

Environmental, Social, Governance Report

2022



Prepared by



Mission: To serve as a trusted partner

Vision: To create a sustainable Vermont through our people, assets, relationships, and operating model

VELCO values our people, safety, sustainability, creativity, and great work

VELCO is Vermont's statewide electric transmission provider, with a proven track record of helping to create a sustainable Vermont through our people, assets, relationships and operating model. The company was formed in 1956 when local Vermont utilities joined together to create the nation's first "transmission only" company in order to access clean hydro power from New York. VELCO is a for-profit company owned by the state's 17 distribution utilities and a public benefits corporation and unique financial structure that returns value to our owners and their customers.

VELCO's system now includes: 740 miles of transmission lines, 55 substations, switching stations and terminal facilities, 13,000 acres of rights-of-way and a 1,500-mile fiber optic network that monitors and controls the electric system and serves as a key link for Vermonters' high-speed data internet access. For more information please visit our website at www.velco.com.

ABOUT VELCO



GREETINGS FROM TOM DUNN, CEO



Thank you for reading VELCO's 2022 Environmental, Social, Governance Report. I welcome all to read, reflect, ask questions, and reach out with any ideas you might have for us to continue to advance this critical work. VELCO's ESG stewardship embodies our values and is integral to our ability to achieve our mission to serve as a trusted partner and realize our vision of helping to create a sustainable Vermont. As a company founded to bring renewable energy to Vermont, this work is central to our heritage and even more so to our future.

This report serves as an opportunity to share our work, celebrate progress, identify next steps, and create an opportunity for feedback from our communities. We are committed to investing in the areas outlined in this report, and I am optimistic of the positive effect it will have on our ability to better deliver reliable, affordable and sustainable energy.

At VELCO, we aim to approach our ESG work with the same spirit of innovation, urgency, and rigor that fuels our system reliability and resiliency work. While 2022 delivered challenges and successes, we have since appropriately turned the page to 2023.

The team remains resolute with perhaps the clearest vision yet articulated during my tenure of how we might increase our value to our owners, and to Vermont.

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Welcome to VELCO's 2022 ESG Report

This report tells VELCO's story of our ESG work: accomplishments, work underway, challenges, and what is on our horizon. We share this report with you for the sake of creating a sustainable Vermont, informing and engaging employees, our board members, prospective employees and other stakeholders. We welcome and encourage feedback.

As with everything at VELCO, the report leads with our people. We first introduce you to our Belonging initiative. It's a journey we began to advance with care and determination this year. Even as this journey continues, we hope to demonstrate how we strive to take care of our employees, our neighbors, the communities we touch directly and the larger ecosystem we impact.

Next, we provide insight into our commitment to environmental stewardship. As you may know, we have a rich history of innovative and constantly evolving habitat and biodiversity management. Today and in the near future, we are tackling the complex challenge of how to safely, economically, and reliably run our offices, vehicles, and facilities while significantly reducing our greenhouse gas footprint. We are excited about the advancements we are making but recognize we have much more to do.

We end the report with a focus on governance. VELCO's ethics and governance practices reflect many of the best practices in the industry. While we are starting in a good place, again we recognize our work here is never done.



Mark Sciarrotta
Vice President
General Counsel
Chief Compliance Officer

SOCIAL

During the past year, with determination, focus, and the dedicated multi-disciplinary Transform Team, VELCO advanced our Belonging initiative. In 2022, the Team created a thoughtful, authentic corporate DEI statement to share with the entire company. This aspirational statement will always be a work in progress and we expect it to change in the months and years to come as we continue to advance this critical work:

All insights, experiences, and backgrounds are needed to create a sustainable Vermont for a brighter energy future. Diversity, equity, inclusion, and belonging strengthen VELCO. We welcome all to come learn, work, and grow with us.

This year, VELCO's Transform Team made Belonging their core focus as they organized, recruited, and created a team to guide VELCO's initial steps into this critical work. 2022 work included using a proven framework to complete 14 assessments covering much of our corporate structure to learn where we are in our Belonging journey. From this foundational work, Transform will create a 2023 work plan that prioritizes key areas for the company to advance in the next year.

In 2022, VELCO offered several DEI trainings and experiences including:



Inclusive Leadership

Attended by our entire executive leadership team



Creating a Respectful and Inclusive Workplace

Attended "live" by 136 (90%) employees and watched on video more than 20 times



Outward Inclusion

Attended by 50 invited participants including the Transform Team, executive leadership team, and representatives from nearly every department within the Company



Employment Law Basics for Managers

Attended by all levels of VELCO people managers and leaders

In a concerted effort to increase diversity of candidates within the hiring pool, VELCO is engaging with different platforms to share our position openings beyond our traditional posting areas. Our Human Resources team is working closely with managers to expand our target audiences while exploring and researching new ways to generate interest in our opportunities. This includes leveraging social media and non-traditional platforms to increase awareness of VELCO and the work we deliver.

Some of the organizations VELCO now partners with include:



Vermont Professionals of Color

VELCO created a scholarship opportunity with the VTPoC to support their vision to; “Advance the prosperity of all Black, Indigenous and People of Color (BIPOC) by driving a new era of professional mobility, promote their entrepreneurial ventures and nurturing a powerful professional network.”



Vermont Works for Women

VELCO invested in and attended the VWW career expo this year to support promoting economic justice by advancing gender equity and supporting women and youth at every stage of their career journeys.



Handshake

VELCO is an active member in this network of more than 200 institutes of higher education including historically black colleges and universities, STEM studies, women engineers, and black engineers.



Linked In

VELCO recently purchased a full recruiting package through LinkedIn allowing for active recruiting of candidates that participate in the LinkedIn platform dramatically increasing our connection points to new teammates.

Equitable Pay

VELCO's Human Resources team completed a Compensation Study with Hickok & Boardman and created a Compensation Policy to provide a framework for the administration of employee compensation. The study and policy were created to ensure consistent application of pay-related decisions in alignment with VELCO's compensation philosophy and objectives. Based on the study, in July 2022, we made several equity-based salary adjustments based on our findings.

Throughout this process, an intense amount of time and energy was devoted to creating and crafting appropriate job descriptions and associated career ladders for applicable departments. The job descriptions and career ladders outline the internal progression of an individual's career while at VELCO.

Health

The Human Resources team worked closely with our health coverage provider, Cigna, to expand health-related offerings including the programs MotivateMe® and Omada, as well as virtual options including MD Live, Ginger, and Talk Space. Additional engagement events organized by the Human Resources team and the Employee Recognition Team included a catered BBQ luncheon, on-site ice cream truck, catered breakfast, and a holiday potluck and ugly sweater competition. Bringing our employees back together after the two-year pandemic has been done with the utmost care and we are all so appreciative of the work to mindfully rebuild our in-person camaraderie in the post-pandemic world.



As always, the health, safety and wellbeing of our employees is a core value and making sure they go home safe each and every day is our top goal.

Health

Injuries and accidents down

- One fully-recovered employee injury
- Zero at-fault vehicle accidents



Training

Safety trainings completed on time

- Comprehensive driving education
- First responder outreach



Safety Summit

VELCO-hosted day-long event

- Nationally-known experts
- Over 150 attendees



This year, a new safety KPI was created by the Safety Advisory Committee to incorporate safety lessons learned into the safety manual and expand on the existing field audit and observation program by bringing some of the key concepts into the office environment. By creating a KPI built on leading indicators, we hope to create an even safer VELCO by preempting safety focus complacency before an incident occurs. In 2022, VELCO resumed its annual Safety Summit for more than 160 employees and contractors at the Killington Grand Hotel. We received great feedback on how to reinvigorate the summit in coming years to keep it engaging and pertinent.

INVESTING IN OUR COMMUNITIES

VELCO has a long history of employee involvement and corporate contribution within the communities where we live, work and volunteer. At VELCO, our Charitable Giving team supports partners working within our focus areas of safety, community, education, arts, grid modernization, economic development, and environmental stewardship. They carefully consider all requests and pay particular attention to requests from those organizations where our employees invest their time and energy. All charitable contributions are consistent with our civic and charitable priorities, create positive visibility, demonstrate social responsibility, and support a sustainable Vermont. All volunteer fire department and public library requests were granted and many local food shelves received donations. In 2022, VELCO's Charitable Giving team donated \$20,000 to 78 organizations.



INVESTING IN OUR COMMUNITIES

In addition to our Charitable Giving work, VELCO also strategically invested \$150,000 in Vermont by sponsoring 51 organizations and events.

The Sponsorships Committee sought to fund initiatives that advanced opportunities for at-risk populations, community events, environmental advocates, arts and culture, youth education, and economic development.

In 2022, VELCO sought to support organizations that create more affordable housing, advance women in leadership, champion diversity, equity, and inclusion, and effect more childcare opportunities for Vermont's families.



SOCIAL

What's next

New hiring practices for 2023: To promote a non-biased approach during the recruitment and interview process, HR is enabling *Incognito Mode* within our applicant tracking system. This functionality anonymizes information that could lead to unconscious bias. Identifiable information like name, photo, pronouns, and contact details are replaced with anonymized terms or placeholders. This allows managers and hiring committees to focus on the applicant's qualifications, rather than their identity, to decide whether or not to advance the applicant through the hiring process.

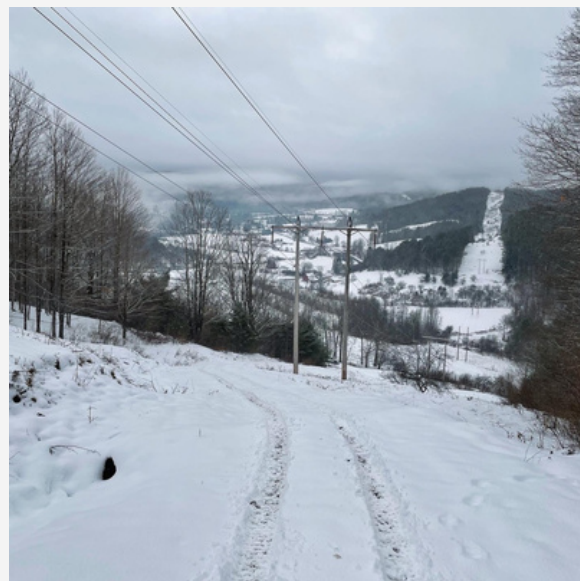
In an effort to maintain consistency across hiring committees, HR will create a comprehensive Recruitment and Hiring Guide for Managers and Hiring Committees. The guide includes sample interview questions, a list of do's and don'ts, sample evaluation forms, as well as information related to our Affirmative Action Plan and our Belonging work.



ENVIRONMENTAL

VELCO utilizes the VELCO Environmental Guidance Manual (VEGM), to provide Best Management Practices (BMPs) to VELCO staff, consultants, contractors, and subcontractors to avoid or minimize impacts to natural and cultural resources during work within new and existing electrical transmission right-of-ways (ROWs) and substations. VELCO's vegetation management program, which seeks to avoid tree contacts and other reliability threats, is one of the best in the industry. Our vegetation management program is accredited as a Right-of-Way Steward for sustainable integrated vegetation management (IVM) and we have earned the Right-of-Way Steward Founder's Award for leadership and secured one of the first two Right of Way Stewardship Council's accreditations globally. Our IVM practices have allowed us to reduce our foliar herbicide use over time as non-compatible plants are thinned out and naturally replaced by earlier successional forest growth, providing deer, grouse, and other Vermont wildlife with browse and cover that are in shortage in Vermont.

For fourteen years, VELCO has also earned designation as a Tree Line USA Company awarded by the Arbor Day foundation, which recognizes best practices in public and private utility arboriculture, including documented community tree plantings.





Our managed right-of-ways provide unique habitat for many precious flora and fauna that might otherwise not have the resources they need to flourish. VELCO utilizes a specialized seed mix specifically designed to promote wildlife diversity and stabilize disturbed soils to prevent erosion and protect water quality. In 2020 we entered into a conservation agreement with University of Illinois Chicago and the U.S. Fish and Wildlife Service to monitor and adapt management around milkweed and nectar resources to promote monarch butterfly habitat. Our team uses pollinator-friendly seed mixes at our Pinnacle Ridge headquarters and solar field, our Barre substation, and at our newly constructed New Haven Operations Facility. The team is collecting data at these sites and in the first year we are seeing success. We will continue monitoring to provide updates in future ESG reports.



This year, VELCO sought a creative solution to protecting the endangered Indiana bat while mitigating cost-increasing delays on a substation reconstruction project. Our team developed a strategy, with support from the Vermont Agency of Natural Resources and the U.S. Department of Fish and Wildlife Service, to employ a bat deterrent system to dissuade bats from roosting in the trees that we needed to remove. This system was necessary if the trees were not removed during the bats hibernation period. Ultimately, the trees were able to be removed during the bats hibernation period, which was the best outcome for the bats. Although, we ultimately did not need to implement this strategy in this particular situation, this innovative solution provides great potential for the protection of many bat species on future projects for VELCO and beyond.

While VELCO seeks to operate and accelerate the growth of transmission in support of Vermont's clean energy goals, we are also pursuing our own company-level initiatives to contribute value, learnings, and reduce our own carbon footprint. Below we share a selection of the projects we are advancing

New Haven Operations Facility

This year brought the construction of VELCO's new backup control center and secondary data center in New Haven. This facility was designed to operate free of fossil fuels with an extensive geothermal HVAC system. The system redistributes waste heat from the data center to other spaces in the building and expel excess heat to either an air cooler during the cold weather or to a geothermal system. The building also has 32kw of solar panels installed on the roof and expandable electric car charging infrastructure in the parking lot.



Radio-site storage project

This emerging pilot project will install two 250 kW AC – 1.2 MWh lithium ion battery storage systems at VELCO's Richford and Montgomery radio sites in 2023. These batteries will eventually replace hydrocarbon-powered backup generators at the sites, provide Vermont Electric Cooperative with another cost-effective peak-load shaving tool and provide us with a valuable grid-scale battery learning experience. We are excited to share the project's efficacy and our learnings in next year's report.



Pinnacle Solar and Battery

In 2021, following Board of Directors and regulatory approval, we commissioned our largest solar and first grid-scale battery project right here on our Pinnacle Campus: a 500 kW solar + 250 kW / 1.2 MWh battery combination. The success of this project in its first full year is reflected not only in cost savings but also the generation of carbon-free energy to power our headquarters and primary data center. In 2022, this project produced 198,680 kWh of energy. In 2022, the project reduced Pinnacle's electricity bills by over \$130,000. In addition, the battery unit was periodically deployed by Green Mountain Power to help shave demand peaks. You can learn more about this project by watching a short video linked here: <https://youtu.be/-jLuXISGjqk>.



VELCO fleet

Our fleet management program is seeking to convert the VELCO passenger fleet to all-EV by 2026 and our company light pickup fleet to EV by 2028. Looking ahead, as technology advances, we will seek to transition of our heavy pickups and heavy equipment to electric as well. To support the electrification of our fleet, we continue to explore how to strategically and cost-effectively deploy vehicle charging infrastructure as part of our current and future substation refurbishment projects



Highgate Converter Deluge System

Employees are empowered and encouraged to find ways to advance our sustainability goals. This year Josh Burroughs, Dynamic Devices Lead, led an effort to replace diesel-fueled pumps with electric pumps that support fire suppression deluge protection at our Highgate facility. Josh also helped us reduce our GHG footprint by eliminating the hydrofluorocarbon (HCFC) fire protection system at the facility.



Before (left) and after (right) the removal of the diesel pumps at the converter.

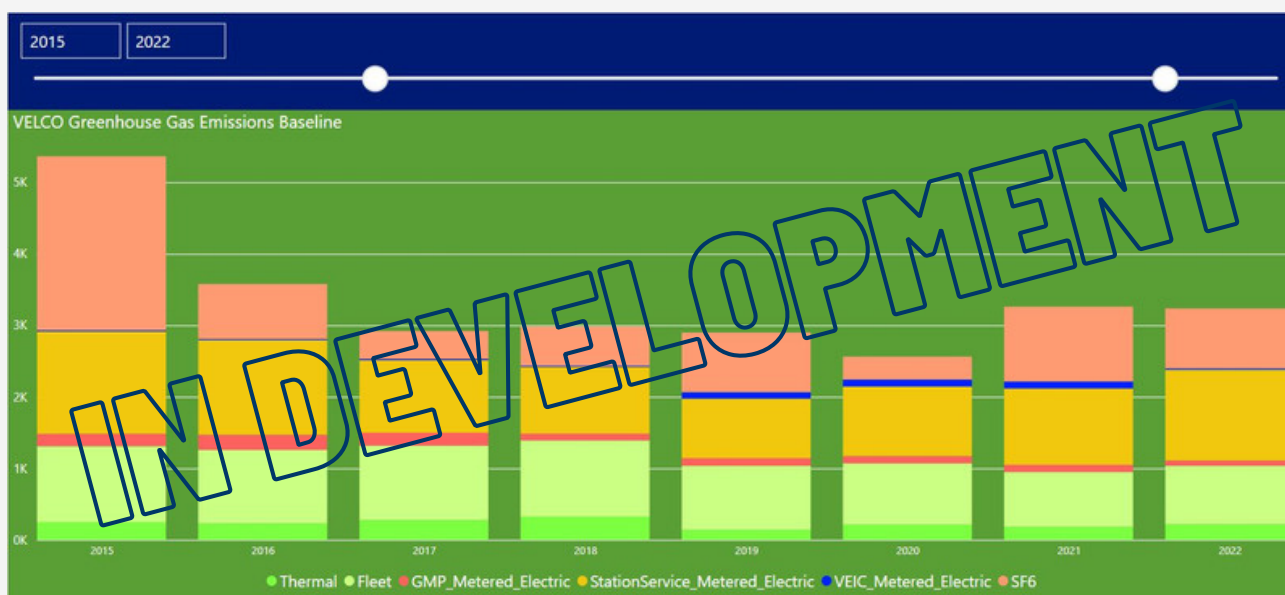
SF6 Gas Management

Our industry places a heavy reliance on sulphur hexafluoride (SF6) which is a highly stable, non-toxic, non-flammable, synthetic, odorless, non-conductive gas that is a standard and very effective component for high-voltage breakers. Unfortunately, SF6 is also one of the most damaging greenhouse gases, about 23,500 times worse than carbon dioxide. Not surprisingly, our GHG tracking work (see next section for graph) shows that SF6 gas units are our biggest greenhouse gas risk. Our strategy is two-pronged. First, we mitigate existing risk with near-term measures, e.g., on-line gas monitoring and leak alarms, inventory tracking protocols, etc. As a practice, the specification of new electrical apparatuses prioritize the use of non-SF6 insulating mediums such as mature vacuum bottle technology when commercially available. This practice is regularly applied to equipment replacements up to 72 kV. In 2023 we will purchase and install our first 145 KV vacuum circuit breaker replacing an end of life SF6-filled breaker.

GREENHOUSE GAS TRACKER

The Company's effort to identify, track and set reduction goals for GHG is underway. Our emerging GHG tracking tool, originally spurred by the Company's Vermont Climate Pledge Coalition commitments, has given us a directional understanding of where our GHG sources and risks exist, e.g., SF6 gas facilities, transportation, and substation service. We are currently attempting to track:

- Electricity consumption at VELCO facilities, e.g., buildings, substations, radio stations;
- Oil and propane heating consumption for heating at Pinnacle Ridge and Wenlock;
- Diesel and unleaded fuel used by the VELCO fleet; and,
- SF6 emissions from circuit breakers.



ENVIRONMENTAL

What's next

Green House Gas Tracking: A key part of our sustainability work going forward will include finding the resources necessary to advance the GHG tracker into a more accurate, accessible, automated, and regularly updated data repository. The current iteration was built on a shoestring for want of a real home and budget: existing software licenses, in-house IT know-how, coupled with efforts from Environmental and Accounting volunteers, got us this far. The development of a more accurate and automated tool would help us identify where our GHG reduction efforts are most economically and effectively deployed, and allow us to set goals/track progress over time.

Decarbonization Road Map: In 2022, with our consultant CX Associates, VELCO developed a Decarbonization Roadmap for our corporate headquarters. The initial work will include an effort to decarbonize our HVAC equipment (our biggest source (87%) of our campus' carbon emissions) which we estimate will result in a campus-wide carbon reduction of 80% by 2025. We expect to see progress next year in building envelope improvements that will include air sealing and insulation, installation of a central air-to-water heat pump system, and the installation of new air-source heat pump systems on the rooftop of the office building and at the Pinnacle warehouse.

EV Infrastructure: We are developing an electric vehicle charger deployment strategy/plan that leverages the reliability refurbishment work we already need to do at our substations and elsewhere. Completing this project plan that will align with our Substation Condition Assessment Program, substation modernization upgrades, facility improvements at Pinnacle Ridge and Wenlock will enable us to create project synergies that lower costs, maximize effective use of our resources and likely lead to the next generation of improvements.

GOVERNANCE

Ethics

VELCO has a robust ethics program and adheres to the highest ethical standards. As stated in our Employee Handbook, “The Policy of VELCO is to conduct its business in accordance with the moral and ethical standards and in observance of all applicable laws and regulations.” Without adherence to this standard, we would not be able to earn trusted-partner status with our stakeholders. We welcome you to read our Code of Business Conduct and Ethics Policy if you wish to learn more about our corporate guidance.

The Company purchases millions of dollars of goods and services every year. VELCO has several policies and practices in place to ensure we are investing electric customer dollars prudently and economically including:



Bounds of Authority

This is an annually reviewed and VELCO Board of Directors-approved matrix of authority, by role, for purchases. This policy seeks to empower all employees with purchasing authority but appropriately requires VELCO Board, CEO, officer, and/or director approvals commensurate with dollar purchase amount and thus level of risk.



Procurement Policy

VELCO adheres to an annually reviewed, CEO-approved policy that provides protocols and practices to ensure that we are constantly evaluating how we make significant purchases. This policy generally requires that we follow an open bidding process and vendor/proposal evaluation for significant purchases. It also provides a cross-functional, director-level Challenge Board to evaluate unique or strategic procurements that fall outside standard procurement protocols.

In the event an employee feels we as a company, or as individuals, are not acting as a trusted partner, VELCO has a confidential whistleblower policy. Any employee can call a toll-free number to speak confidentially with the General Counsel about ethics concerns of any sort.

With deep gratitude we recognize these VELCO teammates who contributed to creating this report through sharing their teams' work, words, pictures, and dedication to creating a sustainable Vermont:

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