



FINANCIAL EDUCATION WHAT YOU NEED TO KNOW

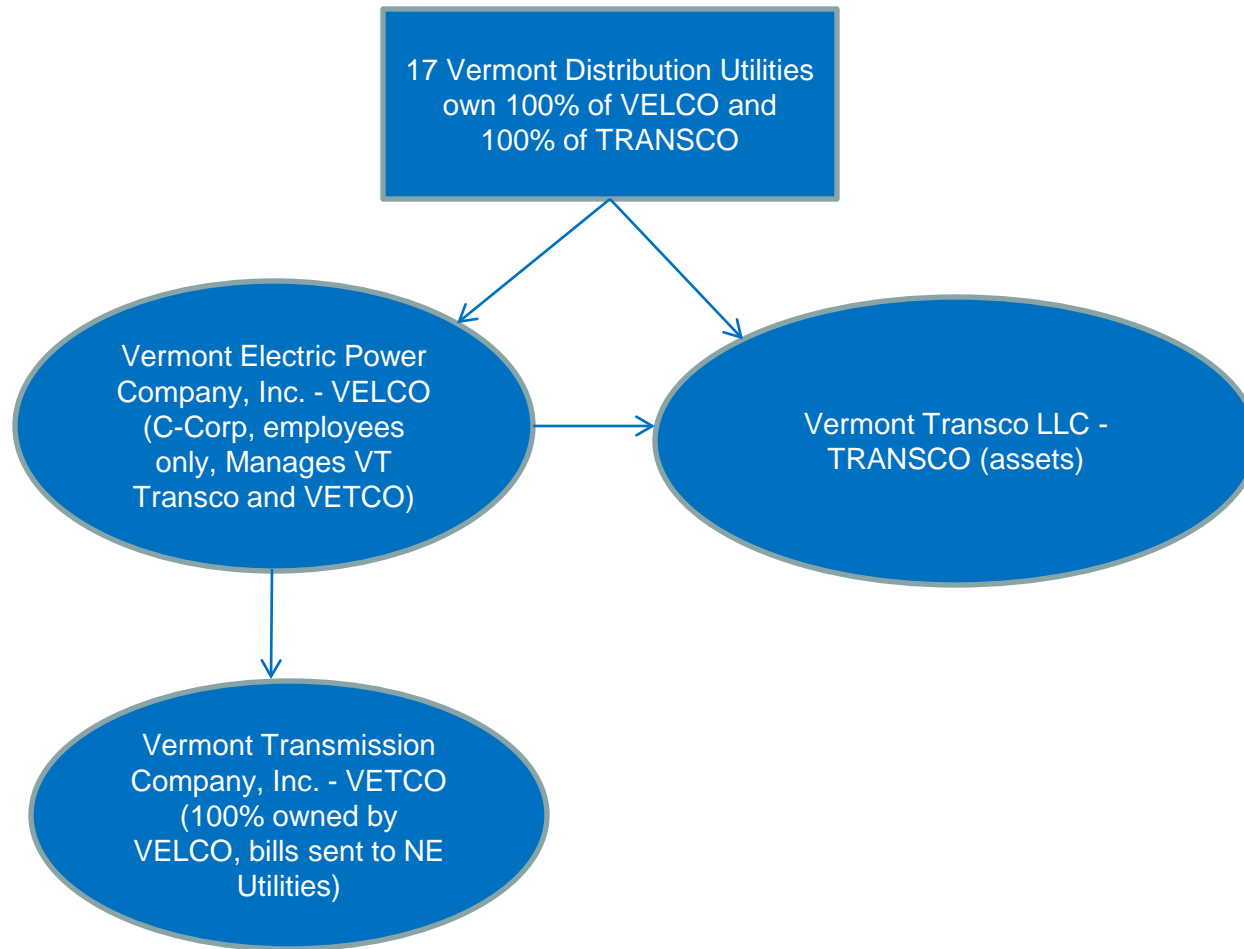
Agenda

- History
- Corporate Structure
- Tariff Structure
- Financial Statements
- ISO New England
- 1991 Agreement
- Charges versus Return

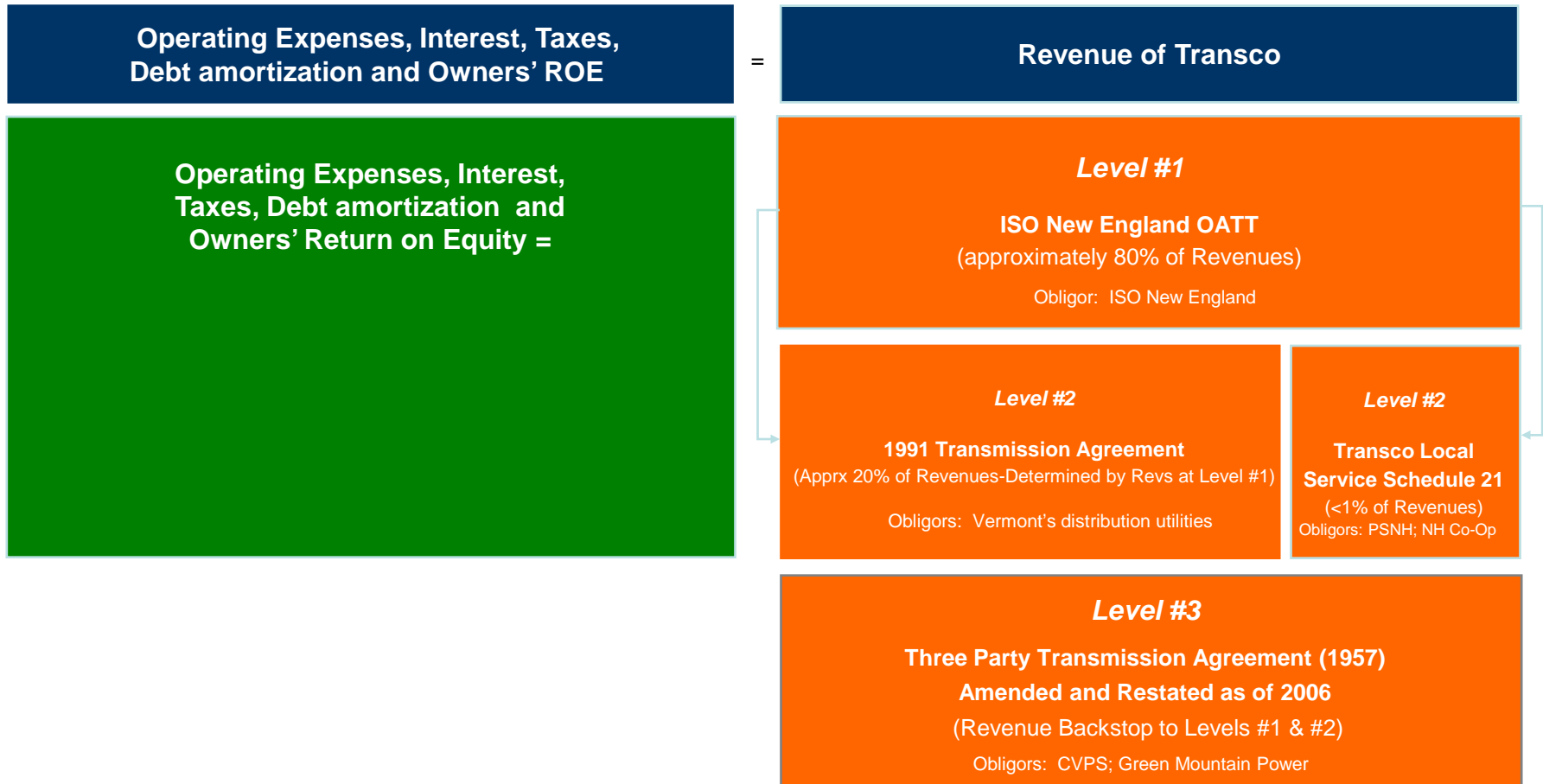
History – Corporate Structure

- **1956 VELCO (Vermont Electric Power Co.)**
 - ✓ Transmission for VT
 - Reduces charges amongst DUs for transmission
 - ✓ 90% debt – 10% equity (stock) - **Reduces VT rates**
- **1986 VETCO**
 - ✓ 450DC line in NE Kingdom to bring power from QC
 - ✓ Transfer costs to non-VT entities reduces VT rates
- **2006 VT Transco LLC**
 - ✓ Transfer assets from VELCO eliminating corp level income tax – **Eliminate tax to reduce VT rates**

Corporate Structure



VT Transco Major Tariff Structure



Financial Statements

- VTA is the final calculation
 - ✓ All other tariffs incorporated into the VTA calculation
 - ✓ RNS actual performance effects VTA
 - ✓ Schedule 21 billed for power served but impacts VTA
 - ✓ Other revenues reduce amount owed through VTA common
 - ✓ Specific facilities revenue reduces VTA common
- ISO-NE is rate base calculation
- VTA is equity return based calculation

ISO-NE Revenue requirement

(Rate Base x WACC)**

+ Operating Expenses

+ Taxes

+ Depreciation

=Revenue Requirement

*PTF Ratio

=ISO Revenue Requirement

This results in a rate that is charged for the following year, similar to a traditional utility rate case.

1991 Vermont Transmission Agreement (VTA)

Profit on equity

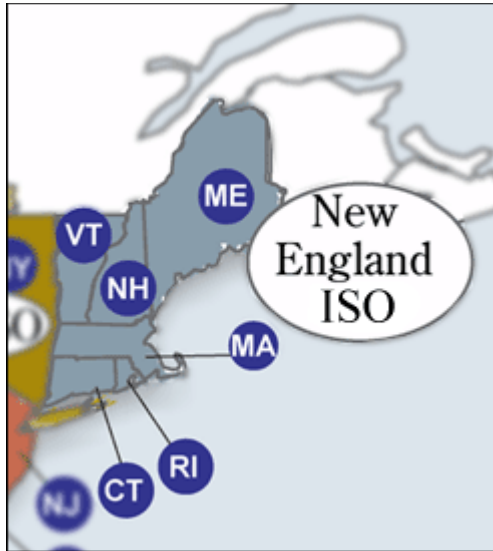
+ Operating Expenses (Operating expenses, taxes, depreciation, interest)

= Revenue requirement

- Regional Network Service Revenue
 - Schedule 21 Local OATT – PSNH, NHEC
 - Specific Facilities
 - Other Revenue (SPA, Fiber lease)
- = VTA Bill to VT DU's (load ratio share)

This calculation is performed each month based on actual expenses.

New England Revenue Requirement



- 8 Major Transmission operators
- Combined revenue requirement results in a \$/KW rate
- Paid by New England Load Serving Entities
- Reimbursement for PTF Assets
- Approximately 80% of Transco revenue requirement
- VT transmission slightly over 7% of NE revenue requirement
- VT roughly 4% of load
- Transco RNS revenue forecast for 2014 = \$136 million
- **VT will receive a benefit of over \$60 million in 2014 from New England because Transco RNS revenue will be \$136M but VT will pay \$73M**

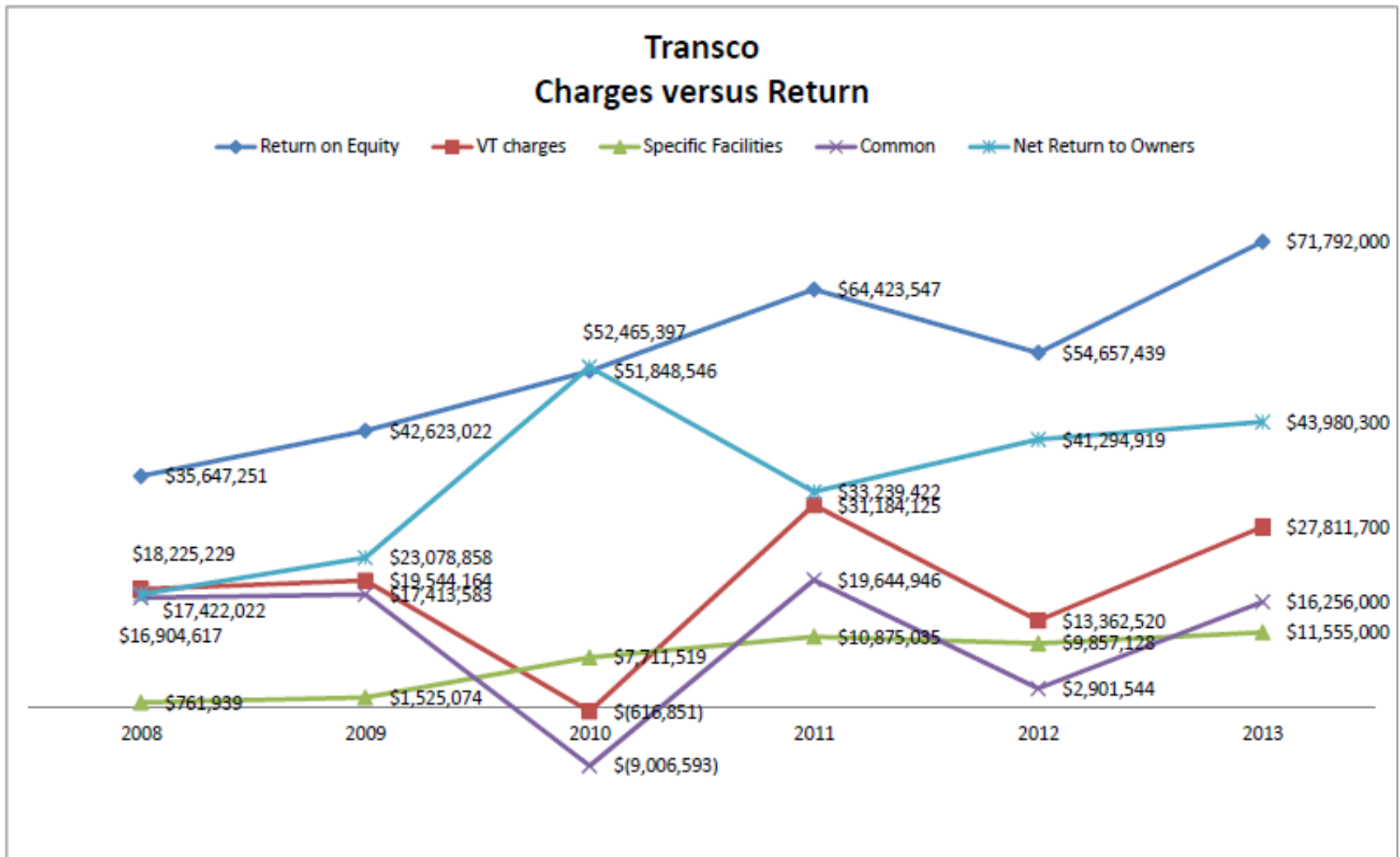
ISO-NE revenue requirement vs actual revenue

- Revenue requirement based on prior year actual activity and loads (Effective June 1)
 - ✓ **Is this similar to alternative regulation?**
- Actual revenue received is based on current year loads times the rate
- Transco will have variances between budget and actual as current year loads vary from prior year
- Variances flow through the VTA

Current year variances

- Current year variances are reflected in VTA charges
- RNS in following year will increase or decrease based on actual current year costs
 - ✓ New initiative or cost cutting will be incorporated into the RNS in the following year
- VTA charges are impacted the following year as the RNS adjusts
 - ✓ First year of new initiative or cost cutting flows through the VTA the following year RNS calculation will recognize change in income statement
- RNS allows forecasting of capital in service with a true-up in the following year.
- No true-up of expenses

Return vs. Charges



Forecasted Charges to VT

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
ISO-NE charges to VT	\$ 73,040	\$ 79,580	\$ 86,180	\$ 91,920	\$ 97,600
1991 Common	\$ 18,473	\$ 13,180	\$ 8,867	\$ 15,280	\$ 16,412
1991 Specific	\$ 11,557	\$ 11,560	\$ 11,468	\$ 11,410	\$ 10,683
Return on Equity	\$ (77,796)	\$ (82,934)	\$ (81,441)	\$ (89,135)	\$ (90,029)
Net Transmission Charges	\$ 25,274	\$ 21,386	\$ 25,073	\$ 29,476	\$ 34,666
Transco Revenue Requirement	\$ 170,636	\$ 176,736	\$ 178,420	\$ 196,466	\$ 205,033

Options for VT

- Reduce New England capital projects
- Make necessary VT transmission investments
- Control Transco costs
- Other transmission investments to allocate Transco costs
- Invest in peak reduction projects
- Adjust Capital Structure-Debt vs Equity

Questions & Comments

