of Groton's power from 2010-2020 much more affordably and reliably than what we are experiencing with our power contracts. The Board will decide at its July meeting on whether to participate in the project.

Even if this plant is built, our commissioners will have many more decisions regarding power options over the next few years since our market exposure will still be almost 50% in 2010. Questions concerning fuel source, as well as the credit worthiness of contracting parties, are important considerations. Diversification is prudent when building any portfolio and power supply is no different. Natural gas will soon be providing over 50% of our generation, but this once plentiful and affordable fuel now has supply limitations and is subject to price volatility. Of course energy efficiency and demand response programs have a role to play in determining our energy supply, but won't be sufficient to meet our growing needs. It is likely that the region will take another look at both coal, which provides 51% of electric generation in the U.S., and nuclear to address the complex issues of capacity shortage, air emissions, and cost. Since power supply accounts for 80% of our costs, it is an area that demands, and will continue to demand, continual vigilance on our part.

In Memoriam



Mike McPartlan began serving the Town of Groton as a Call Firefighter from 1972-76. He joined the Highway Department in 1980 before coming to work for the Light Department in 1981. He was a valued employee who dedicated 22 years of service to the Light Department and became the Foreman before taking early retirement in 2003. He passed away on June 20, 2006, just shy of his 51st birthday. Our thoughts and prayers are with his family and loved ones. He will be greatly missed.