



ANNUAL REPORT 2002

James L. Collins
General Manager

After more than a year in this office, I can report to you that MG&E is on solid financial footing, and that our equipment and distribution systems are prepared to serve you reliably now and in the future. The people who make this utility work for you — the employees, managers, and commissioners — are the people who made this year of transition work for all of us. They deserve our praise and my gratitude.

This new system requires a financially healthy G&E to work and any attempt to override it would most likely undo the current profit-sharing system established for the benefit of the town. Of revenue after expenses.

Finally, when it was apparent that our costs were stabilizing and all improvements would be completed as planned in 2002, our Commissioners voted to raise the in-lieu-of-tax payment to the town of Middleborough to \$320,750. We now determine this payment using a factor of Department performance and growth in sales, providing a solid benefit to Middleborough as a share of revenue after expenses.

of our pipes and wires, lights and poles, meter readers, clerks and linemen — all of our resources and all of us — are focused only on our ratepayers in this 100-square-mile area. As you might imagine, that makes it easier to provide personal attention, deliver a fast response when it's needed, and keep goals in line with our customers' priorities. In the most recent survey, 89% of responding customers gave our service a positive rating. When customers had called or visited our office, that rating increased to 95%.

Ongoing improvements keep our systems reliable, ahead of any problems. We invest a significant amount of revenue into maintaining and upgrading our distribution systems to keep natural gas flowing and the power on. This work can be as simple as tree-trimming on our rural streets — one-third of our service area is completed each year. In many cases, we carefully plan expensive upgrades in stages over decades and, in some cases, we push these plans up due to customer growth. Last year we completed the electric substation upgrade to increase the potential load by 50%. A new circuit will be finished this year serving east Lakeville, ensuring a more level load in that growing area. Major improvements to the natural gas take station in South Middleborough will be completed this year as well, allowing for more capacity. The combined total cost for this work exceeds \$3 million, all paid from existing revenues and savings without rate increases.

We serve our community at large. Because we are part of the community we serve, we feel a duty to do what we can when other municipal departments and community groups need our help. Each year we support events and public activities that help make

We also began preparing in earnest for coming economic forces. In 2007, state deregulation law requires that transition and default service charges — commonly known as stranded cost charges — come to an end for all investor-owned utilities (IOUs). We expect that IOU bills will drop somewhat at this time. In 2002, we committed to building up our own depleted stranded cost fund and contributed substantially to this fund. If properly prepared, this fund will allow us to lower our cost of purchased power at a critical time and bring our customers' bills in line with the lowest IOU bills in the state and perhaps even lower than most — as they are now.

Of course, this growth requires that we continue to improve our network of electric and natural gas delivery, avoiding the effects of aging distribution systems and equipment unable to keep up with modern loads. To date, we have completed several critical projects necessary to give us more room to supply our growing customer base. By adding a third transformer to our electric substation, building a third electric distribution circuit in Lakeville, and improving our natural gas take station to doubling delivery pressures, we have taken steps that will have a lasting affect for our customers — and all within budget and without borrowing.

A Letter to Our Customers



From the General Manager

By the end of 2002, I had completed my first full year as general manager of your utility. It was clear when I began that we needed to prepare for uncertain energy markets in a shifting economy and take steps we had never taken before.

We began by realigning our management team, eliminating three management positions and asking all of our remaining managers to take on even more activity. Our managers now deal more directly with customers and I continue to be directly involved in supply forecasting and purchasing. For our customers this means that you benefit by faster response to reliability and rate issues. Also, we react faster and with more hands-on experience to shifting energy markets, finding opportunities for low-cost supplies, keeping rates competitive.

Throughout this period, Middleborough and Lakeville continued to grow at a 3.5% rate, bringing us to a new summer electric peak this year of 53 megawatts. We added electric service to more than 280 new homes, and installed more than 240 new natural gas residential services in 2002, numbers that may be surpassed this summer. The severe winter of 2002-2003 also brought us to a new peak natural gas flow rate of 227 thousand cubic feet and a one-day record-breaking send out of 5,000 million cubic feet. While these dramatic numbers continue to climb, we continue to manage with less staff — now

Your Gas and Electric Department This Year

MG&E is a different kind of utility. We are actually one of a kind, created by the town of Middleborough and serving the unique needs of the communities of Middleborough and neighboring Lakeville. Without investors or out-of-state and even out-of-country owners, everything we do depends upon the priorities of our local ratepayers. Here's what we did this year:

Rates stayed lower than investor-owned utilities. The market for electric and natural gas supply behaved badly this year. With war looming and some oil supplies threatened, market speculation caused electric and natural gas prices to spike in the summer and winter months. Investor-owned utilities (IOUs) that serve towns surrounding us scrambled to catch up, increasing fuel charges and their customer bills, in some cases five times throughout the year. At MG&E, we were prepared. We planned a modest electric fuel charge increase of half a cent for this June — the first in 10 years — which should allow us to recover a full year of escalating costs. Our natural gas rates remained steady throughout the harsh winter, in part due to an advantageous contract for gas supplies signed two years earlier. This is now bringing our gas bills to a lower level than most surrounding IOUs. We provide a rate comparison inside this report. Our customers have told us that a stable known cost is easier to manage than a fluctuating bill and an unknown possibility. Therefore, our goal is to keep fuel charges and rates steady and customer bills stable.

Service remains a strong point. We serve customers in Middleborough and Lakeville — and only these two communities. All of our service trucks, all

Middleborough and Lakeville vibrant hometowns. We raise banners, sponsor ads in programs, install power for events and help inform our customers whenever we can. This year we helped install the power systems to the new middle school in Lakeville, saving labor and equipment costs.

Your public gas and electric utility is a great value. By keeping rates low, we attract tax-paying industry to our communities. We bill town departments at discounted rates. For Middleborough, we keep revenues in town accounts, where the town reaps the interest and avoids short-term borrowing. And by paying for large projects such as the \$2 million substation addition with depreciation funds instead of borrowing the money, that bonding remains available to the town. We also return revenue to Middleborough in the form of an in-lieu-of-tax payment. Last year this payment totaled \$320,750, an increase of more than 19% in two years. This yearly payment is higher than the tax payments of most large industries — a highly prized dividend for public ownership.

How does your utility measure up? When comparing utilities, ask these questions . . .

- Are their customers happy? In the recent customer service survey, when asked what could MG&E do to provide better service, 86% responded "nothing," they are satisfied as is.
- Are they serving their communities' specific needs? Are they involved in projects to improve service, enhance a community activity or support town or group events and endeavors? From Middleborough's downtown beautification to the Freetown/Lakeville School District construction to

our major system upgrades, MG&E continues to answer community needs.

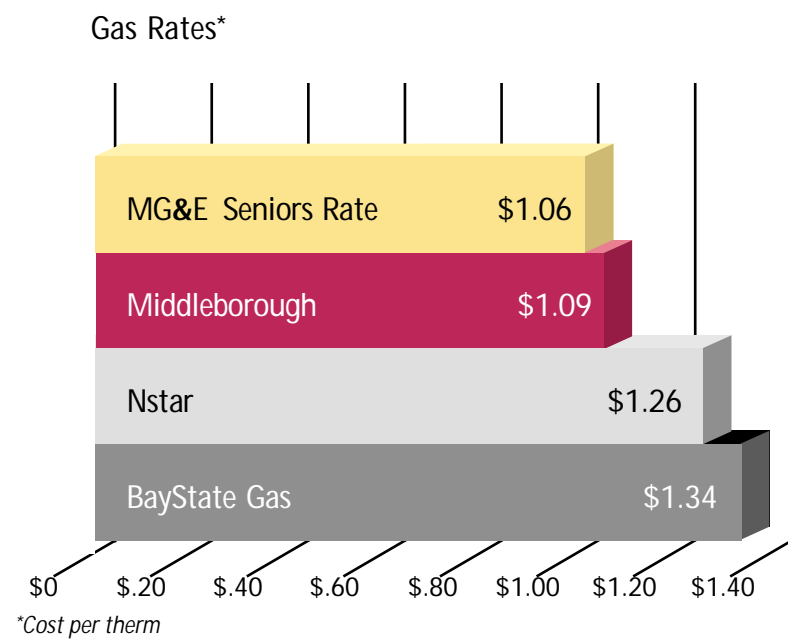
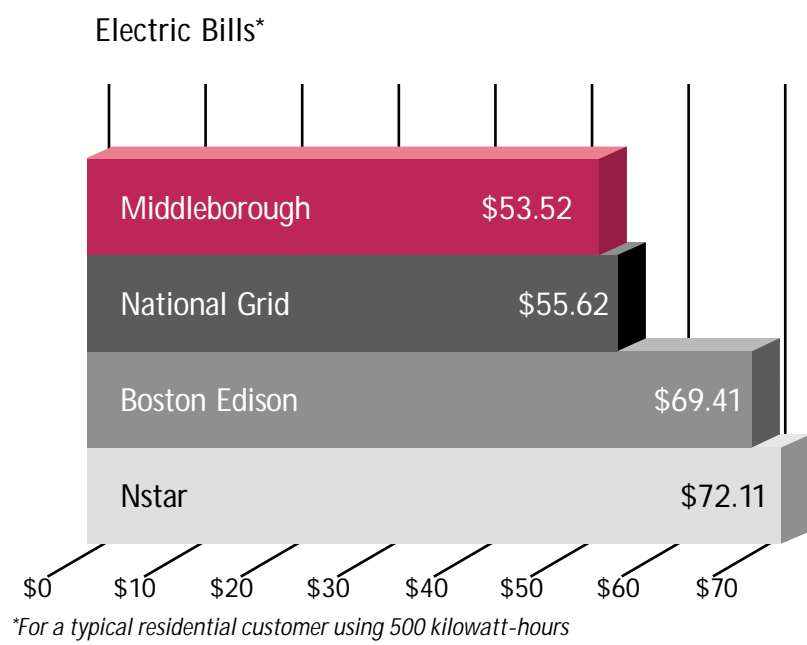
- Finally, do their rates reflect the changing needs of their ratepayers? When fuel prices rise, how slowly do they raise their power adjustments — for MG&E ratepayers, these adjustments are held steady for years. Our Senior Discount rates answer the needs of our mature customers on fixed incomes and Load Retention rates allow slowing industry to thrive again.

Your Board of Commissioners, your voice in our work. MG&E is governed by an elected board of commission. These are elected officials who live locally and are directly impacted by their utilities' service. This board usually meets once each month in a public meeting and addresses all current issues including such things as setting rates, changing service policies and procedures, awarding bids for equipment and discussing issues brought up by any ratepayers and citizens. The meetings are held in Middleborough, not in a boardroom in another state or in a hearing room in Boston. Citizens can attend the meetings in person and, in most cases, watch the meetings on local cable television.

Currently serving on MG&E's Board of Commissioners are:
Walter A. Burrell
Daniel E. Farley, Chair
Roger H. Parent
Edward W. Parks
Donald R. Triner

Cost Comparisons

As of June 2003



Cost Breakdowns . . .

Electric: Average cost per kilowatt-hour

Purchased Power = 6.3¢
 Transmission & Distribution = 1.3¢
 Administration & General = 1.1¢
 Other = 1.2¢

Natural Gas: Average cost per therm

Purchased Gas = 72¢
 Transmission & Distribution = 17¢
 Administration & General = 8.5¢
 Other = 11.2¢

General Facts and Figures . . .

	2002	2001
Peak Electric Demand	51.9 MW*	45.5 MW
Kilowatt-hours Used	220,926,737	218,701,842
Total Customers	13,088	12,751
Natural Gas Peak Use	4,061	4,037
Million Cubic Feet Used	488,578	506,934
Total Customers	3,951	3,708

*megawatts

CONDENSED FINANCIAL STATEMENTS

BALANCE SHEET

	December 31	
	2002	2001
Utility Plant @ Original Cost	\$ 31,608,292	\$ 29,942,857
Less Accumulated Depreciation	20,530,645	19,103,638
Net Plant in Service	11,077,647	10,839,219
Cash & Equivalents	13,613,846	11,310,505
Other Assets	3,872,965	4,259,044
TOTAL ASSETS	\$ 28,564,458	\$ 26,408,768
Retained Earnings	\$ 21,216,483	\$ 19,966,447
Long Term Debt	----	113,458
Current Liabilities	3,027,432	3,143,983
Other Liabilities	4,320,543	3,184,880
RETAINED EARNINGS & LIABILITIES	\$ 28,564,458	\$ 26,408,768

OPERATING STATEMENT

	Years Ended December 31	
	2002	2001
Operating Revenues	\$ 27,032,219	\$ 26,100,888
Less Operating Expenses	25,599,477	24,946,816
OPERATING INCOME	1,432,742	1,154,072
Add Other Income	140,892	271,459
Less Payment in Lieu of Taxes	323,598	297,500
NET INCOME	\$ 1,250,036	\$ 1,128,031

If you would like MG&E's complete Annual Report audited by Nelson, Adam & Dickson, please call John Granahan at 508-947-1371.

Financial Benefits of Municipal Utility Ownership:

\$325,750	Direct cash payment in-lieu-of-taxes to Middleborough Although MG&E is tax exempt, the Board of Commissioners votes annually to make this payment to the town.
\$150,000	Interest income from MG&E operating cash and depreciation funds MG&E funds remain in town accounts and the accumulating interest is paid to the Town of Middleborough.
\$225,000	Reduced electric expenses for municipal buildings Both Middleborough and Lakeville town buildings enjoy this lower municipal rate.
\$ 20,000	Reduced street lighting rates MG&E charges a rate for town street lighting far below that of surrounding investor-owned utilities.
\$ 50,000+	MG&E labor not charged for projects in Middleborough and Lakeville This includes such things as work on the new Lakeville middle school and Austin school remodeling.

The mission of the Middleborough Gas and Electric Department is to provide natural gas and electric energy and any related service in an economic, reliable, safe and environmentally conscious manner in the true spirit of public service to the people and communities we serve.