

2024 PROPOSED OPERATING AND CAPITAL BUDGET FOR VT TRANSCO LLC

November 16, 2023

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2024 Budget Highlights

Overview –

Despite the additional costs in 2024 due to 2023 asset growth (e.g., property taxes, insurance and depreciation expense) and significant increase in interest rates, the net cost of the transmission services we deliver our customers will decrease by \$3.84M in 2024 compared to the 2023 budget. Our total operating costs are budgeted to rise 5.47% or \$1.5M in nominal dollars, or with an inflation factor of 3%, 2.5% or \$680k in real dollars. The primary drivers of this increase are increased costs for property insurance, software program maintenance support and our proposed 22-person headcount increase. These positions address our succession needs, strategic digitization initiatives and opportunity to replace higher-cost contractors. Fifteen of these positions are capital-work focused and so the actual net operating budget impact equates to hiring seven new employees.

Vermont Transmission Costs				
	Budget 2024	Budget 2023	Variance	
New England Open Access Transmission Tariff	115,685	106,400	9,285	
1991 Vermont Transmission Agreement	40,154	39,900	254	} (3,839)
Specific Facility	1,053	605	448	
Earnings before tax *	(103,056)	(98,515)	(4,541)	
Net Cost of Transmission	53,836	48,390	5,446	

* Before Return on Excess ADIT

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

VT Transco LLC
2024 Budget vs. 2023 Budget

	2024 Budget	2023 Budget	Variance	% Change	Description
Operating Revenues					
Transmission Service Revenues:					
RNS	\$ 191,582,000	\$ 187,676,000	\$ 3,906,000	2.08%	
VTA: Common	40,154,000	39,900,000	254,000	0.64%	
Specific facilities	1,053,000	605,000	448,000	74.05%	
Other transmission revenue	5,342,000	318,000	5,024,000	1579.87%	Additional revenue related to Global Foundries
Rent of transmission facilities to others	2,645,000	2,224,000	421,000	18.93%	
Total Operating Revenues	<u>240,776,000</u>	<u>230,723,000</u>	<u>10,053,000</u>	<u>4.36%</u>	
Operating Expenses					
(1) Transmission O&M expenses	16,208,000	14,888,000	1,320,000	8.87%	
(2) A&G expenses	12,797,000	12,612,000	185,000	1.47%	
Depreciation and amortization	52,817,000	50,540,000	2,277,000	4.51%	Additional assets placed in service (\$97.4M)
Taxes other than income taxes	33,242,000	32,146,000	1,096,000	3.41%	Additional assets placed in service (\$97.4M)
Total Operating Expenses	<u>115,064,000</u>	<u>110,186,000</u>	<u>4,878,000</u>	<u>4.43%</u>	
Operating Income	<u>125,712,000</u>	<u>120,537,000</u>	<u>5,175,000</u>	<u>4.29%</u>	
Interest (income) expense and other deductions					
Interest Expense & amortization of debt expense	31,815,000	27,138,000	4,677,000	17.23%	Interest rate in 2024 is 5.9% vs 4.9% in 2023 and additional long term debt of \$70M at 5%
Interest Income	(96,000)	(96,000)	0	0.00%	
Other Expense	296,000	291,000	5,000	1.72%	
AFUDC	(7,383,000)	(3,912,000)	(3,471,000)	88.73%	Higher capital carrying charge rate in 2024 (5.9% vs 4.9% in 2023)
Total interest and other deductions	<u>24,632,000</u>	<u>23,421,000</u>	<u>1,211,000</u>	<u>5%</u>	
(3) Earnings Before Tax	<u>\$ 101,080,000</u>	<u>\$ 97,116,000</u>	<u>\$ 3,964,000</u>	<u>4%</u>	Additional return on equity and applicable income taxes for the \$30M equity call at year end 2023
(1) Transmission O&M expenses					
Payroll for operations and maintenance	\$ 8,351,270	\$ 7,625,600	725,670	9.52%	Increase relates to 4% merit and additional headcount in Vegetation Management, Planning, Operations and EMS
Performance based compensation	1,079,448	715,000	364,448	50.97%	
Planning studies	135,545	265,700	(130,155)	-48.99%	Decrease due to long range plan work was in 2023
SCADA - Maintenance & Operations	923,600	918,600	5,000	0.54%	
Maintenance and operation of substations	1,124,522	992,100	132,422	13.35%	Planned maintenance cycle work
Maintenance and operation of structures	630,900	614,300	16,600	2.70%	
Vegetation management	1,913,000	1,763,000	150,000	8.51%	Increased cost associated with planned cycle of work
NERC work	416,000	396,000	20,000	5.05%	
Leased lines	47,157	144,000	(96,843)	-67.25%	
Safety expenses	242,300	197,100	45,200	22.93%	
Environmental and ROW services	309,053	288,000	21,053	7.31%	
Vehicle maintenance, gas and insurance	158,220	74,000	84,220	113.81%	
Emergency response plan	15,000	14,000	1,000	7.14%	
Engineering Department	101,250	96,300	4,950	5.14%	
Training	179,900	140,200	39,700	28.32%	
Operations Department	240,104	219,800	20,304	9.24%	
Deliver	180,000	300,000	(120,000)	-40.00%	
Other	160,731	124,300	36,431	29.31%	
	<u>\$ 16,208,000</u>	<u>\$ 14,888,000</u>	<u>\$ 1,320,000</u>	<u>8.87%</u>	
(2) A&G Expenses					
Administrative Overhead	\$ (9,856,524)	\$ (8,885,794)	(970,730)	10.92%	Increased costs associated with maintenance of general plant, insurance and support services.
Benefits (Medical, 401k, SERP, Pension)	6,556,785	5,224,470	1,332,315	25.50%	Increase of \$800k in medical, \$240k in pension (includes Settlement Accounting for 2021 and 2022) and \$150k in 401(k) contributions
Payroll	6,446,484	5,939,349	507,134	8.54%	Increase relates to 4% merit and promotion pool as well as increased payroll associated with headcount increase in Communications Dept, Human Resources and IT
Payroll overhead	(6,219,698)	(4,158,107)	(2,061,591)	49.58%	Additional headcount charging capital - equivalent of 16 people
Performance based comp / long term incentive	1,823,544	1,595,000	228,544	14.33%	
Insurance	3,167,584	2,473,661	693,923	28.05%	Increase of 10% expected at renewal in June
External Affairs and communication	175,300	191,800	(16,500)	-8.60%	
IT Support services	246,000	359,000	(113,000)	-31.48%	
Software Agreements	3,213,645	2,884,550	329,094	11.41%	Maintenance support for additional software programs in security \$100k and back office \$200k
Telecommunication services	2,900,224	2,829,543	70,681	2.50%	
Legal matters	563,673	555,340	8,333	1.50%	
FERC annual charge	376,000	357,000	19,000	5.32%	
Financial audit and tax services	671,000	646,482	24,518	3.79%	
Memberships	231,500	241,500	(10,000)	-4.14%	
Directors expenses	320,520	318,000	2,520	0.79%	
Maintenance of facilities	744,683	687,000	57,683	8.40%	
Human resources	347,740	327,400	20,340	6.21%	
Cash surrender value of life insurance	0	0	0	0.00%	
Amortization of Floyd study	154,014	154,014	0	0.00%	
Training	297,350	347,850	(50,500)	-14.52%	
Physical security	249,500	244,500	5,000	2.04%	
Other	387,677	279,442	108,235	38.73%	Deferred Comp growth - interest rates higher
	<u>\$ 12,797,000</u>	<u>\$ 12,612,000</u>	<u>\$ 185,000</u>	<u>1.47%</u>	
(3) Earnings Before Tax					
Muni's	\$ 17,436,000	\$ 16,597,000	\$ 839,000	5.06%	
IOU's	61,880,000	59,201,000	2,679,000	4.53%	
IOU's Income Tax	23,740,000	22,715,000	1,025,000	4.51%	
Return of Excess ADIT	(1,976,000)	(1,397,000)	(579,000)	41.45%	
	<u>\$ 101,080,000</u>	<u>\$ 97,116,000</u>	<u>\$ 3,964,000</u>	<u>4.08%</u>	

Vermont Transco LLC Capital Expenditures 2024 - 2028

(000's omitted)

Capital Project	Pre '24	2024	2025	2026	2027	2028	PROJECT COSTS THRU 2028
Fiber Grid Reliability	39,932	12,152	19,913	1,151	-	-	73,147
Transmission Line Refurbishment	149,945	22,184	19,104	35,120	36,780	21,614	284,747
Statewide Radio Project/Enhancements	25,234	1,121	-	-	-	-	26,355
Radio System Replacement	1,175	4,266	11,889	-	-	-	17,330
ENAP Replacement	1,005	8,180	5,702	449	-	-	15,336
Cold River Substation SCAP	-	-	384	1,058	824	-	2,265
East Fairfax Substation SCAP	3	552	4,650	4,372	-	-	9,577
Essex SCAP	-	-	-	2,299	2,586	123	5,008
Highgate SCAP	11,053	1,865	-	-	-	-	12,917
Middlebury SCAP	6,372	8,050	-	-	-	-	14,422
South Hero SCAP	144	1,875	7,495	-	-	-	9,513
St. Johnsbury SCAP	1,666	6,656	7,306	23	-	-	15,651
VY SCAP	-	173	5,881	3,720	-	-	9,773
Windsor SCAP	796	1,600	7,080	10	-	-	9,487
Franklin County Line Upgrade	5,956	15,599	40,198	15,625	-	-	77,378
Dev Ops Integration	1,706	3,387	1,652	1,652	1,701	1,513	11,611
OTN Switching	6,805	4,074	441				11,320
XTRAN Install	4,305	6,340	8,558	5,086	-	-	24,289
VX Platform	1,199	3,870	2,197	2,216	445	6	9,933
VELCO Business Systems	2,859	11,365	2,230	1,027	-	-	17,482
Fiber System Enhancement Work	-	7,122	14,694	11,357	2,411	-	35,585
Other Projects	-	20,133	11,233	6,202	55,488	65,229	158,286
Total	260,154	140,565	170,608	91,368	100,235	88,485	

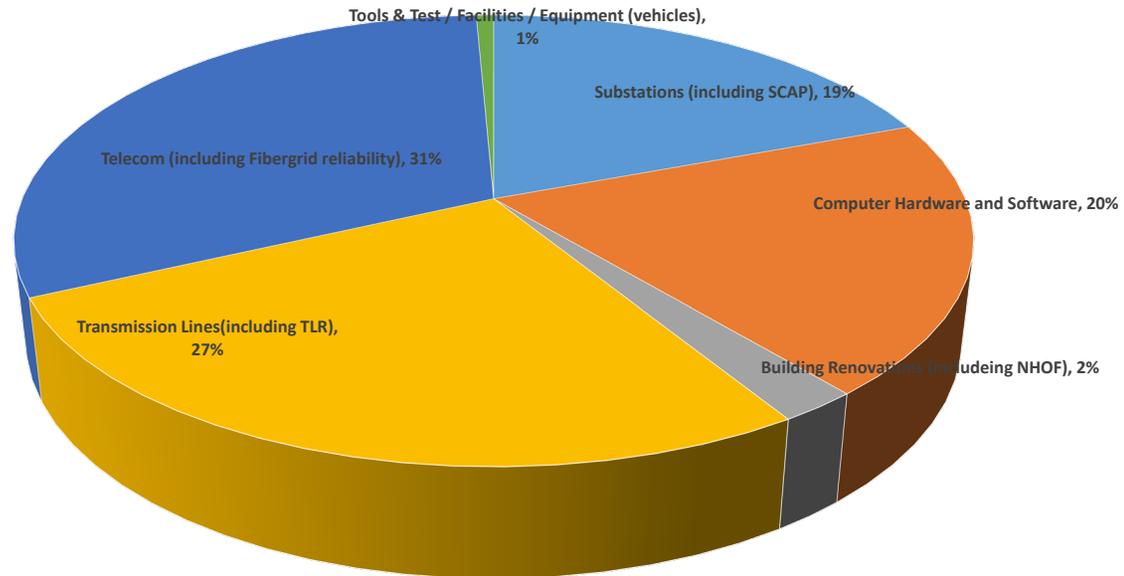
Vermont Transco LLC 2024 Capital Projects

<i>Other Projects, by Category</i>	<u>2024</u>
Substations and related facilities	
Various substation improvements (Transformer DGA monitors, SF6 monitors, relay, battery, HVAC, physical security, Highgate upgrades, RTACs, Newport T1 Tafts T3 upgrade)	4,220,662
Granite RPD control upgrade	2,127,486
Computer Hardware and Software	
Corporate Env Hardware upgrades	1,725,960
Client hardware (PC's)	627,477
Cyber security	1,676,900
Software installs and upgrades: backup data path, Disaster Tech, Outage Coordination, Phasor Analytics	583,204
EMS Upgrade	2,838,192
PowerPlan upgrade and Power Accounting system modifications	1,488,495
Building Renovations	
Pinnacle Ridge building improvements (HVAC, stormwater, UPS-C battery)	1,556,615
Pinnacle Innovation Center	1,620,396
Pinnacle Ridge furniture	39,765
Radio/Fiber/Telecom	
Wifi Access Point replacement	513,659
Battery Deployment	76,477
Transmission Lines	
Line equipment failures	52,550
Tools & Test / Facilities / Equipment (vehicles)	
Vehicles- ATV's, passenger, track digger	780,007
Tools and test	205,414
Total	<hr/> 20,133,259

Projects by Category

Category	<u>2024 Total</u>	Percentage	<u>2023 Total</u>	Percentage
Substations (including SCAP)	27,119,146	19%	27,625,000	24%
Computer Hardware and Software	27,562,584	20%	11,964,000	11%
Building Renovations (includeing NHOF)	3,216,776	2%	4,897,000	4%
Transmission Lines(includeing TLR)	37,835,328	27%	25,114,000	22%
Telecom (including Fibergrid reliability)	43,845,809	31%	41,416,000	37%
Tools & Test / Facilities / Equipment (vehicles)	985,421	1%	2,106,000	2%
	<u>140,565,064</u>		<u>113,122,000</u>	

Proposed 2024 Capital Budget



- Substations (including SCAP)
- Computer Hardware and Software
- Building Renovations (includeing NHOF)
- Transmission Lines(includeing TLR)
- Telecom (including Fibergrid reliability)
- Tools & Test / Facilities / Equipment (vehicles)

APPENDICES

2024 EQUITY, DEBT & OPERATING PLANNING ASSUMPTIONS:

- Equity & Debt Assumptions
 - \$70 million debt issuance at end of 2nd quarter 2024
 - \$70 million equity issuance at end of 2024
 - Line of credit interest at 5.9% and AFUDC at 5.9%
- Revenues
 - ROE rate is 10.57%
 - ISO NE OATT formula has been changed to reflect the Settlement Formula Rate
- Operating Expenses
 - Salary plan includes 4% increase for a merit and promotion pool
 - Headcount is 194 (5 are part time)
 - Pension discount rate assumed at 4.94% and ROE assumed at 4.5%

VT Transco, LLC
2023 Forecast vs. 2023 Budget

	Forecast	Budget	Variance	Change	Description
Operating Revenues					
Transmission Service Revenues:					
RNS	\$ 187,617,000	\$ 187,676,000	\$ (59,000)	-0.03%	
VTA: Common	39,315,000	39,900,000	(585,000)	-1.47%	
Specific facilities	879,000	605,000	274,000	45.29%	
Other transmission revenue	1,069,000	318,000	751,000	236.16%	Additional revenue related to Global Foundries
Rent of transmission facilities to others	2,535,000	2,224,000	311,000	13.98%	
Total Operating Revenues	<u>231,415,000</u>	<u>230,723,000</u>	<u>692,000</u>	<u>0.30%</u>	
Operating Expenses					
(1) Transmission O&M expenses	15,266,000	14,888,000	378,000	2.54%	
(2) A&G expenses	11,980,000	12,612,000	(632,000)	-5.01%	
Depreciation and amortization	50,723,000	50,540,000	183,000	0.36%	
Taxes other than income taxes	31,731,000	32,146,000	(415,000)	-1.29%	
Total Operating Expenses	<u>109,700,000</u>	<u>110,186,000</u>	<u>(486,000)</u>	<u>-0.44%</u>	
Operating Income	<u>121,715,000</u>	<u>120,537,000</u>	<u>1,178,000</u>	<u>0.98%</u>	
Interest (income) expense and other deductions					
Interest expense & amortization of debt expense	28,351,000	27,138,000	1,213,000	4.47%	Higher average interest rate 5.65% actual vs. 4.88% budget
Interest income	(245,000)	(96,000)	(149,000)	155.21%	
Other Expense	294,000	291,000	3,000	1.03%	
AFUDC	(3,536,000)	(3,912,000)	376,000	-9.61%	Higher average interest rate offset by lower CWIP \$71M vs. \$82M
Total interest and other deductions	<u>24,864,000</u>	<u>23,421,000</u>	<u>1,443,000</u>	<u>6.16%</u>	
Non utility revenue	(2,678,000)	0	(2,678,000)		
Non utility expense	1,484,000	0	1,484,000		
Total Non-Utility earnings	<u>(1,194,000)</u>	<u>0</u>	<u>(1,194,000)</u>		
(3) Earnings Before Tax	<u>\$ 98,045,000</u>	<u>\$ 97,116,000</u>	<u>\$ 929,000</u>	<u>0.96%</u>	
(1) Transmission O&M					
Payroll for operations and maintenance	\$ 7,849,312	\$ 7,625,600	\$ 223,712	2.93%	
Performance based compensation	1,005,293	715,000	290,293	40.60%	
Planning studies	179,698	265,700	(86,002)	-32.37%	
SCADA - Maintenance & Operations	888,651	918,600	(29,949)	-3.26%	
Maintenance and operation of substations	1,192,757	992,100	200,657	20.23%	Sandbar Phase Angle Regulator - Expense (not covered by insurance)
Maintenance and operation of structures	595,492	614,300	(18,808)	-3.06%	
Vegetation management	1,846,786	1,763,000	83,786	4.75%	
NERC work	292,268	396,000	(103,732)	-26.20%	
Leased lines	86,862	144,000	(57,138)	-39.68%	
Safety expenses	184,866	197,100	(12,234)	-6.21%	
Environmental and ROW services	305,441	288,000	17,441	6.06%	
Vehicle maintenance, gas and insurance	66,959	74,000	(7,041)	-9.51%	
Emergency response plan	6,469	14,000	(7,531)	-53.80%	
Engineering Department	63,979	96,300	(32,321)	-33.56%	
Training	99,569	140,200	(40,631)	-28.98%	
Operations Department	191,202	219,800	(28,598)	-13.01%	
Deliver	247,600	300,000	(52,400)	-17.47%	
Other	162,797	124,300	38,497	30.97%	
	<u>\$ 15,266,000</u>	<u>\$ 14,888,000</u>	<u>\$ 378,000</u>	<u>2.54%</u>	
(2) A&G Expenses					
Administrative overhead	\$ (9,236,880)	\$ (8,885,794)	(351,086)	3.95%	
Benefits (Medical, 401k, SERP, Pension)	5,947,775	5,224,470	723,305	13.84%	Pension Plan (Settlement Accounting for 2022 and 2023)
Payroll	6,143,331	5,939,349	203,982	3.43%	Severance payout
Payroll overhead	(5,138,418)	(4,158,107)	(980,311)	23.58%	More OT and billable work than budgeted
Performance based comp / long term incentive plan	1,674,434	1,595,000	79,434	4.98%	
Insurance	2,666,074	2,473,661	192,413	7.78%	
External affairs and communication	200,848	191,800	9,048	4.72%	
IT support services	365,846	359,000	6,846	1.91%	
Software Agreements	2,853,633	2,884,550	(30,917)	-1.07%	
Telecommunication services	2,823,373	2,829,543	(6,170)	-0.22%	
Legal matters	433,131	555,340	(122,209)	-22.01%	Less legal services for FERC related matters
FERC annual charge	360,013	357,000	3,013	0.84%	
Financial audit and tax services	646,926	646,482	444	0.07%	
Memberships	182,606	241,500	(58,894)	-24.39%	
Directors expenses	313,921	318,000	(4,079)	-1.28%	
Maintenance of facilities	576,542	687,000	(110,458)	-16.08%	Savings in electric service due to solar
Human resources	372,072	327,400	44,672	13.64%	
Cash surrender value of life insurance	(253,370)	0	(253,370)		Gain from the change in the FMV of investments for life insurance
Amortization of Floyd study	154,014	154,014	0	0.00%	
Training	250,946	347,850	(96,904)	-27.86%	
Physical security	224,615	244,500	(19,885)	-8.13%	
Other	418,567	279,442	139,125	49.79%	Deferred Comp growth - interest rates higher
	<u>\$ 11,980,000</u>	<u>\$ 12,612,000</u>	<u>\$ (632,000)</u>	<u>-5.01%</u>	
(3) Earnings Before Tax					
Munif's	\$ 16,856,000	\$ 16,597,000	\$ 259,000	1.56%	Non Utility Earnings
IOU's	60,136,000	59,201,000	935,000	1.58%	Non Utility Earnings
IOU's Income Tax	22,473,000	22,715,000	(242,000)	-1.07%	
Return of Excess ADIT	(1,420,000)	(1,397,000)	(23,000)	1.65%	
	<u>\$ 98,045,000</u>	<u>\$ 97,116,000</u>	<u>\$ 929,000</u>	<u>0.96%</u>	