

**Operating Committee**

**January 21, 2009**

**Operating Agreement: Load Ratio Share**

Load Ratio Share is the basis on which Vermont Transco makes investment opportunities available to all Vermont distribution utilities. Attached are excerpts from the Operating Agreement providing definitions of Load Ratio Share, Network Load and Pro Rata Share. Also attached is a portion of Section 3.3 of the Operating Agreement which covers Voluntary Additional Capital Contributions.

Guidance is sought from the Operating Committee in interpreting the calculation of Load Ratio Share. The definition includes the wording "...adjusted to reflect current levels of operation in the Company's service area...". VELCO needs to update the Load Ratio Share in order to proceed with an equity issue in December 2010.

officer or employee of the Manager or the Company, and (iii) such other Persons as the Manager may designate in writing from time to time, in its sole and absolute discretion.

\* *“Load Ratio Share”* means the ratio of the Network Load of a Vermont Distribution Utility to the sum of the Network Load of all Vermont Distribution Utilities, adjusted to reflect current levels of operation in the Company’s service area and expressed as a percentage to three decimal places.

*“Loss”* has the meaning provided in Section 6.1(f).

*“Majority in Interest”* means the affirmative vote or consent of Members (including the Manager Member, unless specifically excluded) holding more than 50% of the issued and outstanding Member Units of all classes.

*“Manager”* means “VELCO”, and any Person who becomes a substitute Manager as provided herein, and any of their successors as Manager.

*“Management Services Agreement”* means the services agreement between the Manager and the Company through which the Manager will provide management services to the Company, as that agreement may be amended in accordance with its terms.

*“Member”* means any Person identified on Schedule A from time to time and such Person’s successors and permitted transferees. Even if identified on Schedule A, a Divested Member is not a Member.

*“Member Interest”* means an ownership interest in the Company held by a Member and includes any and all benefits to which the holder of such a Member Interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement.

*“Member Nonrecourse Debt Minimum Gain”* means “partner nonrecourse debt minimum gain” as set forth in Regulations Section 1.704-2(i). A Member’s share of Member Nonrecourse Debt Minimum Gain shall be determined in accordance with Regulations Section 1.704-2(i)(5).

*“Member Systems”* means the Vermont Distribution Utilities that are members of VPPSA. As of April 1, 2007 the Member Systems included: Barton Village, Inc. Electric Department, Enosburg Falls Electric Light Department, Town of Hardwick Electric Department, Hyde Park Electric Department, Jacksonville Electric Company, Johnson Electric Department, Ludlow Electric Light Department, Lyndonville Electric Department, Morrisville Water & Light Department, Northfield Electric Department Inc., Village of Orleans Electric Department, Town of Readsboro Electric Light Department, Town of Stowe Electric Department and Swanton Electric Department. Nothing in this Agreement shall determine whether any of the Vermont Distribution Utilities receives or should receive services from VPPSA.

*“Member Unit”* means a Class A or Class B Member Interest in the Company having an initial value of \$10. The number of Member Units of each Class owned by each Member shall be as set forth on Schedule A, as it may be amended from time to time.

*“Member’s Pre-Tax Amount”* means:

(a) for any Member other than a Tax-Exempt Member, the amount of such Member’s Capital Contributions,

(1) multiplied by 11.5 percent,

(2) with the product arrived at in (1) divided by (1 minus the Tax Liability Factor expressed as a decimal); and such term also means

(b) for any Tax-Exempt Member, the sum of

(1) the amount of such Member’s Capital Contributions for Class A Member Units multiplied by 11.5 percent, plus

(2) the amount of such Member’s Capital Contributions for Class B Member Units multiplied by 13.3 percent.

*“Net Book Value”* means the aggregate Capital Accounts of all the Members kept in accordance with Section 3.4.

\* *“Network Load”* means the usage of a Member, other than VELCO, during the hour of the Company’s network peak.

*“Non-Managing Member”* means any Person named as a Member on Schedule A other than the Manager, and any Person who becomes a Substitute or Additional Non-Managing Member, in such Person’s capacity as a Non-Managing Member.

*“Offeree”* means any Person that is a Member and any Person that is a non-Member Vermont Distribution Utility.

*“Overallocation Offeree”* has the meaning provided in Section 3.3(d).

*“Operations Date”* has the meaning provided in Section 2.6 hereof.

*“Outstanding Member Units”* means all issued and outstanding Member Units of all classes, excluding those Member Units held by VELCO.

*“Percentage Interest”* means, for any Member, such Member’s Pre-Tax Amount divided by the Company Pre-Tax Amount.

*“Person”* means an individual, or any legal or commercial Entity.

*“Pledge”* has the meaning provided in Section 8.2(a).

*“Profit”* has the meaning provided in Section 6.1(f).

\* *“Pro Rata Share”* means:

\* (1) for a Member that is not VPPSA and is not a Vermont Distribution Utility, its proportionate ownership percentage of Outstanding Member Units;

(2) for a Vermont Distribution Utility, (a) the product of (i) the current proportionate ownership percentage of Outstanding Member Units held by Vermont Distribution Utilities as a group, multiplied by (ii) such Vermont Distribution Utility's Load Ratio Share; minus (b) as much of that product as a Member System transfers to VPPSA in accordance with this Agreement; and

(3) for VPPSA, its proportionate ownership percentage of Outstanding Member Units, based on the Member Units that VPPSA owns on its own behalf and the Member Units that its owns on behalf of the Member Systems; and

*"Regulations"* means the regulations promulgated under the Code, as such regulations may be amended from time to time (including temporary regulations and corresponding provisions of succeeding regulations).

*"Required Regulatory Approvals"* means the list of regulatory approvals set forth in Schedule B hereto.

*"Reserves"* means the amount of cash determined from time to time by the Manager to be required by the Company for its operations, including the planning and construction or improvement of new or existing Transmission Facilities.

*"Subscription Agreement"* has the meaning provided in Section 3.2.

*"Subscription Date"* has the meaning provided in Section 3.3(b).

*"Subscription Number"* has the meaning provided in Section 3.3(c).

*"Subsidiary"* means an Entity of which more than 50% of the interest in its capital or profits is owned by another Entity.

*"Substitute Members"* means those Persons admitted as Members in accordance with Section 8.5.

*"Tax Distribution Amount"* means:

(a) for any Member other than a Tax-Exempt Member, the amount of the Company's actual pre-tax Profit for the fiscal year as recorded on the Company's regulatory books of account.

(1) multiplied by such Member's Percentage Interest;

(2) with the product arrived at in (1) multiplied further by the Tax Liability Factor.

(b) for any Tax-Exempt Member, zero.

## ARTICLE III

### MEMBERS AND CAPITAL CONTRIBUTIONS

#### SECTION 3.1 Members and Schedule A.

- (a) The name and address of each of the initial Members are listed on Schedule A.
- (b) The Company may, upon approval of the Manager and of a Majority in Interest of the Members, admit such additional Persons as Members after the Operations Date upon such terms and conditions as the Manager deems appropriate.
- (c) The Manager shall amend Schedule A upon the admission of additional Members and upon any adjustment in the Members' Capital Contributions, number of Member Units and Percentage Interests.

#### SECTION 3.2 Initial Capital Contributions.

- (a) VELCO agrees to transfer to the Company, as of the Operations Date, all Transmission Assets and other assets listed in the Contribution, Transfer and Assumption Agreement between VELCO and the Company. The Company shall accept the transferred assets and assume the liabilities to which the assets are subject. In exchange for its contribution, VELCO shall receive the number and Class of Member Units listed beside its name on Schedule A hereto.
- (b) Except for VELCO, founding Members shall make their initial Capital Contributions in cash at such times on or before the Operations Date and in such amounts as are provided for in one or more Subscription Agreements to be entered into by such Members and the Company.
- (c) The number and Class of Member Units initially issued to each Member, the amount of each Member's cash Capital Contribution or Contribution Value, and the Percentage Interest of each Member is set forth by each Member's name on Schedule A.

#### SECTION 3.3 Voluntary Additional Capital Contributions.

- (a) No Member may be required at any time to contribute any additional amounts or assets to the Company in excess of those set forth in Section 3.2 above.
- \* (b) If the Manager determines that additional equity capital is required for any purpose of the Company then, subject to receipt of applicable regulatory approvals necessary for (i) the Company to issue securities in exchange for such equity capital and (ii) the Offerees desiring to contribute to acquire such securities, the following procedures shall apply. The Manager shall issue a written call notice to the Offerees, subject to the following paragraph with respect to VPPSA, advising them of the total funding that the Company seeks, the number, price and other terms and conditions of the Member Units to be issued by the Company (the

\* “Additional Member Units”), and each Offeree’s *Pro Rata Share* thereof. The call notice shall designate the date by which Offerees’ binding written subscriptions (described in Section 3.3(c) hereof) to acquire Additional Member Units must be delivered to the Manager (the “Subscription Date”). The Subscription Date shall be at least 45 days after the date of the Manager’s call notice.

VPPSA may acquire Additional Member Units under this Section 3.3 (i) on its own behalf, provided that VPPSA could have done so under this Agreement had VPPSA not acquired Member Units on behalf of one or more Member Systems; and (ii) on behalf of a Member System to the extent that such Member System authorizes VPPSA to acquire Additional Member Units on its behalf, by: (y) having transferred Member Units to VPPSA; or (z) reducing its current *Pro Rata Share*, provided that VPPSA and such Member System provide prior notification of such authorization to the Company.

(c) Each Offeree shall have the right, but not the obligation, to deliver to the Manager no later than the Subscription Date an irrevocable written commitment, conditioned solely on the receipt of any applicable regulatory approvals, to acquire a specified number of Additional Member Units (“Subscription Number”). VPPSA’s Subscription Number shall state with specificity how many of the Additional Member Units are intended to be associated with VPPSA on its own behalf and on behalf of each Member System. On the Subscription Date, the Manager shall notify each subscribing Offeree of the number of Additional Member Units allocated to it for purchase. As provided to VPPSA, such notification shall specify the number of Additional Member Units associated with VPPSA on its own behalf and with each Member System, which number shall be calculated for each Member System by multiplying (i) the total number of Additional Member Units that VPPSA acquires pursuant to Section 3.3(d) by (ii) the ratio of the Additional Member Units intended to be associated with that Member System to the total Additional Member Units being acquired by VPPSA, each as specified in VPPSA’s Subscription Number provided pursuant to this Section 3.3(c).

(d) In the event that the subscribing Offerees have committed to purchase more Additional Member Units than the total thereof being offered, then the Manager shall determine each Offeree’s purchase allocation of Additional Member Units as follows.

First, the Manager shall allocate to each subscribing Offeree a number of Member Units equal to the lesser of its Subscription Number or its *Pro Rata Share* percentage of all Additional Member Units.

Second, the Manager shall allocate the remaining Additional Member Units to those Offerees which have subscribed for more than their *Pro Rata Share* of the offering (an “Overallocation Offeree”) by allocating to each such Offeree a number of Additional Member Units equal to the lesser of: (i) the excess of the Offeree’s Subscription Number over the number of Member Units already allocated to the Offeree under clause First above; or (ii) its *Pro Rata Share* percentage (determined after excluding the *Pro Rata Shares* of non-Overallocation Offerees) times the number of remaining Additional Member Units.

To the extent that Additional Member Units remain unallocated, then the Manager shall continue making successive allocations to Offerees using the procedure set forth in clause