

Update on the Fox Islands Wind Project

April 7, 2011

Fox Islands Wind, LLC ("FIW") finalized its \$9.5 million financing with the Rural Utilities Service in early January. The twenty year rate was locked in at 3.55%. As the interest rate is a significant driver in the average cost per kWh, the low rate will help keep costs down over the life of the wind project.

The wind project has operated pretty much as anticipated by the initial feasibility studies. In 2010, the Fox Islands Wind Project generated 12.1 million kWh which is slightly above the 11.6 million kWh projected prior to construction. The average cost of the wind generation to the Fox Islands Electric Cooperative (the "Coop") was 6.15 cents per kWh. The generation from the project exceeded expectations despite some mechanical problems in early 2010 and operation curtailments mandated by the Maine Department of Environmental Protection ("MDEP"). The mechanical problems were not uncommon for new wind installations and were addressed early on in the year.

The curtailments mandated by the MDEP have continued into 2011 as part of an ongoing regulatory compliance process that includes sound monitoring. FIW has been monitoring the sound from the turbines since November of 2009 and is now seventeen months into the compliance process that initially was supposed to last up to one year. This process continues in part because of the newness of the regulations for small scale community projects and in part due to the intervention and complaints made by the group called Fox Islands Wind Neighbors.

After nearly a year involved in the sound monitoring, regulatory review, and responding to the neighbors' complaints, the MDEP issued a preliminary finding last November that the project was out of compliance by two decibels for a 70-minute period last July. The nighttime sound limit is 45 decibels and the MDEP's sound consultant concluded that the sound levels were in the 46-47 decibel range. Although FIW's sound consultant did not agree with MDEP's methodology used in reaching its findings, in an effort to bring this compliance review to a conclusion, FIW filed a revised compliance protocol in December that would address the specific meteorological conditions that the MDEP's consultant said led to the complaint. After several months of working with the MDEP, this protocol still has not been approved and the regulatory discussions and reviews continue.

The wind project was built with the idea of keeping the price of electricity as low as possible. The extended regulatory process in which we are now engaged was not anticipated in the initial budgets and feasibility studies and has created some financial consequences. FIW has to generate the cash flow to pay lawyers and sound consultants—both its own as well as the one retained by the MDEP. After seventeen months of this regulatory review process, the total costs since November of 2009 have added up to \$365,000. When considering that FIW's total operating budget for 2011 is \$753,000 with \$50,000 included for legal and consultant expenses, it is difficult to absorb these additional costs and continue to keep the price of generation around the anticipated 6 cents per kWh level.

In order to fund this process, FIW has provided notice to the Coop that it will be necessary to implement a 1 cent per kWh adder to the costs of power generated from the wind project. This increase will generate an additional \$118,000 in annual cash flow for FIW. On average, this increase in power costs will add another \$5.59 per month to the average residential bill or an estimated increase of 5% to the overall electric rates. While initial projections see this adder existing for approximately two years, the period of time for which it will be applied depends on the level and timing of the regulatory review going forward.

FIW and the Coop hope that the regulatory compliance process can be brought to conclusion in the near future, but at this time the timeline is uncertain. In the meantime, we look forward to continuing to update ratepayers on relevant decisions and general turbine operation.