

2022 PROPOSED OPERATING AND CAPITAL BUDGET FOR VT TRANSCO LLC

September 16, 2021

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2022 Budget Highlights

Overview – We have had a flat real budget, i.e., inflation-adjusted since 2014 and the proposed 2022 budget extends this record. We have been able to manage within the existing budget, despite considerable cost pressures driven by software and infrastructure maintenance costs.

Additionally, the net cost of the transmission services we deliver our customers will remain essentially flat in 2022 compared to the 2021 budget. This required absorbing additional 2021 asset growth-related costs, e.g., property taxes, insurance and depreciation expense.

Vermont Transmission Costs				
	Budget 2022	Budget 2021	Variance	
New England Open Access Transmission Tariff	104,880	99,300	5,580	
1991 Vermont Transmission Agreement	34,784	31,000	3,784	} (2,322)
Specific Facility	1,289	1,500	(211)	
Regulatory Debit from 2020	0	(555)	555	
Earnings before tax	(98,545)	(92,600)	(5,895)	
Net Cost of Transmission	42,408	38,595	3,813	

The following pages provide more detail and greater context for our proposed budget.

VT Transco LLC
2022 Budget vs. 2021 Budget

	2022 Budget	2021 Budget	Variance	% Change	Description
Operating Revenues					
Transmission Service Revenues:					
RNS	\$ 186,000,000	\$ 180,985,000	\$ 5,015,000	2.77%	
VTA: Common	34,784,000	30,990,000	3,794,000	12.24%	
Specific facilities	1,289,000	1,500,000	(211,000)	-14.07%	
Other transmission revenue	900,000	1,320,000	(420,000)	-31.82%	
Rent of transmission facilities to others	2,070,000	1,920,000	150,000	7.81%	
Total Operating Revenues	225,043,000	216,715,000	8,328,000	3.84%	
Operating Expenses					
(1) Transmission O&M expenses	14,029,000	14,011,000	18,000	0.13%	
(2) A&G expenses	12,210,000	11,756,000	454,000	3.86%	
Depreciation and amortization	49,198,000	47,490,000	1,708,000	3.60%	Additional assets places in service (\$58M)
Taxes other than income taxes	32,042,000	29,970,000	2,072,000	6.91%	Additional assets places in service (\$58M)
Total Operating Expenses	107,479,000	103,227,000	4,252,000	4.12%	
Operating Income	117,564,000	113,488,000	4,076,000	3.59%	
Interest (income) expense and other deductions					
Interest Expense & amortization of debt expense	19,652,000	21,720,000	(2,068,000)	-9.52%	Interest rate in 2022 is 1.1% vs 2.25% in 2021
Interest Income	(46,000)	(96,000)	50,000	-52.08%	
Other Expense	291,000	291,000	0	0.00%	
Regulatory Credit	0	556,000	(556,000)	-100.00%	Reversal of request to defer expenses for VT customers in 2021
AFUDC	(878,000)	(1,475,000)	597,000	-40.47%	Lower capital carrying charge rate in 2022 (1.1% vs. 2.25% in 2021)
Non utility revenue	0	(323,000)	323,000	-100.00%	
Non utility expense	0	165,000	(165,000)	-100.00%	
Total interest and other deductions	19,019,000	20,838,000	(1,819,000)	-9%	
(3) Earnings Before Tax	\$ 98,545,000	\$ 92,650,000	\$ 5,895,000	6%	Additional return on equity and applicable income taxes for the \$40M equity call at year end 2021
(1) Transmission O&M expenses					
Payroll for operations and maintenance	\$ 7,288,439	\$ 7,204,453	83,986	1.17%	
Performance based compensation	896,000	792,000	104,000	13.13%	
Planning studies	134,800	156,000	(21,200)	-13.59%	
SCADA - Maintenance & Operations	819,600	832,600	(13,000)	-1.56%	
Maintenance and operation of substations	997,400	919,880	77,520	8.43%	
Maintenance and operation of structures	493,800	452,100	41,700	9.22%	
Vegetation management	1,498,000	1,517,000	(19,000)	-1.25%	
NERC work	415,000	616,500	(201,500)	-32.68%	Reduction in contract services expected to support the program
Leased lines	210,000	232,932	(22,932)	-9.84%	
Safety expenses	189,700	226,650	(36,950)	-16.30%	
Environmental and ROW services	369,800	324,756	45,044	13.87%	
Vehicle maintenance, gas and insurance	75,300	74,695	605	0.81%	
Emergency response plan	13,000	10,000	3,000	30.00%	
Inventory	15,000	15,000	0	0.00%	
Training	96,300	91,300	5,000	5.48%	
Weather	27,300	78,157	(50,857)	-65.07%	One time climate change project in 2021 (contract service)
Other	489,561	466,977	22,584	4.84%	
	\$ 14,029,000	\$ 14,011,000	\$ 18,000	0.13%	
(2) A&G Expenses					
Administrative Overhead	\$ (7,244,545)	\$ (6,919,213)	(325,332)	4.70%	
Benefits (Medical, 401k, SERP, Pension)	5,537,000	4,992,000	545,000	10.92%	\$395k medical and \$185K in 401(k)
Payroll	5,558,832	5,377,128	181,704	3.38%	
Payroll overhead	(4,454,204)	(3,738,048)	(716,156)	19.16%	Headcount increase utilized for capital projects
Performance based comp / long term incentive	1,428,000	1,338,000	90,000	6.73%	
Insurance	2,306,800	2,254,184	52,616	2.33%	
External Affairs and communication	144,000	138,000	6,000	4.35%	
IT support and software agreements	2,757,470	2,446,815	310,655	12.70%	Maintenance support for additional software programs in the security and accounting areas
Telecommunication services	2,580,500	2,405,677	174,823	7.27%	Increased costs associated with radio site rentals and microwave and phone contract services
Legal matters and strategic planning	508,300	478,340	29,960	6.26%	
FERC annual charge	350,000	300,000	50,000	16.67%	
Financial audit and tax services	413,900	400,215	13,685	3.42%	
Amortization of LLC costs	0	73,002	(73,002)	-100.00%	
Memberships	225,000	210,000	15,000	7.14%	
Directors expenses	318,000	318,000	0	0.00%	
Maintenance of Pinnacle Ridge	489,410	489,986	(576)	-0.12%	
Human Resources	125,000	60,000	65,000	108.33%	Recruitment and compliance related support
Cash surrender value of life insurance	0	0	0	0.00%	
Amortization of Floyd study	154,014	154,014	0	0.00%	
Training	286,550	202,350	84,200	41.61%	Additional leadership training associated with succession planning
Other	725,973	775,550	(49,577)	-6.39%	
	\$ 12,210,000	\$ 11,756,000	\$ 454,000	3.86%	
(3) Earnings Before Tax					
Muni's	\$ 16,829,000	\$ 15,912,000	\$ 917,000	5.76%	Additional return on equity for the \$40M at year end 2021
IOU's	59,058,000	55,493,000	3,565,000	6.42%	
IOU's Income Tax	22,658,000	21,245,000	1,413,000	6.65%	Applicable taxes on the additional return on equity
	\$ 98,545,000	\$ 92,650,000	\$ 5,895,000	6.36%	

O&M and A&G BUDGET SUMMARY

	Budget 2022	Budget 2021	Variance	% Change
Insurance (non-labor)	2,306,790	2,254,184	52,606	2%
Software and Hardware Support (non-labor) ¹	3,269,466	2,916,915	352,551	12%
Support Services ²	7,107,555	6,882,113	225,442	3%
Maintenance of Substation and Lines ³	6,867,015	6,581,632	285,383	4%
Design and Construction	1,677,263	1,657,827	19,436	1%
Planning – VT Long-Range Transmission Plan	476,731	505,337	(28,606)	(6%)
Compliance ⁴	1,381,947	1,598,996	(217,049)	(14%)
Administrative Overhead	(7,244,545)	(6,919,213)	(325,332)	5%
Maintenance and Support of Pinnacle Ridge	594,899	585,767	9,132	2%
Operations (EMS/Operations)	2,553,863	2,625,984	(72,121)	(3%)
Employee Related Benefits (non-labor) ⁵	3,990,146	3,841,102	149,044	4%
Telecommunications (Radio and Fiber)	3,402,985	3,381,632	21,353	1%
Total	26,384,115	25,912,276	471,839	2%

1. Software and Hardware Support (non-labor) – Increase in maintenance support for additional software programs in the security and accounting areas.
2. Support Services – Increase due to 3% merit increase and increased FERC support charge.
3. Maintenance of Substation and Lines – Increase is for assessments needed for reliability purposes (e.g., pole testing, Blissville PST, etc.)
4. Compliance – Reduction in contracted services associated with supporting compliance initiatives.
5. Employee Related Benefits (non-labor) – Increase in costs associated with medical and other benefits associated with additional headcount.

Vermont Transco LLC Capital Expenditures 2022 - 2026

(000's omitted)

Capital Project	Pre '22	2022	2023	2024	2025	2026	PROJECT COSTS THRU 2026
Fiber Grid Reliability	6,859	12,965	11,674	3,319	-	-	34,818
Transmission Line Refurbishment	88,962	24,414	23,628	25,565	25,538	30,652	218,759
Statewide Radio Project/Enhancements	22,713	1,592	1,811	-	164	886	27,165
Radio System Replacement	233	2,398	5,119	5,399	2,940	-	16,088
DNX Replacement	79	3,930	856	-	-	-	4,865
Cold River Substation SCAP	-	-	-	-	428	1,002	1,430
East Fairfax Substation SCAP	2	-	1,963	879	7,463	106	10,412
Florence SCAP	1,348	5,285	6,570	-	-	-	13,203
Highgate SCAP	306	873	5,671	182	-	-	7,032
Irasburg SCAP	3,749	4	-	-	-	-	3,753
Middlebury SCAP	232	1,108	9,467	234	-	-	11,041
North Rutland SCAP	2,192	10,799	92	-	-	-	13,083
Sandbar SCAP	9,962	46	-	-	-	-	10,008
South Hero SCAP	37	389	1,442	7,426	486	-	9,781
St. Johnsbury SCAP	16	234	2,266	6,181	60	-	8,756
VY SCAP	-	-	219	339	6,409	4,103	11,071
Windsor SCAP	227	331	233	7,628	1,652	-	10,070
Pinnacle Building Renovations	6,326	110	-	-	-	-	6,436
Data Integration and Analytics	7,137	2,000	1,857	2,222	2,212	2,237	17,664
Acquisition of Global Foundries Assets	-	1,196	-	-	-	-	1,196
New Haven Operations Facility	29,702	16,631	3,532	-	-	-	49,865
Spare Transformer	-	-	1,779	-	-	-	1,779
Other Projects	-	8,350	7,389	5,021	5,593	4,560	30,913
Total	180,081	92,656	85,567	64,394	52,945	43,545	

Vermont Transco LLC 2022 Capital Projects

<i>Other Projects, by Category</i>	<u>2022</u>
Substations	
Various substation improvements (Transformer DGA monitors, SF6 monitors, relay, heat pumps, HVAC, physical security, slick sleuth replacements, Granite RPD control and Highgate upgrades, Tafts T3 upgrade)	2,733,000
Computer Hardware and Software	
Telecom Ethernet Edge	17,000
Client hardware (PC's) and hardware upgrades	522,000
Cyber security	987,000
Software upgrades: EMS, NMS, Blue Planet, Time Series Power Flow, OTN switching	945,000
Asset Management and Power Accounting system modifications	364,000
Building Renovations	
Pinnacle Ridge office repairs and other building improvements	197,000
Pinnacle Ridge furniture	39,000
Transmission Lines	
K46 bank stabilization and line equipment failures	40,000
Tools & Test / Facilities / Equipment (vehicles)	
Vehicles- ATV's, passenger, track digger	1,934,000
Tools and test	572,000
Total	<hr/> 8,350,000

APPENDICES

2022 EQUITY, DEBT & OPERATING PLANNING ASSUMPTIONS:

- Equity & Debt Assumptions
 - \$50 million debt issuance at end of 4th quarter 2022
 - Redistribution of maturing \$1 million specific member equity in December 2022
 - Line of credit interest at 1.1% and AFUDC at 1.1%
- Revenues
 - The 12-month average coincident peak is assumed to be level with 2020 and 2021 peaks
 - ROE rate is 10.57%
 - FERC ROE Complaint #1, #2, #3 and #4 refunds are not reflected in the 2021 RNS revenues
 - ISO NE OATT formula has been changed to reflect the Settlement Formula Rate
 - RNS and '91 VTA revenue requirement does not reflect the return of the excess accumulated deferred income taxes as prescribed under 2016 federal tax reform legislation.
- Operating Expenses
 - Salary plan at 3% merit increase
 - Headcount is 160
 - Pension discount rate assumed at 2.3% and ROE assumed at 6%

VT Transco, LLC
2021 Forecast vs. 2021 Budget

	Forecast	Budget	Variance	Change	Description
Operating Revenues					
Transmission Service Revenues:					
RNS	\$ 185,375,000	\$ 180,985,000	\$ 4,390,000	2.43%	
VTA: Common	24,974,000	30,990,000	(6,016,000)	-19.41%	
Specific facilities	1,491,000	1,500,000	(9,000)	-0.60%	
Other transmission revenue	437,000	1,320,000	(883,000)	-66.89%	
Rent of transmission facilities to others	2,162,000	1,920,000	242,000	12.60%	
Total Operating Revenues	214,439,000	216,715,000	(2,276,000)	-1.05%	
Operating Expenses					
(1) Transmission O&M expenses	14,717,000	14,011,000	706,000	5.04%	
(2) A&G expenses	11,101,000	11,756,000	(655,000)	-5.57%	
Depreciation and amortization	46,876,000	47,490,000	(614,000)	-1.29%	
Taxes other than income taxes	30,893,000	29,970,000	923,000	3.08%	
Total Operating Expenses	103,587,000	103,227,000	360,000	0.35%	
Operating Income	110,852,000	113,488,000	(2,636,000)	-2.32%	
Interest (income) expense and other deductions					
Interest expense & amortization of debt expense	20,181,000	21,720,000	(1,539,000)	-7.09%	
Interest income	(67,000)	(96,000)	29,000	-30.21%	
Other Expense	269,000	291,000	(22,000)	-7.56%	
Regulatory Credit	0	556,000	(556,000)		Request to defer expenses for VT customers
AFUDC	(507,000)	(1,475,000)	968,000	-65.63%	Lower interest rate on our short term debt
Non utility revenue	(1,214,000)	(323,000)	(891,000)		
Non utility expense	300,000	165,000	135,000		
Total interest and other deductions	18,962,000	20,838,000	(1,876,000)	-110%	
(3) Earnings Before Tax	\$ 91,890,000	\$ 92,650,000	\$ (760,000)	-1%	
(1) Transmission O&M					
Payroll for operations and maintenance	\$ 7,168,555	7,204,453	(35,898)	-0.50%	
Performance based compensation	825,702	792,000	33,702	4.26%	
Planning studies	154,782	156,000	(1,218)	-0.78%	
SCADA - Maintenance & Operations	823,342	832,600	(9,258)	-1.11%	
Maintenance and operation of substations	1,834,951	919,880	915,071	99.48%	Sandbar PST Failure
Maintenance and operation of structures	576,454	452,100	124,354	27.51%	
Vegetation management	1,482,054	1,517,000	(34,946)	-2.30%	
NERC work	593,699	616,500	(22,801)	-3.70%	
Leased lines	153,985	232,932	(78,947)	-33.89%	
Safety expenses	158,763	226,650	(67,887)	-29.95%	
Environmental and ROW services	315,403	324,756	(9,353)	-2.88%	
Vehicle maintenance, gas and insurance	51,676	74,695	(23,019)	-30.82%	
Emergency response plan	6,235	10,000	(3,765)	-37.65%	
Inventory adjustments	3,878	15,000	(11,122)	-74.15%	
Training	47,875	91,300	(43,425)	-47.56%	
Weather	84,529	78,157	6,372	8.15%	
Other	435,117	466,977	(31,860)	-6.82%	
	\$ 14,717,000	\$ 14,011,000	\$ 706,000	5.04%	
(2) A&G Expenses					
Administrative overhead	\$ (6,985,665)	(6,919,213)	(66,452)	0.96%	
Benefits (Medical, 401k, SERP, Pension)	5,064,527	4,992,000	72,527	1.45%	
Payroll	5,190,231	5,377,128	(186,897)	-3.48%	
Payroll overhead	(4,178,654)	(3,738,048)	(440,606)	11.79%	
Performance based comp / long term incentive plan	1,350,286	1,338,000	12,286	0.92%	
Insurance	2,243,359	2,254,184	(10,825)	-0.48%	
External affairs and communication	147,163	138,000	9,163	6.64%	
IT support and software agreements	2,556,090	2,446,815	109,275	4.47%	
Telecommunication services	2,476,397	2,405,677	70,720	2.94%	
Legal matters and strategic planning	666,975	478,340	188,635	39.44%	Property Tax and FERC matters related
FERC annual charge	289,399	300,000	(10,601)	-3.53%	
Financial audit and tax services	405,722	400,215	5,507	1.38%	
Amortization of LLC costs	72,981	73,002	(21)	-0.03%	
Memberships	210,775	210,000	775	0.37%	
Directors expenses	312,247	318,000	(5,753)	-1.81%	
Maintenance of Pinnacle Ridge	475,071	489,986	(14,915)	-3.04%	
Human Resources	64,299	60,000	4,299	7.17%	
Cash surrender value of life insurance	(395,035)	0	(395,035)		Favorable changes in FMV of market investments
Amortization of Floyd study	154,014	154,014	0	0.00%	
Training	139,786	202,350	(62,564)	-30.92%	
Other	841,032	775,550	65,482	8.44%	
	\$ 11,101,000	\$ 11,756,000	\$ (655,000)	-5.57%	
(3) Earnings Before Tax					
Muni's	\$ 16,039,000	15,912,000	\$ 127,000	0.80%	
IOU's	56,081,000	55,493,000	588,000	1.06%	
IOU's Income Tax	19,770,000	21,245,000	(1,475,000)	-6.94%	
	\$ 91,890,000	\$ 92,650,000	\$ (760,000)	-0.82%	

Proposed 2022 Capital Budget

