



2014

2014 ANNUAL REPORT



To the Honorable Mayor, Members of the City Council, and our Valued Customers:

Submitted herewith is the One Hundred and Twelfth Annual Report of the City of Holyoke Gas & Electric Department (HG&E) for the year ending December 31, 2014.

2014 was a challenging year as constrained natural gas supplies resulted in increased costs for both natural gas and electricity in New England. A colder than normal winter, coupled with increased reliance on natural gas for electric generation and residential heating, resulted in increased demand for already constrained natural gas supplies. With no significant increase to the natural gas pipeline capacity in the region in many years, the supply-demand imbalance has resulted in very high energy prices at peak periods.

In spite of these challenges, HG&E continued to offer some of the lowest utility rates in the region in 2014 and delivered strong financial performance, maintaining its A1 credit rating.

2014 was also a busy year for capital improvements as we continued to invest in our plant in order to continue delivering reliable services at reasonable prices.

The Electric Division continued to upgrade the distribution system with intelligent devices. These upgrades will help improve reliability and reduce costs by minimizing the impact of and restoration time for certain power outages. HG&E also completed the replacement of all City streetlights with new light emitting diode (LED) streetlights, which provide more direct light, reduced maintenance costs, and significant savings for the City through improved efficiency.

The Gas Division continued adding new services, as customers increasingly convert to natural gas. Additionally, the ongoing distribution system upgrade program continued with the replacement of bare steel services and cast iron mains.

The Telecommunications Division completed an upgrade of the fiber optic network to 10 Gbs and continued to expand the reach of fiber optic Internet and commercial network services.

HG&E's Hydro Division continued to make strategic improvements to hydroelectric assets in order to increase production. Some of these improvements qualify for Renewable Energy Credits (REC's) through the Commonwealth's Renewable Portfolio Standard.

HG&E continued to do its part in protecting the environment. In 2014, over 68% of the electricity sold by the Department came from renewable resources and over 95% of electricity sold was carbon free.

We thank the City officials and HG&E employees for their continued faithful service to HG&E. We will continue working diligently to provide our customers with reliable utility services at competitive rates, backed by an unprecedented dedication to customer service.

Respectfully,

Francis J. Hoey III, Commission Chairman

Robert H. Griffin, Commission Treasurer

James A Sutter, Commission Secretary

James M. Lavelle, Manager

GAS DIVISION



HG&E's natural gas distribution system now consists of over 180 miles of mains and 7,900 service lines.

NEW SERVICES

In 2014, the Department installed 142 service lines to new customers. The Department also replaced or retired 282 existing older services in Holyoke by installing new plastic pipe or inserting it through older existing steel lines.

Per HG&E's Distribution Integrity Management Plan (DIMP) that was implemented in August 2011, the Department embarked on a 10-year bare steel service replacement program. There are currently approximately 2,254 bare steel gas services remaining in Holyoke, down from approximately 3,200 at the beginning of the program. Bare steel services were installed from the early 1900's through the late 1960's. At the conclusion of this replacement program, all gas services will be constructed of either polyethylene plastic or coated steel.

NEW AND REPLACEMENT MAINS

The Department continued its cast iron main replacement efforts and replaced a total of 3,804 feet of small diameter, wrought iron and cast iron pipes with new plastic pipes on Walnut Street, Lincoln Street, Taylor Street, and Park Slope. An additional 500 feet of pipe was abandoned on Chestnut Street. The new plastic mains are generally 4" or 6" in diameter.

On Richard Eager Drive, the Department replaced a section of 4" steel main with new 2" plastic main and also replaced residential gas services in the area. In support of Massachusetts Department of Transportation (MassDOT) road projects the Department replaced 320 feet of 6" steel main on Lower Westfield Road and installed 700 feet of 8" steel main over the Willimansett Bridge into Chicopee. When complete, the Willimansett Bridge connection will provide a back-up service between Holyoke and Columbia Gas.

The Department continued to expand gas service into Southamptton by extending gas mains on Nicholas Lane and Gilbert Road Extension. HG&E's natural gas distribution system now consists of over 180 miles of mains and 7,900 service lines.

LEAK SURVEYS

The Department helps ensure the safety and reliability of the gas distribution system through an extensive series of compulsory and voluntary comprehensive leak surveys. Each year the Department conducts public building, mobile and walking flame ionization patrols, special monthly winter patrols, and vegetation observation surveys. The full-length walking survey over each individual gas service covered more than 3,800 lines in 2014, or about one-half of the service pipes in the system. The combined surveys accounted for the detection of 128 mostly minor, underground leaks. All leaks were investigated and prioritized. A total of 105 underground leaks were repaired and/or eliminated in 2014, and the remainder were monitored throughout the year or scheduled for repair, consistent with the applicable safety regulations.

GAS SUPPLY AND FLOW CONTROL

The Department delivered 2,339,960 DTH of gas in 2014, with a peak send-out of 17,615 DTH on January 22 which represented a new system peak. Of that, 12,463 DTH was delivered over the pipeline and 5,152 DTH was supplemented by Liquefied Natural Gas (LNG). 2014 was a cold year with 6,544 heating degree days, which is above the 10-year average of 6,187.

HG&E continues to operate its LNG storage and vaporizing system, providing the extra gas needed during the coldest winter days and as an emergency supply for the entire city, if needed.

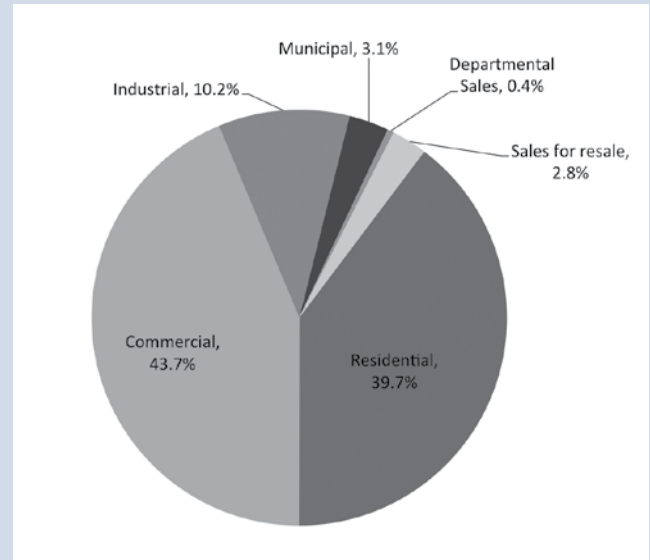
The last year of a three-year replacement of the telemetry system, which monitors and transmits gas system pressure data, was completed. The system was installed at an additional five regulator stations and connected to the SCADA system. The system provides real-time data of the pressure throughout the city to help manage the distribution system.

The regulator station on Gatehouse Road was completely rebuilt and modernized. This station is located in the back bone of the low pressure gas system and the upgrade will allow increased flexibility on the system. Additional piping around the station is schedule to be replaced in 2015.

SERVICE

The Department completed 4,841 appliance repair service calls for customers in Holyoke and Southampton during the year. These calls include boiler/furnace, water heater and dryer repairs, and thermostat installations. In addition 1,274 gas meters were changed to comply with the state mandated seven-year meter exchange requirement. A total of 4,083 service orders were complete for gas and electric meter turn ons and turn offs, this is a significant decrease over previous years. In lieu of sending an employee to each site, the Department was able to utilize its fixed meter network to read meters that were being transferred between customers. Service Department employees attended 1,660 hours of training in 2014, including new technology, gas procedures (OQ), and safety.

2014 Gas Division Revenues



ELECTRIC PRODUCTION HYDRO



In 2014, HG&E continued its partnership with HCC for the collection of data on the number of fish and species passed at the Robert E. Barrett Fishway.

HYDROELECTRIC FACILITIES

A number of projects were completed which improved or will contribute to future generation capacity and reliability of the Department's Hydroelectric facilities. These projects included:

Boatlock Station Unit 2 Runner: On June 27, 2011, HG&E received a Notice of Award from the Massachusetts Clean Energy Center for a grant in an amount not to exceed \$300,000 towards the replacement of a turbine runner for Boatlock Station Unit 2. The Department proceeded with the Boatlock Unit 2 overhaul in June 2014. This rehab included turbine runner replacement, generator rewind, and bearing rehabilitation. The unit is scheduled to be back on-line in May 2015.

Hadley Falls Unit 1 Modernizing Plans: The Hadley Falls Unit 1 outage was postponed until May 2015 to coincide with the Hadley Station Downstream Fish Passage Project. The vendor is under contract for the rehabilitation and upgrade of the unit. In 2014, the vendor fabricated/assembled: turbine runner, wicket gates, generator stator, stator windings, and other miscellaneous turbine components. The Department entered into a separate contract to convert the existing exciter to a brushless excitation system. A contract was also awarded to supply new switchgear for the unit. The unit outage is scheduled for May 2015 and will conclude in December 2015. This modernization will improve reliability and increase unit capacity.

City #3 Unit Rebuild: The City #3 rebuild was near completion at year end. The rebuild included turbine runner rehab, generator rewind, new wicket gates, HPU replacement, and electrical and controls upgrade. The unit is scheduled to be back online in April 2015.

Hadley Station Downstream Fish Passage Project: A contract was awarded in the amount of \$12,725,100 for the construction of the new downstream fish passage facility. The vendor began mobilizing equipment and ordering materials in preparation for construction which is scheduled to begin in late March and early April of 2015. Construction activities will begin with the installation of the access road and trestle which will be located off St. Kolbe Drive. Installation of the new rack will begin on July 1, 2015, after the upstream fish passage is completed. Modifications will consist of a new trashrack structure with a mechanical trash rake upstream of the existing intake. The existing intake will not be removed. The project will include new bypass conduits to divert fish from the intake structure, a new removable weir, a steel frame to lift and store the weir, and a new bascule gate. Downstream

of the new weir, a new concrete lined plunge pool will be installed, the existing concrete apron will be resurfaced, and a new concrete training wall and concrete flow deflector will be installed to direct flow toward the plunge pool. The flow deflector will also divert high flows over the existing upstream fish passage entrance.

Work will continue through the summer and fall and is anticipated to be substantially completed by December 2015.

In 2014, capital improvements were made to Riverside Station and Overflow #1. A new battery room was installed at Riverside Station. Riverside #4 and #5 was disassembled and cleaned, seals were replaced and service was restored to hydraulic power unit. The Department upgraded PLC and control systems at Riverside #7, fabricated wicket gate shear pins at Riverside #8. In addition to the improvements at Riverside station, the concrete buttress at #1 Overflow was repaired.

OTHER SPECIAL PROJECTS INCLUDED:

Canal Inspections: The annual spring and fall canal inspections were conducted and included an assessment of canals and canal walls including overflows, intakes, penstocks, powerhouses, and tailraces. Several minor repairs were made during the inspections.

Building infrastructure maintenance, repair and upgrades: Building repairs were performed on Boatlock Station during 2014. The repairs included much needed brick pointing, roof drainage and window replacement of the northeastern wall. Riverside A/B Building new windows were installed on the second floor exterior on Water Street and installation of a new HVAC system for the office and training room area was completed.

Flood Control Improvement Projects: In April 2012 the Department was awarded a Hazard Mitigation Grant through the

Federal Emergency Management Agency (FEMA). Through this grant FEMA reimbursed the Department 75% of the total cost for the projects. The flood control improvement projects are essential to protecting the Department's hydroelectric generating assets. New structures were installed at the Gatehouse location and Riverside Station. Payment applications have been submitted for the total Federal share amounting to \$72,340 at the Gatehouse Project and \$48,798 at Riverside Station.

Texon Building Demolition: Demolition of the former Texon Mill was completed in June of 2014. Construction of the Texon Mill Park was substantially completed by the end of 2014 and construction of new fencing and mulching will be completed in the spring of 2015.

Environmental Projects Included:

- Monitoring of invasive plant species along the impoundment; and, on-going efforts to control water chestnut in Log Pond Cove.
- Received Certificate of Completion (COC) from South Hadley Conservation Commission for work completed at Gatehouse Park in South Hadley.
- Received Certificate of Completion (COC) from Department of Environmental Protection for work completed at Lower Riverside Park in South Hadley.
- Annual Water Quality Monitoring of Project operations.

Partnership with Holyoke Community College (HCC): In 2014, HG&E continued its partnership with HCC for the collection of data on the number of fish and species passed at the Robert E. Barrett Fishway. Activities included: biological sampling, trapping and loading of shad; trapping of Shortnose sturgeon and Atlantic salmon; and, observation of lift operations and eel passage.



2014 Shad Derby Winners - Junior Division

2014 FISH PASSAGE

The fish lift at the Robert E. Barrett Fishway assists migrating fish to reach spawning areas above the Holyoke Dam. HG&E's fish passage facility was the first and most successful fish lift on the Atlantic coast. It is comprised of two fish elevators which carry migrating fish up and beyond the dam.

The passage of anadromous and resident fish species that were observed and monitored in the lift system this year included:

American Shad	370,506
Atlantic Salmon	26
Blueback Herring	647
Sea Lamprey	22,136
Striped Bass	69
Shortnose Sturgeon	3
Gizzard Shad	410

In addition to the fish passage facilities, there are two eel ramp passage facilities on both the Holyoke and South Hadley shores below the dam. The number of American Eels counted at the eel ramps in 2014 was 50,319.

In 2014, the public viewing facility at the Barrett Fishway was open from May 7th through June 15th and attracted 9,158 visitors. The opportunity to view fish on their annual spring spawning run is a rare opportunity and demonstrates HG&E's commitment to Connecticut River stewardship and educational initiatives.

2014 HG&E SHAD DERBY

The annual HG&E Shad Derby offers both adult and youth fishing enthusiasts the opportunity to enjoy the recreational benefits of the Connecticut River. In 2014, the HG&E Shad Derby celebrated its 49th anniversary.

The 2014 Shad Derby was held on the weekends of May 10-11 & 17-18. The event attracted 125 registrants in the Senior Division and 51 registrants in the Junior Division.

Mike Lord of Monson, Massachusetts won the first place award in the 2014 Senior Division with a 5 lb. 5 oz. shad. Connor Riopelli of Holyoke led the Junior Division with a 4 lb. 13.5 oz. shad. The John Dinapoli Award for the first shad caught by a youth went to Alex Theriault of Holyoke.



*Field trip from Sullivan Elementary School
at HG&E's Robert E. Barrett Fishway*

ELECTRIC DIVISION



In 2014, a number of projects were completed which will increase the reliability of the Department's electric substation and transmission infrastructure.

ELECTRIC OPERATIONS

In 2014, a number of projects were completed which will increase the reliability of the Department's electric substation and transmission infrastructure. These projects included:

Phase I Completion of the Oakdale 41K Substation project.

This project entailed converting the former 13.8kV/4.8kV distribution substation to a 13.8kV switching station and installation of padmounted switchgear with automatic source transfer, and outgoing protected ways for serving distribution loads. Phase II is planned to be completed in spring 2015 and will include reconfiguration of the Beech Street and Northampton Street intersection to remove all overhead circuits, and installation of new reclosers for overhead line protection of the new circuits to be served out of the station.

Replacement of a 115kV transmission pole at Race Street and Appleton Street with a self-supported steel structure. An existing deteriorated wood pole, along with the associated guy stubs and anchors, was removed and replaced with a nine foot diameter concrete caisson foundation and 85 foot tall steel structure. The self-supported structure was required to eliminate the guy stubs and anchors which conflicted with the planned Canal Walk renovations in the area.

Installation of multifunction meters (MFMs) at Holyoke 17L Substation Indoor Switchgear feeders. Eleven analog transducers were replaced with modern digital meters for the purpose of telemetering the feeder loads to the Department's SCADA system. This resulted in increased operational awareness and enhanced engineering data for better decision making.

As part of the Department's preventative maintenance (PM) plan, major maintenance and testing was performed on various substation and plant equipment throughout the year. In summary, major maintenance and/or testing was performed on three (3) 115/13.8kV power transformers and Load Tap Changers (LTC) at Ingleside Substation, six (6) 15kV vacuum circuit breakers at Highland Substation, three (3) station battery systems (capacity discharge tests) and 66 protective relays at Holyoke Substation. Compliance related testing was also completed on the 1,657 Line carrier system.

Support for electric distribution and hydro during the year included the preparation of 84 switching orders with 74 clearances issued for planned and emergency high voltage work. Maintenance/repair operations were also performed as required on various distribution and hydro equipment including monthly inspections of

line reclosers, sectionalizers and capacitor switching controls, and major maintenance on various Hydro transformers, generators, and auxiliaries, including Cobble Mountain. Support was again provided for the City-owned Flood Control Pumping Stations in the form of emergency maintenance and pumping operations as required.

ELECTRIC DISTRIBUTION

Electric distribution system improvements in 2014 included the installation of a 1,600' section of underground primary cable on Homestead Avenue that replaces an existing overhead line in poor condition and a 1,140' section of underground primary cable on Front Street that provides a tie between the 44P1 circuit on Dwight Street and the 32W2 circuit on Lyman Street.

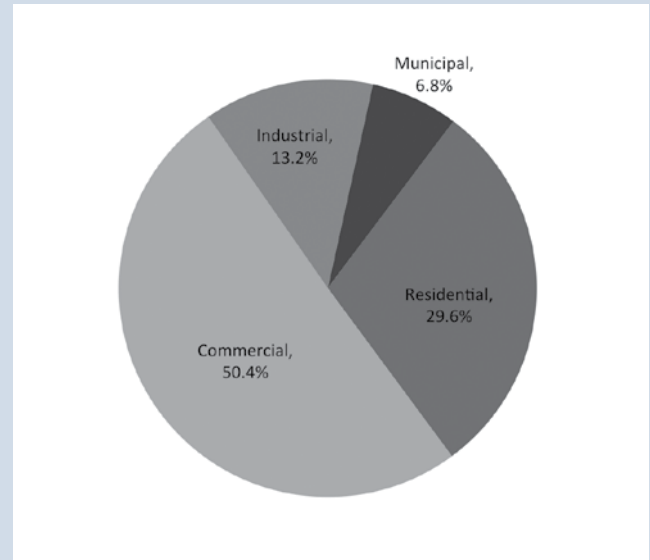
The Department transferred customer load from Holyoke Substation to North Canal Substation by extending a new circuit into the Flats. The new 44P2 circuit will replace the existing 17L6 circuit in this area. Approximately 350' of new underground cable was installed on Mosher Street and North Bridge Street to connect the new circuit. Two sectionalizers were also relocated to accommodate the new source from North Canal Substation.

The second year of a two-year project to perform upgrades to the uptown network distribution system located in and around City Hall was completed. The upgrades included replacing approximately two miles of paper insulated lead cable on the 17L11 and 17L13 circuits with new ethylene propylene rubber insulated cable, ten network protectors with SCADA-ready connectivity, and lead wiping sleeves with standard bushing wells on existing network transformers. Network transformers were tested and refurbished with new gauges and connectors during this process. New fiberglass manhole racking was installed where existing metallic racking was in poor condition.

The Department continued with the replacement of high pressure sodium (HPS) lights with more efficient light emitting diode (LED) lighting technology. A three year installation of roadway lighting and two year installation of residential decorative fixture replacements were completed. These LED fixtures, on average, will reduce the City's street light consumption by approximately 60%, reduce Department lighting maintenance costs, will last 2.5-4 times longer than a typical HPS roadway fixture, and provide more direct and uniform lighting on City streets. There were a total of 1,126 LED roadway fixtures installed in areas of the City, including: South Holyoke, Flats, Churchill, and the remaining portion of Springdale. In addition to roadway fixtures, there were also 124 residential HPS decorative fixtures that were replaced with an equivalent LED fixture.

New decorative lighting was installed on Dwight Street between the Second Level Canal and Main Street as part of lighting and landscape improvements for the new railroad station constructed for the

2014 Electric Division Revenues



proposed high speed rail system and on Appleton Street between the Second Level Canal and Race Street as part of the future Canal Walk. Nine new poles and fixtures were installed on Dwight Street and six new poles and fixtures were installed on Appleton Street providing improved visibility and safety in this area.

Backyard overhead infrastructure on Pleasant Street was addressed to improve service reliability and further reduce maintenance costs in this area. Some of the infrastructure was installed in 2012 as part of a MassDOT project, including all underground primary cable, main line conduit, and single phase padmount transformers. Approximately 1,500' of new service conduit and underground cabling to fifteen customers was installed on Pleasant Street eliminating approximately 2,000' of overhead wire and twelve wood poles in the backyards. Overhead backyard services to two customers on Cleveland Street were also relocated to the street as part of the project.

Work began on new condominiums at the former Holyoke Catholic High School. Approximately 200' of new conduit was installed and temporary services to each of the three existing buildings were provided. The condominiums will be available for sale in 2015.

Cabling upgrades on Dicsal Lane and lower Central Park Drive were completed that replaced infrastructure dating back to the early 1970s. Approximately 250' of underground primary cable, 400' of underground secondary main, and 1,500' of underground service cable were replaced as part of the project. Direct buried services to ten customers were replaced with conduit and new service cable.



HG&E Lineman hard at work

There were three MassDOT projects that took place throughout the year. Two wood poles were relocated on Cherry Street in front of the Soldiers Home to accommodate road widening in that area. On Lower Westfield Road, the Department was required to relocate three wood poles and four existing street lights, remove six wood poles and relocate the feed to the Paulo Freire Charter School, and adjust three manholes to accommodate grade changes and the creation of additional turning lanes. Work on the second phase of the Canal Walk began with relocating and eliminating wood poles along the Second Level Canal between Dwight Street and Appleton Street on Race Street. A new single phase padmount transformer and approximately 200' of underground cable and conduit were installed as a future source for Canal Walk lighting along the canal and on the new pedestrian bridge crossing the canal. Three overhead services were relocated from the rear of the Beebe Holbrook complex to Dwight Street. These services fed the Beebe Holbrook hydro wheel, AACO Realty, and the former Paul Martin Rubber space. A new three phase padmount transformer was installed and used to re-feed other nearby overhead services and remove one wood pole within this complex.

The Department continued work on the implementation of its new Geographic Information System (GIS) mapping software for the electric distribution system. All remaining 22 circuits and their associated devices, indicators, and identifiers were placed into GIS. This included all primary wire, secondary mains, services, meter locations, phase identification, and third party attachments. All new or relocated infrastructure can now be referenced on the map exactly how it exists in the field and included with existing infrastructure. Existing paper records of manholes, secondary maps, conduit maps, and CAD one line drawings were updated and accessed in GIS to provide additional assistance to engineering or line crew personnel. The GIS mapping software can now be used in the development of an Outage Management System and implementation in an engineering analysis package in an effort to further reduce outage times and improve the distribution system as a whole.

Four services on Pleasant Street, Allyn Street, George Street, and Hillside Avenue were relocated from heavily overgrown areas with difficult accessibility to the street. This will provide these customers with not only a more reliable electric service but also protection from potential safety hazards and safety code violations. Additionally, these measures will reduce some of the tree trimming and outage costs for the Department.

A number of preventative maintenance activities continued throughout the year. A vendor was hired to perform testing of 55 new and used transformers, 26 capacitors, and 1 vacuum switch. HG&E also hired a vendor to perform 285 manhole inspections throughout various areas of the City. Stray voltage testing of approximately 20% of the City was also completed in the Highlands and Oakdale

Electric Distribution System Reliability Statistics

Statistic	2014	2013
ASAI	99.991%	99.994%
CAIDI	92.35 min	96.64 min
SAIDI	47.31 min	34.04 min
SAIFI	0.51 outages	0.35 outages
MAIFI	3.08 events	3.58 events

Average System Availability Index (ASAI)—represents how much of the time a customer actually has service available to them.

Customer Average Interruption Duration Index (CAIDI)—represents the average time expected to take to restore service after a sustained interruption.

System Average Interruption Duration Index (SAIDI)—defines the average interruption duration per customer served.

System Average Interruption Frequency Index (SAIFI)—defines the average number of times that a customer's service is interrupted during a given year.

Momentary Average Interruption Frequency Index (MAIFI)—defines the average number of momentary outages a customer may experience in a year.

sections, "fruit bowl" streets of West Holyoke, Castle Hill Apartments, and Jarvis Heights. Another vendor was hired to perform infrared inspections on all distribution circuits throughout the City. Annual visual inspections on all three transmission lines were performed by in-house staff to ensure reliable operation of the transmission system. Additionally, there were 145 padmount transformers on various circuits inspected by in-house staff. There were eight outstanding repairs on the distribution system also completed based on Radio Frequency (RF) analysis performed in 2013. There were ten pole top transformers upgraded due to overload conditions and 22 overhead locations where additional fault indicators were installed, which assist in reducing and/or eliminating outage time.

Reliability statistics allow the Department to track its service reliability and compare them from year to year with other municipal and private utilities. There are five statistics used to define the length and frequency of interruptions to customers, system availability, and the number of customers impacted by outages (see chart, above).

Two new or upgraded electric services for Sullivan Steel on Jed Days Landing and Mansir Printing on Shawmut Avenue were completed resulting in a net additional connected load of 800 kVA. There were also 2 new homes that required new electric services resulting in a connected load of 10 kVA. The new homes were constructed on available lots on Michelle Lane.

In summary for 2014, HG&E set 73 poles and removed 111. A net 836 kVA connected load was installed on the distribution system. Some 21,954 circuit feet of underground cable was installed while 8,718 was removed. Similarly, 13,004 circuit feet of overhead wire was installed while 19,895 was removed. Approximately 3.5 miles of conduit was installed including 18,652 feet of PVC and 50 feet of steel. There was a net decrease of 16 contract lights in the total number of contract lights and a net increase of 15 in the total number of street lights on the distribution system.

METERING

HG&E operated its Fixed Network Automated Meter Reading (AMR) system for its first full year since installation and final acceptance in late 2013. Beyond performing meter reading tasks on a monthly basis, the system provides outage notification from electric meters, tampering diagnostics for electric and gas meters, interval meter data, and instantaneous meter reads, which allows the Department to perform certain tasks remotely such as successions when opening or closing an account. The metering group has created custom reports to track down inactive meters showing consumption, validate meter removals, and detect malfunctioning meters to reduce lost revenue and maintain system accuracy. In addition, system coverage was expanded during the year by installing a repeater on the Department's Self-Supporting Tower on top of Mt. Tom. This repeater increased the read rate for high powered gas meters in Southamptom from 40% before installation to 80% after installation.

A total of 13 transformer, station service, and generation meters were tested to meet ISO-NE's OP-18 metering requirements which included meters at Ingleside and North Canal substations and Boatlock, Skinner, and Cobble Mountain hydro generation stations. These meters are tested by the Meter Department on a biannual basis through the use of the Department's portable test unit.

Testing of current transformers (CT) continued at various customer locations. There were 141 CT rated services tested by in-house meter personnel. This testing ensures that customer metering remains accurate and any issues found are addressed in a timely fashion.

Throughout the year, the metering group continued to support the Credit Department performing delinquent customer ons and offs, tagging notifications, meter reads, and collections. In total, 4,530 credit related duties were performed in 2014.

In summary, there were a net total of 66 electric meters installed, 97 electric meters replaced, and 104 electric meters retired having an average age of 9.05 years. A total of 162 electric meters were tested and calibrated, 44 power quality checks, 559 turn ons and 403 turn offs, and 252 electric successions performed, and 80 vacant with consumption/no consumption reports investigated for metering

problems and/or theft of service. There were 21 current transformer installs and 7 removals. On the gas side, 1,445 meters were removed and tested, 1,574 meters were installed, another 1,465 meters were sealed, and 556 meters were retired.

WHOLESALE POWER

As part of the Department's Energy Purchasing and Risk Management Plan, the Department monitors the available energy supply and sources on a daily basis to stabilize and ensure price certainty to our future cost of power. The Department purchases its power on both a short-term and long-term basis to take advantage of the fluctuating market, manage our risk of rising prices and increase the stability of our future energy cost to ensure stable low rates for its customers.

Holyoke achieved Green Community status in 2010 and is committed to efficiency, conservation and sustainability. The Department's plan for replacing high pressure sodium lights with more efficient light emitting diode lighting (LED) technology has on average reduced the City's street light consumption by 60%. The City realized \$100,000 in savings from these replacements in 2014.

During 2014, the Department proactively pursued low cost "carbon-free" projects to secure and further enhance its clean energy portfolio.

HG&E executed on December 20, 2011 a ten (10) year Power Transaction which included Nuclear Certificates with Nextera Energy Power Marketing, LLC. Year three (3) of this transaction produced 40,800 MWh of carbon/emission free power for the Department in 2014 and helped to stabilize rates for the Large Industrial contracted rate customers.

A total of 246,828 MWh of net generation was produced from the Department-owned hydro resources which continued to help drive down the overall cost of power. During 2014, the hydro preference power credits to our residential customers remained at 1.2¢/kWh throughout the year which generated total savings of \$1,154,312, \$973,328 from Department-owned hydro and \$180,984 from NYPA entitlements.

The Holyoke Hydroelectric system including the Hadley Falls Dam and the Holyoke Canal hydro facilities was certified by the Low Impact Hydropower Institute (LIHI) effective January 1, 2012 allowing the Department to register for Massachusetts Class I and II status. Five (5) Massachusetts Class I Statement of Qualification Applications were submitted and approved with a July 2014 effective date by the Department of Energy Resources (DOER) in December 2014. All of the canal units with the exception of Harris are MA Class II certified and five canal units are certified with small percentages as MA Class I. Sale of these certificates resulted in \$1,777,000 of revenue to the Department in 2014.

POWER SUPPLY

2014 Power Supply Resources

PROJECT NAME	FUEL TYPE	PROJECT START DATE	CONTRACT CAPACITY (kW)		CONTRACT END DATE
			WINTER	SUMMER	
BASE UNITS					
NYPA FIRM	HYDRO	1985	1,844	2,662	9/1/25
MILLSTONE 3 - MIX 1	NUCLEAR	1986	1,334	1,334	11/25/45 *
MILLSTONE 3 - PROJ 3	NUCLEAR	1986	2,325	2,325	11/25/45 *
SEABROOK - MIX 1	NUCLEAR	1990	147	147	3/31/30 *
SEABROOK - PROJ 4	NUCLEAR	1990	3,306	3,306	3/31/30 *
SEABROOK - PROJ 5	NUCLEAR	1990	408	408	3/31/30 *
INTERMEDIATE UNITS					
HYDRO QUEBEC 1	N/A	1986	1,189	1,189	LOU **
HYDRO QUEBEC 2	N/A	1989	1,938	1,938	LOU **
W.F. WYMAN 4	#2 OIL	1978	4,199	4,152	LOU *
PEAKING UNITS					
NYPA PEAK	HYDRO	1985	395	395	9/1/25
STONYBROOK GT 2A	#2 OIL	1982	2,476	1,910	LOU *
STONYBROOK GT 2B	#2 OIL	1982	2,413	1,850	LOU *
RENEWABLE					
HADLEY FALLS 1&2	HYDRO	1949	33,400	33,400	OWNED *
RIVERSIDE 8	HYDRO	1931	4,575	4,575	OWNED *
RIVERSIDE 4-7	HYDRO	1921	3,270	3,270	OWNED *
BOATLOCK	HYDRO	1924	3,313	3,313	OWNED *
HOLYOKE HYDRO / CABOT 1-2	HYDRO	1923	1,856	1,856	OWNED *
HOLYOKE HYDRO/CABOT 3	HYDRO	1940	450	450	OWNED * ****
HOLYOKE HYDRO/CABOT 4	HYDRO	1955	750	750	OWNED * ****
CHEMICAL	HYDRO	1935	1,600	1,600	OWNED *
BEEBE HOLBROOK	HYDRO	1948	205	205	OWNED *
SKINNER	HYDRO	1924	300	300	OWNED *
VALLEY HYDRO	HYDRO	2004	790	790	OWNED *
ALBION A	HYDRO	2004	281	281	OWNED * ***
ALBION D	HYDRO	2004	395	395	OWNED * ***
NONOTUCK	HYDRO	2004	472	472	OWNED * ***
OPEN SQUARE	HYDRO	2004	525	525	10/31/15
CONSTELLATION - MUELLER RD	SOLAR	2012	2693	2693	12/20/31 ****
CONSTELLATION - MEADOW ST	SOLAR	2012	793	793	12/20/31 ****
CITIZENS - COUNTRY RD	SOLAR	2013	615	615	2/5/33****

All capacity contracts follow the ISO New England calendar system.

* Investments continue for the life of the unit (LOU)

** After 8/31/01 there is no firm energy contract, only capacity entitlement which continues for life of unit

*** Unit offline pending retirement

**** Load Reducer

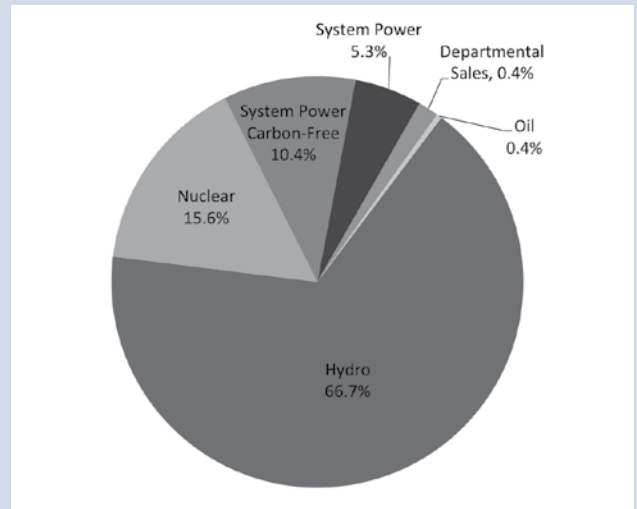


Project Engineers, Sarah LaRose and Jonathan Zwirko at HG&E's Meadow Street Solar Array

In 2014, 68.28% of the Department's generation is from renewable resources (hydro and solar) and 94.31% of its generation is carbon free (renewable and nuclear). The following graph summarizes the Department's resource mix by energy type.

Note that System Power represents short-term bilateral contracts representative of system mix within ISO-NE that were procured during the summer time frame and the Carbon Free System Power represents a long-term on peak bilateral contract with nuclear certificates attached.

2014 Total Entitlements



2014 Carbon Footprint

Fuel Type	Energy	CO ² Emissions	
	(MWh)	(Tons)	(lbs CO ₂ /MWh)
Oil	1,724	1,628	
Hydro	261,691	0	
Nuclear	61,310	0	
System Power Carbon Free	40,800	0	
System Power	20,592	8,360	
Solar	6,105	0	
Total	392,222	9,987	50.93

TELECOMMUNICATIONS



HG&E's commercial network, now in its sixteenth year of operation, provides high-speed network connectivity via fiber optic lines to business-class customers located in Holyoke, Chicopee, Downtown Springfield, and throughout the Pioneer Valley.

From left: Kathleen Anderson, Greater Holyoke Chamber of Commerce President; Steve Bouvier, HG&E Sales Executive; Maria Pagan, Holyoke Public Library Director

In 2014, the Department continued strong sales growth in fiber optic Internet and commercial network services. Through a third party provider, HG&E executed numerous contracts for hosted business telephone service delivered over the HGE.net commercial network. The Department developed multiple fiber optic Wide Area Network (WAN) service contracts for customers with multi-location requirements. The Department also completed the implementation of a 10G network upgrade. HG&E continues to support internal Information Technology (IT) needs in addition to providing support for the City of Holyoke IT operations.

Commercial Network Upgrades

HG&E's commercial network, now in its sixteenth year of operation, provides high-speed network connectivity via fiber optic lines to business-class customers located in Holyoke, Chicopee, Downtown Springfield, and throughout the Pioneer Valley. Both the Department itself and the City receive services from this network. The platforms in service are industry standard MetroE (Metropolitan Ethernet) and IP (Internet Protocol) supporting speeds up to 10 Gbps (Gigabit per second). Ongoing investment in this network continues as customer needs grow and applications requirements evolve.

Commercial Network Expansion

In 2014, the Department continued to expand Fiber Optic Wide Area Networking (WAN) services to include the Pioneer Valley, in an effort to better serve commercial customers. Within the expanded service territory, HG&E continues to focus on providing Fiber Optic WAN services for large institutions, in addition to a 10 Gig (Gigabit), six site customer Carrier Ethernet transport network. Since implementing Commercial Managed Router Services in 2013, the Department manages large Fiber Optic WAN services on behalf of clients.

Carrier Interconnection

HG&E developed interconnect relationships with other fiber ethernet carriers to service our core customers with locations outside of the footprint of Holyoke, Chicopee, Downtown Springfield, and throughout the Pioneer Valley. The Department has leveraged these high-speed interconnect arrangements to extend its' networking value to the bulk of the Pioneer Valley.

In 2014, the Department completed a major network upgrade from 1 Gig to a DWDM (Dense Wavelength Division Multiplexing) 10 Gig transport. This was an 18 month project that was completed in 2014.

Utility Operations Network Upgrades

In addition to provisioning and maintaining retail commercial network customers, HG&E's Telecommunication Division continued its support for the design, operation, and maintenance of the Department's internal operations network and information intelligence needs.

Improvements to the distribution elements of the operations network continued in 2014 with the installation of additional Itron collector sites for the Electric Divisions fixed wireless metering network project. Other major improvements included the management and enhancement to HG&E's firewall security features and management of physical security structure.

City of Holyoke Network Consulting

HG&E is responsible for ongoing maintenance, installation, and operation for the City of Holyoke's network. In addition to rebuilding the City's servers, the Department continued PC support, hardware replacement, and security improvements.

Telecommunications Help Desk

HG&E administers a centralized help desk, accepting support calls from Department, City, and Commercial Network Customers. In 2014 the help desk received 3,528 tickets and closed 3,492 tickets, solving 1,448 issues for Department employees, 1,001 for the City of Holyoke, 180 for Commercial Customers, and 403 miscellaneous.



MORSE

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- Use the telephone
- Strike a match
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Lineman Larry Larocque delivers safety information to Holyoke's school children

GOODWILL



Lineman, Adam Judd, spends time with seniors at HG&E's Summer Talk at the Senior Center

*In 2014, over
\$79,280 in
sponsorships
and over \$9,229
in labor was
provided for
nonprofit causes.*

Community involvement is a central belief of the public power philosophy, and the Department is proud of the role it takes in making Holyoke a better place to call home.

In 2014, HG&E offered support to several major community events including the Hispanic Family Festival, the St. Patrick's Day Parade, and the Holyoke Fireworks, which is underwritten by the Department.

In total, over \$79,280 in sponsorships and over \$9,229 in labor was provided for nonprofit causes.

NEIL J. MORIARTY, JR. SCHOLARSHIP FOR CADET ENGINEERS

The Cadet Engineer program is dedicated to the memory of our late Commission Chairperson, Neil J. Moriarty, Jr. He often noted that the admission of new students into the program was one of the most rewarding actions that the Commission made each year.

The program offered aid to Holyoke students who are pursuing Bachelors of Science in Engineering. Marissa Bernard, Ryan Kirton, Erin Hebert, and Conor Hoey were admitted as candidates for 2014.

ECONOMIC DEVELOPMENT

In 2014, the Department provided \$42,310 in additional discounts to businesses that have relocated or expanded within the City under the Economic Development Discount Program. This program provides an additional 10 percent off their gas and electric bills for a three-year period.

The Department also offers a similar program for residential customers under which first-time Holyoke home buyers can receive

10 percent off of their first three years of gas and electric bills. In 2014, \$77,067 was provided under this program.

HG&E also promotes economic growth through our Commercial and Residential Energy Conservation Programs. These plans offer interest-free financial assistance to our customers while helping to make their homes and businesses more energy efficient. In 2013, the Department paid out over \$953,700 in zero-interest assistance to Holyoke home and business owners.

MUNICIPAL BENEFITS

The Department contributed \$1,080,940 to the City of Holyoke's General Fund during 2014 as an in-lieu of tax payment. Payment discounts of \$358,131 were provided on the City's utility accounts. Beyond these direct financial benefits, HG&E continues to provide other valuable services to the City including: offering low-cost street lighting, low-cost maintenance on city-owned gas and electric equipment, and low municipal rates to City departments on their gas and electric accounts.

2014 Community Support

Contribution	Amount
Nonprofit Sponsorships	79,280
Nonprofit Labor	9,229
Cadet Engineer Scholarship	52,500
Payment in Lieu of Taxes	1,080,940
Municipal Payment Discounts	358,131
Discounted Street Lighting	366,645
Economic Development Discount	42,310
New Homeowner Discount	77,067
Energy Conservation Assistance	876,632
Total Community Support	\$2,896,211



View of Maple Street lit by LED lights



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Madison, WI 53707-7398
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fax 608 249 8532
bakertilly.com

INDEPENDENT AUDITORS' REPORT

To the Utility Commission
Holyoke Gas and Electric
Holyoke, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Holyoke Gas and Electric and Holyoke Gas and Electric OPEB Trust, enterprise and fiduciary funds, respectively, of the City of Holyoke, Massachusetts, as of and for the year ended December 31, 2014, and the related notes to the financial statements, as listed in the table of contents. Hereafter, the funds will collectively be referred to as "Holyoke Gas and Electric".

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 opinions 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 Holyoke Gas and Electric'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 Holyoke Gas and Electric'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holyoke Gas and Electric as of December 31, 2014, and the changes in its financial position and its cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.



To the Utility Commission
Holyoke Gas and Electric

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Holyoke Gas and Electric enterprise and fiduciary funds and do not purport to, and do not present fairly the financial position of the City of Holyoke, Massachusetts, as of December 31, 2014 and the changes in its financial position and its cash flows, where applicable, for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 opinions on the financial statements as a whole. The supplemental schedules of operating revenues and expenses as listed in the table of contents are presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules of operating revenues and expenses are fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 22, 2015

Holyoke Gas & Electric

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the year ended December 31, 2014 UNAUDITED

The management of Holyoke Gas & Electric offers all persons interested in the financial position of the utility this narrative overview and analysis of the utility's financial performance during the year ending December 31, 2014. You are invited to read this narrative in conjunction with the utility's financial statements.

FINANCIAL HIGHLIGHTS

- > Net revenues for the utility increased by \$ 1,131,351 or 1.7% from 2013. Electric operating revenues decreased (\$772,409), or (1.7) %, which was primarily due to yearly differences in weather conditions. Gas operating revenue on the other hand increased \$ 1,903,760, or 8.3% due to increased consumption caused by colder weather conditions.
- > Total fuel costs increased by 4.0% from 2013. Electric fuel costs had only a minimal \$ 272,958 or 1.2% increase. Gas fuel costs were \$ 1,159,461 or 8.3% higher due to higher consumption (4.4%) because of colder weather and higher costs associated with liquefied natural gas used.
- > The utilities operating and maintenance expenses increased by \$ 3,352,013 or 5.6%. The electric utility's operation and maintenance expenses increased \$ 773,540 in 2014. Gas operation and maintenance expenses increased \$2,557,161 or 12%. Variances affecting year to year comparisons were a larger year end OPEB credit (due to actuarial revaluation) of \$ 1,127,740 in 2013 vs \$ 784,337 in 2014 and a customer bad debt write off of \$ 594,000 in 2014.
- > In the Other Revenue and Deductions section, the other deductions saw a \$ 2,361,523 decrease in expenses in 2014 vs. 2013. The cause for this was a one-time write off in 2013 of \$ 2,200,000 of Preliminary Investigation Charges, relating to preliminary engineering efforts for a capital project that was ultimately terminated.
- > In 2014 there was an increase of \$ 698,000 for revenue generated by an asset management agreement related to gas pipeline assets that was not present in 2013. The net of all transactions showed an increase to net position of \$ 1,481,774 in 2014, as compared to 2013.
- > The utility's total net position increased by \$7,956,147 from the prior year. This was due to results from operating activities as detailed in areas above.

OVERVIEW OF THE FINANCIAL STATEMENTS/USING THIS REPORT

The HG&E commission is a three member board comprised of three local citizens. Nominated by the mayor and approved by the city council, each member has a six year term when approved. Members come up every two years for appointment on a rotating schedule. The utility provides Electric, Gas and telecommunications services to the city of Holyoke, and gas services to the Town of Southampton.

The gas division operates and maintains a distribution system that serves Holyoke and the Town of Southampton, Massachusetts. There are approximately 11,000 customers and approximately 326 miles of gas distribution piping (186 miles of distribution piping and approximately 140 miles of service piping). The division also operates a Liquefied Natural Gas vaporization plant that is used for peak shaving during the winter months. In addition to these services gas and electric appliance repair is offered to customers.

Holyoke Gas & Electric

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the year ended December 31, 2014
UNAUDITED

OVERVIEW OF THE FINANCIAL STATEMENTS/USING THIS REPORT (cont.)

The electric utility operates/maintains seven substations, 9 miles of transmission lines, 169+ miles of overhead distribution lines, 34+ miles of underground distribution lines, 2600 transformers, 17,405 services and 4,173 streetlights.

In 2014, over 68% of the electricity sold by the Department came from renewable resources and over 94% of electricity sold was carbon-free, far exceeding the Commonwealth's renewable portfolio standard (RPS) – requirements, from which HG&E, and all other municipal utilities in the Commonwealth, are exempt.

The Holyoke Gas & Electric Hydroelectric system, including the Hadley Falls Dam and the Holyoke Canal hydro facilities, generated a total of 246,828 MWh of net generation which continued to help drive down the overall cost of power.

HG&E is also a member of the Massachusetts Mutual Wholesale Electric Company (MMWEC), a public corporation and a political subdivision on the Commonwealth of Massachusetts, and as such has partial ownership to the following projects; Stony Brook Peaking projects, Millstone Unit # 3 and Seabrook Nuclear Power Station.

- (A) **NOTE** - In 2014 the utility changed the classifications of a number of balances. This resulted in variances between current year and prior year in some accounts in the MD&A. Certain prior year balances were adjusted to be consistent with current year calculation methods.

Other

Please refer to the table of contents for the various sections included in this annual report. The utility is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the utility.

- > The Statements of Net Position includes all of the utility's assets, liabilities, deferred inflows, and net position, and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utility.
- > The Statements of Revenues, Expenses, and Changes in Net Position provide an indication of the utility's financial health.
- > The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.

Holyoke Gas & Electric

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the year ended December 31, 2014 UNAUDITED

UTILITY FINANCIAL ANALYSIS

An analysis of the utility's financial position begins with a review of the Statements of Net Position, and the Statements of Revenues, Expenses and Changes in Net Position report information. These two statements report the utility's net position and changes therein. The utility's net position – the difference between assets, liabilities, and deferred inflows of resources, is key to measuring the financial health of the utility. Over time, increases or decreases in the net position value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that the financial position can also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions and new regulations.

A summary of the utility's condensed statements of net position is presented below in Table 1.

Table 1
Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 122,158,151	\$ 127,267,258
Capital Assets	<u>127,950,242</u>	<u>123,417,778</u>
Total Assets	<u>\$250,108,393</u>	<u>\$250,685,036</u>
Long-term Debt Outstanding	\$ 97,569,122	\$101,382,842
Other Liabilities	<u>18,021,958</u>	<u>22,741,028</u>
Total Liabilities	<u>\$115,591,080</u>	<u>124,123,870</u>
Deferred Inflows of Resources	<u>\$ 41,269,849</u>	<u>\$ 41,269,849</u>
Net Investment in Capital Assets	\$ 60,479,338	\$ 61,097,844
Restricted	9,211,193	9,167,625
Unrestricted	<u>23,556,933</u>	<u>15,025,848</u>
Total Net Position	<u>\$ 93,247,464</u>	<u>\$ 85,291,317</u>

Total capital assets, which are discussed more in the Capital Assets section of the footnotes, increased by \$ 4,532,464 in 2014 as a result of plant capital additions, including maintenance capital.

Current assets decreased by \$ 3,100,000 because of monies moved to OPEB trust in 2014 no longer on HG&E's books but in a separate trust instead. For the same reason, liabilities decreased by \$ 4,100,000.

The majority of the increase in unrestricted net position is due to the overall increase in net position during 2014.

Holyoke Gas & Electric

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the year ended December 31, 2014
UNAUDITED

UTILITY FINANCIAL ANALYSIS (cont.)

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

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES	<u>\$ 69,165,642</u>	<u>\$68,034,291</u>
OPERATING EXPENSES		
Total Operating Expenses	<u>60,237,081</u>	<u>58,633,668</u>
Operating Income	<u>8,928,561</u>	<u>\$ 9,400,623</u>
OTHER REVENUES (EXPENSES)		
Total Other Revenues (Expenses)	<u>114,181</u>	<u>(1,947,378)</u>
Change in Net Position Before Transfers	9,042,742	7,453,245
TRANSFERS		
Payment in lieu of taxes - City of Holyoke	<u>(1,086,595)</u>	<u>(1,080,940)</u>
Change in Net Position	7,956,147	6,372,305
NET POSITION - Beginning of Year	<u>85,291,317</u>	78,919,012
NET POSITION - END OF YEAR	<u><u>\$ 93,247,464</u></u>	<u>85,291,317</u>

As previously noted, the Statements of Net Position shows the change in financial position. The specific nature or source of these changes then becomes more evident in the Statements of Revenues, Expenses and Changes in Net Position as shown above in Table 2. The increase in net position represents positive results from operating activities.

During 2014, operating revenues increased \$ 1,131,351 or 1.7%.

The change in Net Position of a positive \$ 1,583,842, as compared to 2013, was primarily due to a decrease in other Expenses in the other Revenue/(Expense) section from 2013 to 2014 for the write off of \$2,200,000 in 2013 of Preliminary Investigation Charges, related to a proposed wind project development that was ultimately terminated.

Holyoke Gas & Electric

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the year ended December 31, 2014
UNAUDITED

UTILITY FINANCIAL ANALYSIS (cont.)

Table 3
Condensed Statements of Cash Flows

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Cash Flows From Operating Activities	<u>9,459,523</u>	<u>16,534,134</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Flows From Investing Activities	<u>9,495,528</u>	<u>(45,746,670)</u>
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES		
Payment in lieu of taxes and other property taxes	<u>(1,086,595)</u>	<u>(1,160,708)</u>
Net Cash Used in Noncapital Financing Activities	<u>(1,086,595)</u>	<u>(1,160,708)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net Cash Flows From Capital and Related Financing Activities	<u>(17,165,433)</u>	<u>32,009,049</u>
Increase in Cash and Cash Equivalents	703,023	2,036,853
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>71,339,512</u>	<u>69,302,659</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 72,042,535</u></u>	<u><u>\$ 71,339,512</u></u>
SUPPLEMENTAL NONCASH FINANCING ACTIVITY		
Change in costs recoverable in future - pollution	\$ 523,360	
Loss on retirement of fixed assets	<u>82,517</u>	<u>\$ -</u>

Cash Flows from Operating Activities – Large portion of drop from 2013 to 2014 was reduction of cash transferred to OPEB trust of some \$ 3,900,000 as well as normal increase in operating expenses.

Cash Flows From Investing Activities – In 2013 (\$ 39,000,000) cash used in purchase of investments vs. (\$ 539,000) in 2014. The significant change relates to the 2013 debt issue and related proceeds invested in restricted accounts.

Cash flows from Capital and Related Financial Activities – 2014 represents normal cash payments of plant and equipment as well as payments on bonds and notes. The 2013 figure has \$50,000,000 received from bond proceeds.

In 2014 HG&E saw an increase in operating cash flow of \$ 703,023 due operating activities. FY 2013 had a large increase in cash (\$ 23,375,804) in investing activities due to reimbursements of previous capital outlays. HG&E, in years previous to 2013, had spent \$ 23,375,584 out of unrestricted cash and investments to make payments for two major capital projects. The projects were a new substation at a cost of \$ 20,792,696 and preliminary work on a fish exclusion rack for the dam at \$ 2,583,108.

Holyoke Gas & Electric

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the year ended December 31, 2014
UNAUDITED

UTILITY FINANCIAL ANALYSIS (cont.)

Table 4

Capital Assets - Electric

	2014	2013
Capital Assets		
Land	5,443,873	5,439,873
Plant, Property and equipment	147,885,050	144,756,541
Total Capital Assets	153,328,923	150,196,414
Construction Work in Progress	13,756,521	9,795,924
Less: Accumulated Depreciation	(60,305,293)	(56,361,556)
Net Capital Assets – Electric	106,780,151	103,630,782

During 2014 net capital assets increased by \$ 3,149,369 which was mostly maintenance capital. The construction work in progress account increased by \$ 3,960,597 mostly due to long term capital projects involving the refurbishment of Hydro Facility Hadley #1 and downstream fish passage facilities.

Table 5

Capital Assets - Gas

	2014	2013
Capital Assets		
Land	288,804	288,804
Plant, Property and equipment	44,791,532	42,318,568
Total Capital Assets	45,080,336	42,607,372
Construction Work in Progress	(6,647)	23,865
Less: Accumulated Depreciation	(23,903,598)	(22,844,241)
Net Capital Assets – Gas	21,170,091	19,786,996

During 2014 net capital assets increased \$ 1,383,095 mostly maintenance capital in nature. Credit in the Construction in progress account of \$(6,647) represents a payment in advance on a particular work order from a supplier.

Further details on capital assets are included in Note 3.

Holyoke Gas & Electric

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the year ended December 31, 2014 UNAUDITED

LONG-TERM DEBT

As of December 31, 2014, Holyoke Gas & Electric had \$79,365,000 in bonds payable as well as \$10,620,648 outstanding in notes payable. The bonds and notes payable have decreased \$1,370,333 and \$602,200, respectively since 2013. No new bonds or notes payable were issued during 2014.

Additional details of the existing debt are included in Note 8.

CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS

Holyoke Gas & Electric continues its aggressive capital improvement programs to upgrade and maintain its infrastructure for today and the future. Also a major goal is ongoing dedication to maintaining system reliability performance for all facets of the operation.

CONTACTING UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, investors and creditors with a general overview of the Utility's finances. If you have questions about this report, or need additional financial information, contact Holyoke Gas & Electric Department at 99 Suffolk St, Holyoke Massachusetts 01040 or (413) 536 9300.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Holyoke Gas and Electric (“Department”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

REPORTING ENTITY

The financial statements present information on the activities of the Department, an enterprise fund of the City of Holyoke, Massachusetts (the “City”) and its component units, Holyoke Solar Cooperative and Massachusetts Clean Energy Cooperative Corporation. Component units are legally separate organizations for which the Department is financially accountable or other organizations for which the nature and significance of their relationship with the Department are such that their exclusion would cause the reporting entity’s financial statements to be misleading. The Department is financially accountable if (1) it appoints a voting majority of the organization’s governing body and it is able to impose its will on that organization, (2) it appoints a voting majority of the organization’s governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government, (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Department. Certain legally separate, tax exempt organizations should also be reported as a component unit if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the Department, its component units, or its constituents; (2) the Department or its component units, is entitled to, or has the ability to access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the Department, or its component units, is entitled to, or has the ability to otherwise access, are significant to the Department.

The Department provides gas, electric, water and telecommunications services to its customers, substantially all of whom are local residents and commercial and industrial businesses. Approximately 67% of the Department’s revenues are derived from its electric division.

Component units are reported using one of two methods, discrete presentation or blending. Generally, component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the Department using the blending method if it meets any one of the following criteria: (1) the Department and the component unit have substantively the same governing body and a financial benefit or burden relationship exists, (2) the Department and the component unit have substantively the same governing body and management of the primary government has operational responsibility for the component unit, (3) the component unit serves or benefits, exclusively or almost exclusively, the Department rather than its citizens, or (4) the total debt of the component unit will be paid entirely or almost entirely from resources of the Department.

Blended Component Units

The Holyoke Solar Cooperative (Solar Coop) is a cooperative organized in Massachusetts, in December, 2010, and is owned by the Department (its original Member). Solar Coop engages in transactions associated with the purchase, acquisition, distribution, sale, resale, supply and disposition of energy or energy-related services to wholesale or retail customers. The Solar Coop is included in the enterprise fund. The Solar Coop does not issue separate financial statements.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

REPORTING ENTITY (cont.)

Blended Component Units (cont.)

The Massachusetts Clean Energy Cooperative Corporation (“Clean Energy Coop”) was organized in Massachusetts, in March, 2013. The initial members are the Department and the Massachusetts Municipal Wholesale Electric Company (“MMWEC”). The business of the Clean Energy Coop is managed by the board of directors, a majority of which consist of members of the Department’s management or Commission. The Clean Energy Coop was formed to finance, purchase, own, lease or otherwise acquire, hold, and use property; transact any business associated with the property; and the purchase, acquisition, generation, transformation, distribution, sale, resale, supply and provision of energy and telecommunications products and services, which will include, but is not limited to, the purchase and sale of the electrical capacity of the Hadley Falls Station hydroelectric generator unit #1 in Holyoke. The Clean Energy Coop is included in the enterprise fund. Separately issued financial statements of the Clean Energy Coop may be obtained from the Department’s office.

The Cooperatives are organized under Chapters 157 and 164: Section 47C of the State of Massachusetts Statutes and are subject to the same federal and state laws and regulations applicable to municipal lighting plants or other public entities that provide those services.

All intercompany account balances and transactions have been eliminated in the basic financial statements.

Other Post-Employment Benefit (OPEB) Trust

The OPEB Trust fund is a fiduciary fund that is used to account for and report resources that are required to be held in trust for the members and beneficiaries of the OPEB plan. The OPEB Trust was established in October 2014.

Rate Regulation

The rates of the Department are approved by the Department’s Board of Commissioners. Rate schedules are filed with the Massachusetts Department of Public Utilities (DPU). While the DPU exercises general supervisory authority over the Department, the rates are not subject to DPU approval.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Department is presented as an enterprise and fiduciary fund of the City. Enterprise and fiduciary funds are used to account for operations that are financed and operated in a manner similar to private business or when the governing body has decided that the determination of revenues earned, costs, incurred, and net income is necessary for management accountability. The OPEB trust fund is used to report resources that are held in trust by the Department for the members and beneficiaries of the defined benefit postemployment welfare plan. The financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Deposits and Investments

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Department considers all highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Investments

Investments totaling \$20,390 represent the cost of the Department's equity in New England Hydro-Transmission Corporation and New England Hydro-Transmission Electric Company. These investments represent 00.2653% (percent) of the issued common stock of these untraded companies. In addition, the Department has invested \$168,000 with the Public Utility Mutual Insurance Company (PUMIC). See Note 16 for additional information related to PUMIC. These investments are carried at original cost.

Investments in debt and equity securities are recorded at fair value (See Note 2).

Investments of the fiduciary fund are limited to investing in assets as a prudent investor would, by considering purposes, terms, distribution requirements, and other circumstances of the trust.

Accounts Receivable

Accounts receivable are stated net of an allowance for uncollectible accounts of \$515,204 at December 31, 2014. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the valuation allowance based on its collection history and its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Hi-Lite Assistance Loans

Hi-Lite assistance loans are receivables from residential and commercial customers for loans used to make energy efficient improvements to their property, secured by municipal liens. Loan amounts and terms vary based on the project type, but are generally 3 to 5 years with 0% interest.

Materials, Supplies and Fuel

Materials, supplies and fuel are valued at average cost. All materials are intended to be used in operations and are not intended for resale.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Prepaid Expense

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. This includes the purchase of prepaid power.

Plant, Property, and Equipment

Additions to and replacements of plant, property and equipment are recorded at cost. The cost of plant, property and equipment retired, less accumulated depreciation and salvage, is charged against revenue in the year retired. The cost of repairs and minor renewals is charged to maintenance expense.

Interest Capitalized

The Department follows the policy of capitalizing interest as a component of the cost of plant, property and equipment in service constructed for its own use and when a specific debt issue is borrowed for a specific project consistent with GASB accounting rules. During the year ended December 31, 2014, there was no interest capitalized.

Intangible Assets

Intangible assets are recorded at cost. Intangible assets subject to amortization include customer contracts and franchise area fee associated with the December, 2001 hydroelectric project purchase. Customer contracts and franchise fees are being amortized on a straight-line basis over the remaining lives of the respective licenses.

Environmental Matters

Expenditures that result from the remediation of an existing condition caused by past operations and that do not contribute to current or future revenues are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and the cost can be reasonably estimated. A related asset for pollution costs recoverable in future has been recorded according to the *General Standards of Accounting for the Effects of Regulation* included in GASB Statement No. 62.

Energy Tax

The Department is required to collect, on behalf of the State of Massachusetts, an energy tax based on 6.25% of gross sales to its commercial customers. The Department's policy is to exclude these energy taxes from revenue when collected and expenses when paid, and instead, record the collection and payment of energy taxes through a liability account.

Compensated Absences

Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. The number of days compensated in the various categories of absence is based generally on length of services. Compensated absences, which have been earned but not paid, have been accrued in the accompanying consolidated financial statements, based on current rates of pay.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (cont.)

Long-term Obligations

Long-term debt and other obligations are reported as liabilities. Bond premiums are being amortized using the effective-interest method over the lives of the bonds. The balance at year end for premiums is shown as an increase in the liability section of the statement of net position.

Unearned Revenues

The Department collects charges from customers that will be used to pay for future pollution remediation costs. In the event that fees collected are in excess of actual pollution remediation costs, these charges may require refunds to customers and are therefore classified as a liability on the balance sheet.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and, therefore, will not be recognized as an inflow of resources (revenue) until that future time. Rate stabilization reserves are reported as deferred inflows of resources for regulated business-type activities.

Net Position

The difference between assets and liabilities is net position. There are three components of net position: net investment in capital assets, restricted for debt service, and unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, 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.

Net position is restricted when constraints placed on its use are either (1) externally imposed by creditors [such as through debt covenants], grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. The Department's restricted net position as of December 31, 2014 is related to the bond debt fund requirements, collateral required under note payable, and funds reserved for payments on note receivable.

Unrestricted net position represents the net amount of assets and liabilities that are not "invested in property, plant and equipment" or "restricted for debt service."

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

REVENUES AND EXPENSES

Revenue Recognition

The Department distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Department's principal ongoing operations. The principal operating revenues of the Department are charges to customers for sales and services. Operating expenses for an enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not making this definition are reported as nonoperating revenues and expenses.

Operating revenues are recognized on the basis of cycle billings rendered monthly, net of discounts. Revenues are not accrued for services delivered beyond such cycle billing dates.

Discounts reported for the year ended December 31, 2014 that have directly reduced Operating Revenue in the Statement of Revenue, Expenses and Changes in Net Position are as follows:

Gas	\$ 2,336,923
Electric	<u>3,849,628</u>
Totals	<u>\$ 6,186,551</u>

Expense Allocation

Expenses associated with a particular division of the Department are charged to that division. For the year ended December 31, 2014, shared expenses including administrative and supporting costs are allocated to each division as follows:

Gas	35.0%
Electric and Telecommunications	65.0%

Depreciation

Depreciation is recoded on a straight-line basis using an annual rate of 3% of depreciable plant, property and equipment in service. The rate is in accordance with Massachusetts Department of Public Utilities regulations.

EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*.

When they become effective, application of these standards may restate portions of these financial statements.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
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NOTES TO FINANCIAL STATEMENTS

As of and for the Year Ended December 31, 2014

NOTE 2 – DEPOSITS AND INVESTMENTS

The Department participates in a cash and investment pool maintained by the city. In addition, the Department holds certain cash separately from the pool.

Custody and use of restricted assets are subject to requirements and restrictions imposed under contractual agreements, bond indentures, and the General Laws of the Commonwealth of Massachusetts, and are not available for normal operating purposes. Purchased power funds are on deposit with Massachusetts Municipal Wholesale Electric Company (MMWEC) to pay for energy and related services as required under existing agreements. Rate stabilization funds are amounts set aside to be used to stabilize current and future power costs. Postemployment benefit funds have been segregated by the Department to cover certain healthcare and life insurance benefits (See Note 11).

The Department invests various funds in debt and equity securities held by Flynn Financial Partners Ltd. and US Bank. All investments must be made in securities or deposits as authorized by Massachusetts General Laws, Chapter 44, Sections 54, 55 and 55B. Investments are stated at fair value.

The Department's deposits and investments at year end were comprised of the following:

	Carrying Value	Statement Balances	Associated Risks
Demand deposits	\$ 35,920,637	\$ 36,257,340	Custodial credit risk
U.S. agencies – implicitly guaranteed	6,866,073	6,866,073	Credit risk, Custodial credit risk, Interest rate risk, Concentration of credit risk
U.S. agencies – explicitly guaranteed	4,008,595	4,008,595	Custodial credit risk, Interest rate risk
State & local bonds	1,207,376	1,207,376	Credit risk, Custodial credit risk, Interest rate risk, Concentration of credit risk
Mutual funds – bond funds	3,942,244	3,942,244	Credit risk, Interest rate risk,
Equity securities/stocks	253,300	253,300	Custodial credit risk, Concentration of credit risk
Mutual funds – other than bond funds	36,440,241	36,440,241	N/A
Corporate bonds	7,616,954	7,616,954	Credit risk, Custodial credit risk, Interest rate risk, Concentration of credit risk
Totals	<u>\$ 96,255,420</u>	<u>\$ 96,592,123</u>	

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Reconciliation to Statement of Net Position	
Cash and investments	\$ 12,624,078
Redemption account	1,540,069
Accounts required under bond indenture/notes payable	32,985,771
Customer deposits	698,800
Purchased power accounts	353,633
Rate stabilization accounts	43,792,482
Other investments	188,390
OPEB Trust –Statement of fiduciary net position (separate financial statement)	<u>4,408,900</u>
Total	<u>\$ 96,592,123</u>

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for time and savings accounts (including NOW accounts) and \$250,000 for demand deposit accounts (interest-bearing and noninterest-bearing). In addition, if deposits are held in an institution outside of the state in which the government is located, insured amounts are further limited to a total of \$250,000 for the combined amount of all deposit accounts.

The Securities Investor Protection Corporation (SIPC), created by the Securities Investor Protection Act of 1970, is an independent government-sponsored corporation (not an agency of the U.S. government).

SIPC membership provides account protection up to a maximum of \$500,000 per customer, of which \$100,000 may be in cash. \$500,000 of the Department's investments and \$500,000 of the OPEB Trust investments are covered by SIPC. Additionally, through Lloyds of London, accounts have securities coverage subject to a \$575 million aggregate firm limit. Coverage limits per customer are not available. The Department and OPEB Trust have \$14,723,569 and \$1,908,887, respectively, of investments subject to the Lloyds of London coverage.

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that the Department's deposits may not be returned to the Department. As of December 31, 2014, \$5,691,000 was uninsured, uncollateralized, and subject to custodial credit risk.

Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. The Department's investment policy addresses credit risk by defining allowable investments.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 2 – DEPOSITS AND INVESTMENTS (cont.)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Department does not have a formal investment policy that limits investment maturities.

At December 31, 2014, the Department's investments were as follows:

Investment Type	Fair Value	Maturity in Years		
		Less Than 1	1-4	5-10
U.S. agencies – implicitly guaranteed	\$ 3,490,905	\$ -	\$ 994,650	\$ 2,496,255
U.S. agencies – explicitly guaranteed	4,008,595	-	1,678,179	2,330,416
State and local bonds	1,207,376	-	508,305	699,071
Mutual funds – bond funds	3,942,244	-	-	3,942,244
Corporate bonds	<u>7,616,954</u>	<u>1,285,330</u>	<u>6,331,624</u>	<u>-</u>
Totals	<u>\$ 20,266,074</u>	<u>\$ 1,285,330</u>	<u>\$ 9,512,758</u>	<u>\$ 9,467,986</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department does not have a separate formal policy regarding credit risk.

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

Investment Type	Standard & Poor's	Moody's Investment Service	Composite
U.S. Agencies – implicitly guaranteed	AA+ to AA	AA2 to A2	N/A
State and local bonds	AAA to BBB	AAA to BAA2	N/A
Mutual funds – bond funds	N/A	N/A	B to BBB
Corporate bonds	AAA to BBB	AAA to BAA2	N/A

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Department's investment in a single issuer. At December 31, 2014, investments in any one issuer that represented greater than 5% of total investments included Federal Farm Credit Bank (5.76%).

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE 3 – PLANT, PROPERTY AND EQUIPMENT

Plant, property and equipment as of December 31, 2014 consist of the following:

	Balance 12/31/13	Increases	Decreases	Balance 12/31/14
Utility Plant not Being Depreciated				
Gas				
Land	\$ 288,804	\$ -	\$ -	\$ 288,804
Construction in progress	23,865	2,185,697	2,216,209	(6,647)
	<u>312,669</u>	<u>2,185,697</u>	<u>2,216,209</u>	<u>282,157</u>
Electric/Telecommunications				
Land	5,439,873	4,000	-	5,443,873
Construction in progress	9,795,924	6,510,456	2,549,859	13,756,521
	<u>15,235,797</u>	<u>6,514,456</u>	<u>2,549,859</u>	<u>19,200,394</u>
Total Utility Plant Not Being Depreciated	<u>15,548,466</u>	<u>8,700,153</u>	<u>4,766,068</u>	<u>19,482,551</u>
Utility Plant Being Depreciated				
Gas				
Plant investment	39,501,739	2,605,219	127,054	41,979,904
Office furniture and equipment	1,299,394	17,764	-	1,317,158
Transportation and communication equipment	1,187,182	68,164	91,129	1,164,217
Other	330,253	-	-	330,253
	<u>42,318,568</u>	<u>2,691,147</u>	<u>218,183</u>	<u>44,791,532</u>
Electric/Telecommunications				
Plant investment	136,375,956	3,441,837	428,056	139,389,737
Office furniture and equipment	2,848,777	47,011	-	2,895,788
Transportation and communication equipment	4,809,536	113,908	46,191	4,877,253
Other	722,272	-	-	722,272
	<u>144,756,541</u>	<u>3,602,756</u>	<u>474,247</u>	<u>147,885,050</u>
Total Utility Plant Being Depreciated	<u>187,075,109</u>	<u>6,293,903</u>	<u>692,430</u>	<u>192,676,582</u>

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE 3 – PLANT, PROPERTY AND EQUIPMENT (cont.)

	Balance 12/31/13	Increases	Decreases	Balance 12/31/14
Less: Accumulated depreciation				
Gas				
Plant investment	\$ (20,794,372)	\$ (1,077,643)	\$ 113,426	\$ (21,758,589)
Office furniture and equipment	(979,444)	(56,323)	-	(1,035,767)
Transportation and communication equipment	(891,052)	(100,656)	91,129	(900,579)
Other	(179,373)	(29,290)	-	(208,663)
	<u>(22,844,241)</u>	<u>(1,263,912)</u>	<u>204,555</u>	<u>(23,903,598)</u>
Electric/Telecommunications				
Plant investment	(50,459,027)	(3,869,306)	358,412	(53,969,921)
Office furniture and equipment	(2,009,410)	(146,467)	-	(2,155,877)
Transportation and communication equipment	(3,325,577)	(292,180)	46,191	(3,571,566)
Other	(567,542)	(40,387)	-	(607,929)
	<u>(56,361,556)</u>	<u>(4,348,340)</u>	<u>404,603</u>	<u>(60,305,293)</u>
Total Accumulated Depreciation	<u>(79,205,797)</u>	<u>(5,612,252)</u>	<u>609,158</u>	<u>(84,208,891)</u>
Total Utility Plant Being Depreciated, Net				
Gas	19,474,327	1,427,235	13,628	20,887,934
Electric	88,394,985	(745,584)	69,644	87,579,757
	<u>107,869,312</u>	<u>681,651</u>	<u>83,272</u>	<u>108,467,691</u>
Total Utility Plant, Net				
Gas	19,786,996	3,612,932	2,229,837	21,170,091
Electric	103,630,782	5,768,872	2,619,503	106,780,151
	<u>\$ 123,417,778</u>	<u>\$ 9,381,804</u>	<u>\$ 4,849,340</u>	<u>\$ 127,950,242</u>

NOTE 4 – NOTE RECEIVABLE

Note receivable from Holyoke Solar, LLC (separate non-related entity) due to the Solar Coop in monthly installments of \$74,191 including interest at 5.25%, secured by the Solar Installation Property, matures December 2031.

\$ 9,988,735

Less: Amount due within one year

(346,238)

Note Receivable - Due After One Year

\$ 9,642,497

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE 4 – NOTE RECEIVABLE (cont.)

The note and security agreement also requires the borrower to establish a Reserve Account to be held in an interest bearing savings account equal to no less than 6 months of principal and interest debt service payments. The Solar Coop shall use the Reserve Account to cure any failure of the borrower to pay when due any principal or interest payment. If the Reserve Account is not used by the Solar Coop during the first 6 years, the Reserve Account shall be decreased to no less than 2 months of principal and interest debt service payments. The Reserve Account was established with a required balance of \$444,737. The account balance at December 31, 2014 was \$448,514.

NOTE 5 – OTHER RECEIVABLES

Other receivables, all due within one year, consist of the following as of December 31, 2014:

Massachusetts Municipal Wholesale Electric Company	\$	446,564
Massachusetts Department of Transportation		220,447
Accrued interest receivable		129,516
Miscellaneous other receivables		<u>855,822</u>
	\$	<u>1,652,349</u>

NOTE 6 – INTANGIBLE ASSETS

		2014	
	Life in Years	Gross Carrying Amount	Accumulated Amortization
2001 customer contracts and franchise costs	30	\$ 2,000,000	\$ 870,000

Aggregate amortization expense was \$66,667 for the year ended December 31, 2014. Estimated annual aggregate amortization expense is \$66,667 for the five years subsequent to 2014.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE 7 – RATE STABILIZATION RESERVE

The Department established a rate stabilization reserve which will be used for rate stabilization in the development of future rates and allow the Department to remain competitive under various market conditions by either purchasing replacement power or using reserves to mitigate the Department's exposure. Each year the Department determines the amount to be charged or credited to the reserve. The Department has set aside funds which will be used to offset these reserves. The reserve balance at December 31, 2014 is \$41,269,849 and is reported as a deferred inflow of resources.

NOTE 8 – LONG-TERM OBLIGATIONS

General Obligation Bonds –

Issued through the City of Holyoke

Original issue amount: \$30,532,000

Date of issue: April 2012

Bonds mature annually 2013-2031

\$ 28,230,000

Interest rates range from 2.0% - 5.0%

Revenue Bonds –

Massachusetts Clean Energy Cooperative Corporation - Series 2013

Original issue amount: \$49,885,000

Date of issue: April 2013

Bonds mature annually 2015-2032

49,885,000

Interest rates range from 3.0% - 5.0%

Clean Renewable Energy Bond –

Boatlock Hydroelectric Station Project - 2009 Series A

Original issue amount: \$2,500,000

Date of issue: January 2009

Interest rate: 1.5%

Secured by revenues of the Department

1,250,000

Less: Amount due within one year

(2,348,333)

Bonds Payable – Due After One Year

\$ 77,016,667

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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 8 – LONG-TERM OBLIGATIONS (cont.)

Principal maturing and interest payments are anticipated to be as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,348,333	\$ 3,588,372	\$ 5,936,705
2016	3,418,333	3,521,047	6,939,380
2017	3,533,333	3,401,786	6,935,119
2018	3,678,333	3,252,917	6,931,250
2019	3,793,333	3,134,311	6,927,644
2020 – 2024	20,698,335	13,078,755	33,777,090
2025 – 2029	25,695,000	7,872,860	33,567,860
2030 – 2032	16,200,000	1,530,250	17,730,250
Totals	<u>\$ 79,365,000</u>	<u>\$ 39,380,298</u>	<u>\$ 118,745,298</u>

The Department is required to satisfy certain bond covenant requirements in connection with the bonds payable. In addition, the notes payable detailed on the following page also have funding requirements. The following funds are required as part of the bond and note agreements:

Revenue Bonds

Project fund	\$ 22,768,893
Revenue fund	45,176
Debt service reserve fund	4,383,701
Redemption account	
Capitalized interest fund	1,046,108
Reserve and contingency fund	433,188
Bond interest fund	60,773

Clean Renewable Energy Bond

Debt service reserve fund	<u>255,561</u>
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Sub-total related to bonds

28,993,400

Notes Payable

Collateral account	5,083,926
Reserve fund	<u>448,514</u>

Sub-total related to notes

5,532,440

Total funds required under bond
indenture/note payable

\$ 34,525,840

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE 8 – LONG-TERM OBLIGATIONS (cont.)

Notes Payable

Note payable to bank, secured by revenues of the Department, monthly payments of \$20,587 including interest at 5.25% through maturity date of October, 2018.	\$ 854,884
Note payable to bank, secured by all assets of the Holyoke Solar Cooperative, monthly payments of \$6,346 including interest at 4.47%, matures in September 2031.	895,392
Note payable to bank, secured by all assets of the Holyoke Solar Cooperative, monthly payments of \$29,820 including interest at 4.00%, matures in September 2031.	4,359,439
Note payable to bank, secured by all assets of the Holyoke Solar Cooperative, monthly payments of \$29,470 including interest at 3.40%, Matures in September 2031.	
A pledge of securities as collateral, with a value of \$5,083,926 at December 31, 2014 is also required under this note.	<u>4,510,933</u>
	10,620,648
Less: Amount due within one year	<u>(628,620)</u>
Notes Payable – Due After One Year	<u>\$ 9,992,028</u>

Principal maturing and interest payments are anticipated to be as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 628,620	\$ 406,058	\$ 1,034,678
2016	655,146	379,531	1,034,677
2017	685,066	349,612	1,034,678
2018	673,984	319,518	993,502
2019	491,383	288,484	779,867
2020 – 2024	2,756,775	1,181,373	3,938,148
2025 – 2029	3,337,010	601,137	3,938,147
2030 – 2031	<u>1,392,664</u>	<u>51,628</u>	<u>1,444,292</u>
Totals	<u>\$ 10,620,648</u>	<u>\$ 3,577,341</u>	<u>\$ 14,197,989</u>

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 8 – LONG-TERM OBLIGATIONS (cont.)

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activities for the years ended December 31, 2014 are as follows:

	Balance 12/31/13	Additions	Reductions	Balance 12/31/14	Current Portion
Long-term bonds and loans					
Bonds payable	\$ 80,735,333	\$ -	\$ 1,370,333	\$ 79,365,000	\$ 2,348,333
Premium on bonds	11,397,204	-	836,777	10,560,427	-
Notes payable	11,222,848	-	602,200	10,620,648	628,620
Leases payable	151,962	99,464	79,182	172,244	107,829
	<u>103,507,347</u>	<u>99,464</u>	<u>2,888,592</u>	<u>100,718,319</u>	<u>3,084,782</u>
Other long-term liabilities					
Compensated absences	2,929,924	225,503	250,119	2,905,308	171,952
Other postemployment benefits	4,176,425	-	3,893,237	283,188	-
Environmental costs	642,846	-	119,486	523,360	120,000
Reserve fund for note receivable	444,737	-	-	444,737	-
	<u>444,737</u>	<u>-</u>	<u>-</u>	<u>444,737</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 111,701,279</u>	<u>\$ 324,967</u>	<u>\$ 7,151,334</u>	<u>\$ 104,874,912</u>	<u>\$ 3,376,734</u>

REVENUE DEBT

The Department has pledged future revenues, net of certain operating expenses to repay revenue bonds issued in 2013. Proceeds from the bonds provided financing for improvements to the Hadley Falls generating station. The bonds are payable solely from revenues generated by the power purchase agreement with MMWEC through 2032. Annual principal and interest payments on the bonds are expected to require 100% of the Clean Energy Coop future gross revenues from MMWEC. The principal and interest remaining to be paid on the bonds is \$76,630,400. Principal and interest paid for the current year and total customer net revenues were \$2,367,350 and \$0, respectively. Customer revenues are anticipated to start in 2015 to coincide with the first bond principal payment due.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE 9 – BLENDED COMPONENT UNITS

The following schedules provide details of the blended component units balances, activities, and eliminations.

COMBINING SCHEDULE OF NET POSITION For the Year Ended December 31, 2014

ASSETS	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
Current Assets					
Cash and investments	\$ 10,718,602	\$ 1,900,187	\$ 5,289	\$ -	\$ 12,624,078
Restricted Assets					
Redemption account	-	-	1,540,069	-	1,540,069
Customer accounts receivable - net	6,702,587	19,035	-	-	6,721,622
Accounts receivable - City of Holyoke	30,000	-	-	-	30,000
Note receivable - current portion	-	346,238	-	-	346,238
Materials and supplies	3,010,955	-	-	-	3,010,955
Fuel for electric generation and gas in storage	1,172,466	-	-	-	1,172,466
Prepaid expense	3,058,257	-	27,269,823	(27,269,823)	3,058,257
Other receivables	1,621,353	30,996	-	-	1,652,349
Total Current Assets	<u>26,314,220</u>	<u>2,296,456</u>	<u>28,815,181</u>	<u>(27,269,823)</u>	<u>30,156,034</u>
Noncurrent Assets					
Restricted Assets					
Accounts required under bond indenture/note payable	255,561	5,532,440	27,197,770	-	32,985,771
Customers' deposits	698,800	-	-	-	698,800
Hi-Lite assistant loans	-	9,642,498	-	-	9,642,498
Other receivables - after one year	2,687,183	-	-	-	2,687,183
Advances to other funds	431,000	-	-	(431,000)	-
Other Assets					
Purchased power accounts	353,633	-	-	-	353,633
Rate stabilization accounts	43,792,482	-	-	-	43,792,482
Costs recoverable in future - pollution	523,360	-	-	-	523,360
Other investments	188,390	-	-	-	188,390
Intangible assets	1,130,000	-	-	-	1,130,000
Capital Assets					
Plant, property and equipment in service	198,409,259	-	-	-	198,409,259
Construction in progress	13,749,874	-	-	-	13,749,874
	212,159,133	-	-	-	212,159,133
Less: Accumulated depreciation	(84,208,891)	-	-	-	(84,208,891)
Total Capital Assets	<u>127,950,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,950,242</u>
Total Noncurrent Assets	<u>178,010,651</u>	<u>15,174,938</u>	<u>27,197,770</u>	<u>(431,000)</u>	<u>219,952,359</u>
Total Assets	<u>204,324,871</u>	<u>17,471,394</u>	<u>56,012,951</u>	<u>(27,700,823)</u>	<u>250,108,393</u>

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014**NOTE 9 – BLENDED COMPONENT UNITS (cont.)**COMBINING SCHEDULE OF NET POSITION (cont.)
For the Year Ended December 31, 2014

LIABILITIES	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
Current Liabilities					
Accounts payable	\$ 6,433,325	\$ 9,276	\$ -	\$ -	\$ 6,442,601
Customers' deposits	692,492	-	-	-	692,492
Accrued liabilities	662,533	-	1,183,675	-	1,846,208
Current portion - accrued compensated absences	171,952	-	-	-	171,952
Current portion - accrued environmental costs	120,000	-	-	-	120,000
Accrued charges - current	273,840	-	-	-	273,840
Liabilities Payable from Restricted Assets					
Current portion - bonds and notes payable	1,722,703	422,079	940,000	-	3,084,782
Accrued interest	402,457	-	-	-	402,457
Total Current Liabilities	<u>10,479,302</u>	<u>431,355</u>	<u>2,123,675</u>	<u>-</u>	<u>13,034,332</u>
Long-Term Liabilities					
Bonds payable - long-term	28,071,667	-	48,945,000	-	77,016,667
Plus: Unamortized premium on bonds payable	2,682,346	-	7,878,081	-	10,560,427
	<u>30,754,013</u>	<u>-</u>	<u>56,823,081</u>	<u>-</u>	<u>87,577,094</u>
Notes payable - long-term	648,343	9,343,685	-	-	9,992,028
Leases payable - long term	64,415	-	-	-	64,415
Accrued compensated absences	2,733,356	-	-	-	2,733,356
Accrued environmental liability	403,360	-	-	-	403,360
Accrued other post employment benefits	283,188	-	-	-	283,188
Unearned revenue	28,328,393	-	-	(27,269,823)	1,058,570
Reserve account advance	-	444,737	431,000	(431,000)	444,737
Total Long-Term Liabilities	<u>63,215,068</u>	<u>9,788,422</u>	<u>57,254,081</u>	<u>(27,700,823)</u>	<u>102,556,748</u>
Total Liabilities	<u>73,694,370</u>	<u>10,219,777</u>	<u>59,377,756</u>	<u>(27,700,823)</u>	<u>115,591,080</u>
DEFERRED INFLOWS OF RESOURCES					
Rate stabilization reserve	41,269,849	-	-	-	41,269,849
NET POSITION					
Net investment in plant, property and equipment	95,473,526	-	-	(34,994,188)	60,479,338
Restricted for debt service	255,561	5,110,361	3,845,271	-	9,211,193
Restricted for purchase of future power capacity	-	-	22,768,893	(22,768,893)	-
Unrestricted (deficit)	(6,368,435)	2,141,256	(29,978,969)	57,763,081	23,556,933
TOTAL NET POSITION (DEFICIT)	<u>\$ 89,360,652</u>	<u>\$ 7,251,617</u>	<u>\$ (3,364,805)</u>	<u>\$ -</u>	<u>\$ 93,247,464</u>

HOLYOKE GAS AND ELECTRIC(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014**NOTE 9 – BLENDED COMPONENT UNITS (cont.)**CONDENSED COMBINING SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
For the Year Ended December 31, 2014

	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
OPERATING REVENUES	\$ 69,165,642	\$ 267,548	\$ -	\$ (267,548)	\$ 69,165,642
OPERATING EXPENSES					
Operation and maintenance	54,750,572	141,804	-	(267,548)	54,624,828
Depreciation - plant and equipment	5,612,253	-	-	-	5,612,253
Total Operating Expenses	<u>60,362,825</u>	<u>141,804</u>	<u>-</u>	<u>(267,548)</u>	<u>60,237,081</u>
Operating Income	<u>8,802,817</u>	<u>125,744</u>	<u>-</u>	<u>-</u>	<u>8,928,561</u>
NONOPERATING OTHER REVENUES (EXPENSES)					
Investment income - net of fees	2,643,031	669,414	139,374	-	3,451,819
Net gain (loss) on investments	(828,426)	151,664	30,197	-	(646,565)
Interest expense	(1,122,122)	(381,288)	(1,719,856)	-	(3,223,266)
Miscellaneous income (expense)	879,395	1,078	(32,308)	-	848,165
Amortization of intangible assets	(66,667)	-	-	-	(66,667)
Net loss - plant retirements	(241,706)	-	-	-	(241,706)
Net gain - merchandise jobbing	115,045	-	-	-	115,045
Mt. Tom property assessment expense	(42,876)	-	-	-	(42,876)
Taxes - other	(79,768)	-	-	-	(79,768)
Total Other Revenues (Expenses)	<u>1,255,906</u>	<u>440,868</u>	<u>(1,582,593)</u>	<u>-</u>	<u>114,181</u>
Change in Net Position Before Transfers	10,058,723	566,612	(1,582,593)	-	9,042,742
TRANSFERS					
Payment in lieu of taxes - City of Holyoke	<u>(1,086,595)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,086,595)</u>
Change in Net Position	8,972,128	566,612	(1,582,593)	-	7,956,147
NET POSITION (Deficit) - Beginning of Year	<u>80,388,524</u>	<u>6,685,005</u>	<u>(1,782,212)</u>	<u>-</u>	<u>85,291,317</u>
NET POSITION (Deficit) - END OF YEAR	<u>\$ 89,360,652</u>	<u>\$ 7,251,617</u>	<u>\$ (3,364,805)</u>	<u>\$ -</u>	<u>\$ 93,247,464</u>

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE 9 – BLENDED COMPONENT UNITS (cont.)

CONDENSED COMBINING SCHEDULE OF CASH FLOWS For the Year Ended December 31, 2014

NET CASH FLOWS FROM (USED IN)	HGE	Holyoke Solar	Mass Clean Energy	Eliminations	Total
Operating activities	\$ 9,333,094	\$ 126,429	\$ -	\$ -	\$ 9,459,523
Investing activities	2,345,469	1,075,970	6,074,089	-	9,495,528
Noncapital financing activities	(1,086,595)	-	-	-	(1,086,595)
Capital and related financing activities	(13,978,144)	(787,630)	(6,078,440)	3,678,781	(17,165,433)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,386,176)	414,769	(4,351)	3,678,781	703,023
CASH AND CASH EQUIVALENTS - Beginning of Year	69,534,528	1,795,344	9,640	-	71,339,512
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 66,148,352	\$ 2,210,113	\$ 5,289	\$ 3,678,781	\$ 72,042,535

NOTE 10 – RETIREMENT PLANS

CONTRIBUTORY PLAN

Substantially all full-time employees participate in the Holyoke Contributory Retirement System, a cost sharing multiple employer defined benefit public employee retirement system. The system is partially funded by employee contributions. The plan provides pension benefits, deferred allowances and death and disability benefits. Retirement allowance is based on the following factors: age, length of creditable service, level of salary, and group classification. Age at retirement and group classification determine a benefit rate. Percentages are specified in Chapter 32 of the Massachusetts General Laws. Participants may elect to receive their retirement in one of three optional forms of payment.

Member employers are required by state statutes to make contributions to the plan. Contributions are determined by the Commonwealth of Massachusetts Division of Public Employee Retirement Administration (PERA). The Department's contributions charged to expense for the year ended December 31, 2014 was \$3,386,745. The Department's contribution for the year was 20% of the total contributions for all employers covered by the plan. Total contributions for the years ended 2013 and 2012 were \$3,242,309 and \$2,973,199, respectively, equal to 20% of the total contributions for all employers covered by the plan.

Covered employees are required by state statute to contribute a fixed percentage of their earnings into the plan. The percentage varies from 5 to 9 percent depending upon date of hire. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over \$30,000 per year. Employee contributions for the year ended December 31, 2014 were \$1,041,821. Employee contributions for the years ended December 31, 2013 and 2012 were \$1,010,052 and \$951,134, respectively.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing or calling the plan as follows: Attn: Cheryl Dugre, Executive Director, Holyoke Retirement Board, City Hall Annex - Room 207, Holyoke, Massachusetts 01040, 413 534 2179.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires that other postemployment benefits (OPEB), primarily healthcare, be accounted for on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the consolidated statement of revenues, expenses and change in net position when a future retiree earns their postemployment benefits, rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the statement of net position over time.

PLAN DESCRIPTION

The Department's policy is to provide certain healthcare and life insurance benefits to eligible retirees, their dependents, or their survivors through the City of Holyoke's cost-sharing multiple- employer postemployment welfare benefit plan.

FUNDING POLICY

The Department is not required to provide funding for OPEB, other than the pay-as-you go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. The cost of providing these benefits was \$507,188 for 162 retirees in 2014 and \$577,849 for 122 retirees in 2013. During October 2014, the Department contributed assets into a separate legal trust, Holyoke Gas and Electric OPEB Trust, for the payment of future OPEB obligations. This contribution was \$4,515,266 bringing the total contribution in 2014 to \$5,022,454.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The Department's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount that was actuarially determined in accordance with the parameters of GASB Statement No. 45. The projected unit credit method was used in the actuarial valuations prepared as of December 31, 2014, which is the basis for the 2014 ARC calculation.

The following table shows the elements of the Department's annual OPEB cost, the amounts actually contributed, and changes in the Department's net OPEB obligation as of December 31, 2014:

Annual required contribution	\$ 1,119,091
Interest on net OPEB obligation	313,232
Adjustment to annual required contribution	<u>(303,106)</u>
Annual OPEB cost	1,129,217
Contributions made	<u>(5,022,454)</u>
Change in Net OPEB Obligation	(3,893,237)
Net OPEB Obligation – Beginning	<u>4,176,425</u>
Net OPEB Obligation – Ending	<u>\$ 283,188</u>

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

ANNUAL OPEB COST AND NET OPEB OBLIGATION (cont.)

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for year ended December 31, 2014 was as follows:

<u>Period Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2014	\$1,129,217	444.8%	\$ 283,188
June 30, 2013	1,390,180	41.57%	4,176,425

FUNDED STATUS AND FUNDING PROGRESS

The most recent actuarial valuation date was December 31, 2014. The funded status of the plan as of December 31, 2014 was as follows:

Actuarial accrued liability (AAL)	\$ 11,362,451
Actuarial value of plan assets	<u>4,411,653</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 6,950,798</u>
Funded ratio (actuarial value of plan assets/AAL)	38.8%
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
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NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended December 31, 2014

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (cont.)

ACTUARIAL METHODS AND ASSUMPTIONS (cont.)

In the June 30, 2013, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0% investment rate of return and an annual healthcare cost trend rate of 8.0% initially, reduced by decrements of 0.5% to an ultimate rate of 5.0% after 6 years. Both rates include a 3.5% inflation assumption. The actuarial value of Retiree Health Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a three-year period. The plans' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period at December 31, 2014 was 20 years.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Clean Energy Coop signed a power sales contract in April 2013 with its member Massachusetts Wholesale Electric Company (MMWEC). Through this contract, MMWEC will purchase the net electrical capacity of the Hadley Falls Facility from the Clean Energy Coop at a monthly charge as defined in the contract. There were no sales to MMWEC during 2014.

There is also an agency contract between the Clean Energy Coop and MMWEC, whereby MMWEC will act as agent for the Clean Energy Coop in the performance of its administrative obligations.

The Department transacted business in the amount of \$187,041 with Tighe Bond during 2014 for engineering services. One of the Department's commissioners has a financial interest in this company, requiring disclosure.

NOTE 13 – COMMITMENTS AND CONTINGENCES

PURCHASED POWER CONTRACTS

Short-term power - On a continuing basis, the Department enters into several short-term power supply contracts for either the purchase or sale of capacity, energy, renewable certificates or ancillary services with various suppliers. This includes bilateral purchases to meet the Department's shortfall position during the summer months of 2014 through 2017, where commitments were made by the end of 2013 in the amount of \$695,048 for 2014 and \$941,202 for the three year period from 2015-2017.

In December, 2010, the Department, through its Subsidiary Holyoke Solar Cooperative, signed a 20 year solar Power Purchase Agreement with Holyoke Solar, LLC (the Seller). The Department has agreed to purchase the electricity produced by the grid-connected solar power facility which will vary between \$265,000 and \$425,000 annually. After the initial term, this agreement can be renewed for two consecutive five year terms. In conjunction with this PPA, the Department is leasing, to Holyoke Solar, LLC, the property on which the solar power facility is located at \$100 per usable acre per year for the first 20 years. After the initial term under the PPA, the rate shall be \$3,000 per usable acre per year subject to a 2.5% annual escalation.

HOLYOKE GAS AND ELECTRIC

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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 13 – COMMITMENTS AND CONTINGENCES (cont.)

PURCHASED POWER CONTRACTS (cont.)

In June 2011, the Department signed a 20 year solar Power Sales Agreement with Rivermoor-Citizens Holyoke LLC (the Seller). The Department agreed to purchase the electricity produced by the photovoltaic solar electric generation system for an annual payment of between \$48,000 - \$72,000 beginning in February 2013. After the initial term, this agreement shall automatically renew for successive one-year terms, up to a maximum of ten such renewal terms.

In December 2011, the Department signed a ten year contract with Nextera Energy Power Marketing to purchase on-peak physical energy each year at an estimated cost of \$2,400,000. In July 2012, the Department executed a Blanket Purchase Agreement with Precise Energy Capital LLC for up to 30 MW-de of solar output throughout Massachusetts. Under this agreement, such solar facilities shall be identified and committed for construction prior to July 1, 2014 with estimated commercial operation dates. No projects have been identified as of December 31, 2014 and it is therefore not possible to quantify any potential commitments.

In November 2013, the Department entered into an agreement to provide electricity to the Open Square facility and purchase any excess electricity from the operation of the Open Square D and G wheels at a monthly charge as defined in the agreement which runs through October 2015.

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY

The Department is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC), a public corporation and a political subdivision of the Commonwealth of Massachusetts, created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other entities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should a Project Participant fail to make any payment when due, other Project Participants of that Project may be required to increase (step-up) their payments and correspondingly their Participant's share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participant's share of that Project's Project Capability. Project Participants have covenanted to fix, revise and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has issued separate issues of revenue bonds for each of its eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which the bonds relate, plus available funds pledged under MMWEC's Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. The MMWEC 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.

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NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 13 – COMMITMENTS AND CONTINGENCES (cont.)

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY (cont.)

The Department has entered into Power Sales Agreements (PSAs) and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from the Department's revenues. Under the PSAs, each participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project, both fossil-fueled power plants. MMWEC has a 3.7% interest in the W.F. Wyman Unit No. 4 plant, which is operated and owned by its majority owner, FPL Energy Wyman IV, LLC, a subsidiary of NextEra Energy Resources LLC, and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit, operated by Dominion Nuclear Connecticut, Inc. (DNCI), the majority owner and an indirect subsidiary of Dominion Resources, Inc. DNCI also owns and operates the Millstone Unit 2 nuclear unit. The operating license for the Millstone Unit 3 nuclear unit extends to November 25, 2045.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by NextEra Energy Seabrook, LLC (NextEra Seabrook) the majority owner and an indirect subsidiary of NextEra Energy Resources LLC. The operating license for Seabrook Station extends to March 15, 2030. NextEra Seabrook has submitted an application to extend the Seabrook Station operating license for an additional 20 years.

Pursuant to the PSAs, the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which costs are being funded through monthly Project billings. Also, the Project Participants are liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act (Act). Originally enacted in 1957, the Act has been renewed several times. In July 2005, as part of the Energy Policy Act of 2005, Congress extended the Act until the end of 2025.

The Department has entered into PSAs and Power Purchase Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Department revenues. Under the PSAs, each Participant is unconditionally obligated to make all payments due to MMWEC, whether or not the Project(s) is completed or operating, and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions. In the opinion of MMWEC management, the outcome of such actions will not have a material adverse effect on the financial position of the company.

Total capital expenditures for MMWEC's Projects amounted to \$1,616,889,000 of which \$46,522,000 represents the amount associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. MMWEC's debt outstanding for the Projects includes Power Supply Project Revenue Bonds totaling \$167,110,000, of which \$4,342,000 is associated with the Department's share of Project Capability of the Projects in which it participates, although such amount is not allocated to the Department. As of December 31, 2014, MMWEC's total future debt service requirement on outstanding bonds issued for the Projects is \$152,675,000 of which \$3,839,000 is anticipated to be billed to the Department in the future.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 13 – COMMITMENTS AND CONTINGENCES (cont.)

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY (cont.)

The estimated aggregate amount of Holyoke Gas And Electric Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2014 and estimated for future years is shown below.

<u>For the Years Ended December 31,</u>	
2015	\$ 1,827,000
2016	1,364,000
2017	537,000
2018	<u>109,000</u>
Total	<u>\$ 3,837,000</u>

In addition, the Department is required to pay its share of the operation and maintenance (O&M) costs of the Projects in which they participate. The Department's total O&M costs including debt service under the PSAs was \$5,219,000 for the year ended December 31, 2014.

TELECOMMUNICATIONS CONTRACTS

The Department has entered into long-term contracts for dedicated point- to-point data lines and Internet Access services from several companies. These contracts have five to ten year terms. In addition the Department has entered into one-year contracts with two companies for frame relay lines, dialup help desk support and dedicated line monitoring services.

In 2002, the Department entered into a lease with Fiber Technologies Networks, LLC (Fibertech) for use of the Department's fiber optic lines. The lease provides for an annual payment per route mile for 20 years with an option to renew for an additional five years.

The Department has long-term contracts which range from 1 to 5 years with customers for telecommunications services.

HYDROELECTRIC FACILITY

As part of the Department's purchase of hydroelectric generating assets and a distribution franchise in 2001, FERC required certain modifications to the hydroelectric facility. The cost of these modifications over the next several years is likely to exceed ten million dollars.

ENVIRONMENTAL PROTECTION AND OTHER ISSUES

In 1990, the Massachusetts Department of Environmental Protection (MDEP) sent a notice of responsibility to the Department and other parties regarding the presence of coal tar on property known as the gas works, adjacent to the Connecticut River. An investigation of the site has revealed concentrations of contaminants on the site and MDEP classified the area as a priority site. A second notice of responsibility was issued in September 1993 for gas tar deposits in the Connecticut River, effectively separating the gas works into a land site and a river site.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 13 – COMMITMENTS AND CONTINGENCES (cont.)

ENVIRONMENTAL PROTECTION AND OTHER ISSUES (cont.)

Effective February 2003, the Department increased the gas rates in order to collect additional dollars for clean-up of the gas works site and is accruing amounts, based on management's best estimate of the probable and reasonably estimable costs related to this clean-up. The current estimate for the remaining clean-up of only the land site is approximately \$523,360. No estimate is currently available for the river site. However, the cost of clean-up may be significant and material to the financial statements. The measurement of the accrual for remediation costs is subject to uncertainty, including the evolving nature of environmental regulations and the difficulty in estimating the extent and type of remediation activity that will be utilized. The utility is also in negotiations with another counterparty under a similar order to fund part of the clean-up efforts. A final agreement as to the cost-sharing methodology between the parties has not been reached. The impact of these negotiations may be material to the financial statements but cannot be estimated.

CONSTRUCTION PROGRAMS

The Department has budgeted construction expenditures of approximately \$23 million to be incurred during 2014, many of these projects were delayed to 2015.

SOURCES OF LABOR SUPPLY

Fifty-nine percent of the Department's labor force is covered under a collective bargaining agreement between the City of Holyoke Gas and Electric Department and the Holyoke Municipal Gas, Light & Power Guild, Inc. The agreement expires March 31, 2017.

CLAIMS AND JUDGMENTS

From time to time, the utility is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the utility's legal counsel that the likelihood is remote that any such claims or proceedings, other than those listed above, will have a material adverse effect on the utility's financial position or results of operations.

NOTE 14 – RISK MANAGEMENT

The utility is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors, and omissions; workers compensations; and health care of its employees. The utility participates in a public entry risk pool called the PUMIC to provide coverage for the above mentioned risks except for workers compensation. The following details the coverage through the PUMIC. Settled claims have not exceeded the risk pool coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

HOLYOKE GAS AND ELECTRIC

(Enterprise and Fiduciary Funds of the
City of Holyoke, Massachusetts)

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended December 31, 2014

NOTE 14 – RISK MANAGEMENT (cont.)

PUBLIC ENTITY RISK POOL

Public Utility Mutual Insurance Company (PUMIC)

The PUMIC is a liability insurance company, which is owned by its members. The PUMIC was formed in 1997 to provide general insurance to members of the Public Utility Risk Management Association (PURMA). PURMA is a 501(c)(6) not-for-profit association whose members include municipal utilities and rural cooperatives.

The PUMIC is self-insured up to a maximum of \$1,000,000 of each insurance risk. Losses paid by the PUMIC plus administrative expenses will be recovered through premiums to the participating pool of municipal utilities and rural cooperatives.

Management of each organization consists of a board of directors comprised of representatives elected by the participants. The utility has an employee participating as a board member in each of the organizations.

Financial statements of PUMIC and PURMA can be obtained directly from PUMIC's offices.

The initial investment in PUMIC is refundable upon withdrawal from the organization and has been reported at the original amount of \$168,000.

For general liability purposes, the Department is self-insured up to \$50,000, has self-insurance trust coverage in the amount of \$400,000 and general liability insurance through the risk pool for \$50,000 to \$10,000,000 per occurrence. The Department is also self-insured for workers compensation up to \$250,000 per occurrence. A policy is in effect for excess workers compensation.

REQUIRED SUPPLEMENTARY INFORMATION

HOLYOKE GAS AND ELECTRIC

SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS
December 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
12/31/2014	\$ 4,411,653	\$ 11,362,451	\$ 6,950,798	38.8%	N/A	N/A
6/30/2013	\$ -	10,596,663	10,596,663	0.0%	N/A	N/A
6/30/2011	\$ -	21,839,677	21,839,677	0.0%	N/A	N/A

Note: the studies completed prior to 12/31/14 related to the City of Holyoke as a whole and were completed as of the city's fiscal year end. A new study was completed for the Department due to change in funded status during October 2014.

S U P P L E M E N T A L I N F O R M A T I O N

HOLYOKE GAS AND ELECTRIC

SCHEDULES OF OPERATING REVENUES AND EXPENSES - GAS DIVISION

For the Year Ended December 31, 2014

OPERATING REVENUES

Residential	\$ 10,042,405
Commercial	11,032,541
Industrial	2,585,356
Municipal	786,420
Departmental sales	125,249
Sales for resale	698,687
Uncollectible accounts	<u>(582,152)</u>

Total Operating Revenues \$ 24,688,506

COST OF GAS SOLD

Purchases - natural gas	\$ 12,959,447
Liquid natural gas processed	1,524,527
Environmental response	159,513
Supplies and expenses	<u>220,871</u>

Total Cost of Gas Sold \$ 14,864,358

DISTRIBUTION

Salaries and Wages	
System control and load dispatch	\$ 333,082
Supervision and engineering	259,055
Customer installation	520,042
Operation	447,159
Maintenance	766,937
Supplies and expenses	<u>1,016,303</u>

Total Distribution \$ 3,342,578

CUSTOMER ACCOUNTS

Salaries and Wages	
Meter reading	\$ 61,144
Accounting and collection	138,221
Supplies and expenses	<u>61,081</u>

Total Customer Accounts \$ 260,446

GENERAL AND ADMINISTRATIVE

Salaries	\$ 765,712
Pensions and benefits	1,796,122
Insurance	98,117
General supplies and expenses	<u>621,823</u>

Total General and Administrative \$ 3,281,774

HOLYOKE GAS AND ELECTRIC

SCHEDULE OF OPERATING REVENUES AND EXPENSES - ELECTRIC AND TELECOMMUNICATIONS DIVISIONS For the Year Ended December 31, 2014

OPERATING REVENUES

Electric Sales	
Residential	\$ 12,410,403
Commercial	21,147,767
Industrial	5,519,396
Municipal	2,571,089
Interdepartmental	275,871
Water	6,345
Cobble Mountain operation - net	551,701
Telecommunication sales	2,251,047
Uncollectible accounts - electric	(261,815)
Uncollectible accounts - telecommunications	5,332
	<u>5,332</u>
Total Operating Revenues	<u>\$ 44,477,136</u>

COST OF ELECTRICITY/STEAM/WATER SOLD

Purchases - electricity	\$ 9,780,494
Salaries and Wages	
Production	1,231,261
Maintenance	1,319,837
Supplies and expenses	2,715,674
Cost of water sold	<u>386,966</u>
Total Cost of Electricity/Steam/Water Sold	<u>\$ 15,434,232</u>

ELECTRIC TRANSMISSION

Salaries and wages	\$ 581,061
Supplies and expenses	271,866
Transmission by others	<u>2,986,833</u>
Total Electric Transmission	<u>\$ 3,839,760</u>

DISTRIBUTION

Electric	
Salaries and Wages	
Lines, equipment and street lights	\$ 2,054,882
Customer installations	207,789
Supplies and expenses	2,035,405
Telecommunications distribution	<u>1,166,835</u>
Total Distribution	<u>\$ 5,464,911</u>

CUSTOMER ACCOUNTS

Electric	
Salaries and Wages	
Meter reading	\$ 114,318
Accounting and collection	256,695
Supplies and expenses	<u>113,007</u>
Total Customer Accounts	<u>\$ 484,020</u>

GENERAL AND ADMINISTRATIVE

Electric	
Salaries	\$ 1,413,947
Pensions and benefits	3,653,007
Insurance	408,308
General supplies and expenses	1,701,976
Telecommunications general and administrative	<u>601,255</u>
Total General and Administrative	<u>\$ 7,778,493</u>

