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March 10, 2026

Holly Anderson, Clerk  
Vermont Public Utility Commission  
112 State Street  
Montpelier, VT 05620-2701

Re: Investigation into the financial status of the Village of Hyde Park Electric Department  
Case No. 25-2569-INV

Dear Holly:

Along with this cover letter, the Hyde Park Electric Department (HPED) is filing its second:

- Interim Operations Report
- Financial Narrative Report
- Interim Balance Sheet, and
- Interim Financial Projection

Please let me know if you have any questions.

Many thanks.



Ron Shems  
Tarrant, Gillies & Shems  
Attorneys for HPED

cc: Henry Mauck  
James Porter  
Scott Johnstone  
Ken Nolan  
Grace Sawyer  
Steve Farman

# **Vermont Public Power Supply Authority (“VPPSA”)**

## **Preliminary Report**

### **2nd Hyde Park Interim Report**

#### **Introduction**

Since Hyde Park Electric Department (“HPED”) submitted its first interim report on January 23, 2026, VPPSA has held several informal discussions with the Department of Public Service (“DPS”) related to issues unfolding with HPED and VPPSA’s actions to address them.

During a meeting with Commissioner Johnson and the DPS leadership team on February 12th, the Commissioner observed that the remedies necessary to maintain HPED’s financial viability would require coordinated efforts, a tightly controlled timeline, and likely innovative regulatory approaches. As a result, he and his team urged VPPSA to provide the Commission with as much detail as possible in this second interim report.

This report (“Report”) is intended to share with the Commission VPPSA’s activities and observations to date, provide visibility into what VPPSA has encountered and describe the events that have transpired since VPPSA began working with HPED. This Report also provides initial thoughts on a potential path forward.

#### **Disclaimer and Limitations**

This Report is provided by VPPSA in its role as consultant to the Hyde Park Electric Department. VPPSA’s consultant role is, in short, to stabilize HPED. (The full scope of services VPPSA is providing to HPED is described in the Consulting Agreement filed with the Commission on September 29, 2025.) The anticipated investigation as part of the Phase II rate case will provide further facts relating to HPED’s financial situation and its causes.

This Report reflects and is limited to VPPSA’s present understanding of HPED’s overall financial situation. The Report was shared with the HPED Commissioners, who on March 5, 2026, authorized VPPSA to file it.

Hyde Park’s situation continues to be very dynamic. Decisions over the fall and winter have been, and at times continue to be made on an hour-by-hour or crisis-management basis to maintain HPED’s ability to provide safe and reliable service and to avoid defaults. While HPED may now be on a path toward stability, that path depends on further factual development and resolution of several outstanding issues with Union Bank, other creditors, and of course, state regulators.

The action plan described at the end of this Report is VPPSA's best view of the path forward as of this writing. VPPSA fully acknowledges that successful implementation of the action plan is not fully in HPED or VPPSA's control.

### **Rate History**

Research has indicated that HPED's financial spiral initially began in 2015 when it first recorded operating losses.

On July 17, 2019, Hyde Park filed for approval to implement a 15.69% rate increase to be effective September 19, 2019. After reviewing the filing, the PSD recommended the Commission open an investigation. In its recommendation the PSD noted that Hyde Park's last rate case was in 2010, the utility has recently been operating at a loss, and the proposed increase was substantial. After several rounds of discovery and testimony HPED and the PSD settled on a revised rate increase of 7.75% which the Commission adopted by Order dated March 4, 2020. According to HPED's audited financial records the approved rate increase, which represented a less than 1% per year increase since its previous rate case in 2010, was not sufficient to produce positive operating income.

HPED next filed a 2% rate increase with the Commission under 30 V.S.A. §218d(n) on August 15, 2023, for effect on October 1, 2023. In its review of that filing the Commission requested that HPED file a status update regarding when its next rate filing would occur. In its response HPED indicated another rate filing would be made in or around May 2024. HPED's audited financials indicated that operating losses continued.

HPED then filed a 3% rate increase under 30 V.S.A. §218d(n) on August 15, 2024, for effect on October 1, 2024. In making this filing HPED acknowledged to the Commission that it had not yet filed the expected larger rate increase request. In its response accepting the 30 V.S.A. §218d(n) filing the Commission expressed concern that HPED was still not recovering sufficient revenue to cover its cost of service. Again, HPED's audited financial statements indicated operating losses were continuing.

The Commission then opened a separate investigation to address several corrective actions identified by the PSD in relation to the 3% 30 V.S.A. §218d(n) filing. In that investigation, HPED stated its intent to file an additional rate case that would undergo full Commission investigation in early 2025. The investigation was closed without further process. That subsequent rate filing was never made.

## **Recent History**

In early September 2025 the Public Service Department became aware that HPED was experiencing significant financial difficulty via outreach from Efficiency Vermont (“EVT”) noting that Hyde Park was not remitting Energy Efficiency Charge (“EEC”) funds to EVT. On September 9, 2025, Commissioner Johnson met with HPED General Manager Brian Evans-Mongeon, the Chair of the HPED Board of Electric Commissioners, and the attorney representing HPED. This meeting prompted a letter from Commissioner Johnson dated September 10, 2025, instructing HPED to notify the Commission of its financial situation and to take several other steps to address its financial situation.

In response to this regulatory intervention, HPED hired Ron Shems, of Tarrant, Gillies & Shems as HPED’s legal counsel. Attorney Shems immediately advised HPED that it also required a financial consultant which led HPED to enter a Consulting Agreement dated September 26, 2025, with VPPSA. Under the Consulting Agreement VPPSA was to provide financial support services including determining the depth and breadth of the challenges. Attorney Shems also advised that the Village of Hyde Park retain separate counsel. The Village subsequently hired Peter Raymond of Sheehey, Furlong, and Behm as the Village’s attorney.

VPPSA began work immediately under the Consulting Agreement attempting to gather information and complete a review of HPED’s financial situation. This included a review of accounts payable, a gathering of all Hyde Park loan documents, and an assessment of the purpose/use of loan funds. Since Hyde Park’s 2024 audit had not yet been completed, VPPSA’s services also involved assisting in efforts to finalize the audit.

At 5:01pm on Friday October 24, 2025, HPED General Manager, Brian Evans-Mongeon, notified the Hyde Park Trustees, along with VPPSA and Attorney Shems, that he was resigning from his position effective “As of 5 pm this evening”. This resulted in an emergency expansion of the services VPPSA provided. These additional services are detailed in the Management Services Agreement entered between VPPSA and Hyde Park dated October 31, 2025 (although the management services effectively began at 5:01pm on October 24th). Under this agreement VPPSA has been providing an interim General Manager, Morrisville Water & Light (“MWL”) General Manager Scott Johnstone, additional support for office functions (VPPSA’s Controller began working out of the Hyde Park village offices), and access to additional VPPSA and MWL personnel as needed.

Both the Consulting Agreement and the Management Services Agreement remain in full effect as of this Report. In addition, on January 15, 2026, the HPED Commissioners (which are also the Hyde Park village Trustees) voted to seek Strategic Membership in VPPSA with the intent of becoming full members following the unwinding of certain HPED contractual commitments. VPPSA’s Board of Directors voted to accept HPED as a Strategic Member at their February 4, 2026, meeting, effective immediately. The

contractual relationship to fully implement Strategic Membership is being developed in a manner that encompasses and preserves the Consulting Agreement and Managed Services Agreement as they presently exist.

This history is provided to highlight that VPPSA and MWL have been fully embedded in the HPED, and the broader Village of Hyde Park, operations since late September 2025, and in addition to maintaining day-to-day operations, have been completing both financial reconciliations and operational assessments since that time.

### **HPED’s Financial Situation**

First and foremost, VPPSA needs to state that it has not conducted a full forensic audit, nor is it qualified to do so. VPPSA, largely through its Controller, has researched HPED’s books and its financial account management as part of its consulting and management services with a focus on verifying the breadth and depth of Hyde Park’s financial issues and stabilizing operations. This has necessarily required an in-depth review of Hyde Park’s financial operations, but not a full forensic audit.

To date, VPPSA has not encountered any indications of embezzlement. Further the audits VPPSA reviewed as part of its research have not indicated any suspicions of embezzlement.

However, while VPPSA has not seen indications of embezzlement, HPED’s history does appear to indicate a pattern of misconduct that goes beyond mistakes or mismanagement, such as efforts to mislead and failures to disclose information.

The evidence points to the fact that HPED has had an operating loss in each of the ten years between 2015 and 2024. It has been at least a decade since HPED’s rates were set sufficiently to cover its cost of service. This fact was not evident to either state regulators or HPED Commissioners until the Village of Hyde Park entered crisis mode. To illustrate the decline VPPSA’s Controller prepared the following table based on results reported in Hyde Park Village audits:

Hyde Park Electric Department										
Financial Position per Audited Financial Statements										
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
<b>Revenue</b>	2,848,987	2,627,422	2,552,440	2,502,180	2,511,915	2,210,904	2,193,218	2,157,684	2,124,445	2,133,912
<b>Expenses</b>										
Power Supply	1,969,650	1,877,544	1,889,205	1,532,169	1,477,018	1,577,935	1,582,595	1,478,389	1,424,629	1,588,800
Customer Accounts	344,709	230,181	272,976	269,632	209,387	209,396	230,320	222,111	206,285	204,734
Admin & Gen	442,165	619,930	419,355	541,285	503,278	531,736	422,685	332,397	296,678	307,104
Depreciation	121,382	127,854	108,608	153,265	184,712	194,534	185,677	188,851	150,075	114,142
Taxes	200,805	177,662	185,946	180,445	174,000	158,416	146,111	132,260	123,005	120,903
	3,078,711	3,033,171	2,876,090	2,676,796	2,548,395	2,672,017	2,567,388	2,354,008	2,200,672	2,335,683
Operating Loss	(229,724)	(405,749)	(323,650)	(174,616)	(36,480)	(461,113)	(374,170)	(196,324)	(76,227)	(201,771)
Non-Op Revenue	36,663	52,296	60,313	65,946	57,901	140,601	129,480	123,002	132,948	141,627
Change in Net Pos.	(193,061)	(353,453)	(263,337)	(108,670)	21,421	(320,512)	(244,690)	(73,322)	56,721	(60,144)
<b>EOY Net Position</b>	<b>(350,928)</b>	<b>(157,867)</b>	<b>195,586</b>	<b>458,923</b>	<b>567,593</b>	<b>546,172</b>	<b>866,684</b>	<b>1,111,373</b>	<b>1,184,695</b>	<b>1,124,551</b>

**Tax Anticipation Note (“TAN”)**

To address the continual losses Hyde Park initiated borrowing through issuance of a Tax Anticipation Note (“TAN”) in 2018. Between 2018 and 2024 the amount borrowed through the TAN expanded multiple times. A table of the borrowed amounts is below:

Year	TAN
2018	\$ 300,000.00
2019	\$ 465,000.00
2020	\$ 460,000.00
2021	\$ 460,000.00
2022	\$ 710,000.00
2023	\$ 710,000.00
2024	\$ 921,200.00
2025	\$ 1,080,733.85

A TAN is traditionally intended to be a cashflow management tool that municipalities use to address timing issues between expenditures and tax collections. The Hyde Park TAN was issued as an obligation of the Village of Hyde Park and backed by the full faith and credit of Village of Hyde Park taxpayers. However, VPPSA’s review of Hyde Park’s financial records has determined that nearly the entirety of funds drawn through the TAN were used to cover HPED operational expenses.

For context, one easily tracked example, is that the Village borrowed a Current Expense Note in 2021 (the “2021 CEN”) in an amount of \$250,000 to cover its rising electric department customer arrearages resulting from COVID. When the 2021 CEN matured a year later the Village paid the amount due by adding it to the TAN renewal amount in 2022, causing the TAN increase from \$460,000 to \$710,000 as shown in the table above.

Hyde Park’s TAN amount represented multiples of the Village tax revenue, which is roughly \$39,600 annually. Cashflow certificates submitted with the TAN loan documents clearly included all Village revenue (taxes, electric, water, & wastewater) and the cash flow certificates reflected a negative income at year end every year. The TAN was effectively rolled over from year to year with the Village adding additional draws as needed.

As described in the Recent Events section, below, this TAN has been temporarily refinanced as a taxable Current Expense Note with a 4-month duration.

**Current Expense Notes (“CEN”)**

A CEN was also entered by the Village in 2024 (the “2024 CEN”) in the amount of \$400,000 which VPPSA has also verified as being used for HPED expenses. While the 2024 CEN was taken in the Village’s name it explicitly pledged the “Revenues” of the electric department as collateral for the loan. This CEN was renewed upon maturity in

2025 (the “2025 CEN”) and the available amount was increased to \$539,958.68. Note, the 2025 CEN was structured as a line of credit that Hyde Park could draw against as needed. An initial draw was made equal to the \$400,000 2024 CEN amount but no additional funds have been drawn against the 2025 CEN leaving its outstanding balance at \$400,000. The 2025 CEN also pledged the “Revenues” of the electric department as collateral for the loan.

### **Intra-Village Transfers**

Additionally, the Village’s 2024 financial audit reflected that HPED owes a total of \$481,746 to other village departments. VPPSA has documented that a large portion of these funds were utilized to establish financial assurance with ISO New England (“ISO-NE”) when HPED left VPPSA membership and joined Energy New England (“ENE”). Under the ENE membership structure each utility has a direct ISO-NE market account and must manage its own financial relationship with ISO-NE.

### **Accounts Payable**

VPPSA has also been assisting Hyde Park staff in managing their accounts payable since September 2025 while attempting to close historical months that have remained open due to Hyde Park’s inability to keep up with posting transactions. The large number of unposted invoices has hampered efforts to identify the true accounts payable amounts; however, as of February 2026, VPPSA is confident that the past due accounts payable balance is roughly \$850,000 with the oldest past due accounts being approximately a year overdue.

### **CREBS**

As of March 1, 2026, there is an approximate \$1.9 million balance remaining on the previously approved CREBS project loan for the Waterhouse solar project.

### **Prior Governance Practices**

VPPSA’s research has been further hampered by historic Hyde Park governance practices and resulting ambiguity in documentation. Trustee meetings have been held as a single unified meeting with Village actions for all departments contained on a single agenda. While each department was separated into its own section within the agenda, financial discussions and motions did not always differentiate which department they affected.

While invoices were linked to specific expenses and operational funds, the warrants to approve payment used a generic header that did not differentiate between Village Electric/General/Water/Wastewater expenses. Warrants were reviewed in Trustee meetings as an agenda item, but often no motion was made, and warrants were instead

signed by trustees individually as approval. Further, motions to approve loan draws may or may not have referenced the specific cost to be covered by the funds. VPPSA's Controller has spent many hours linking loan draws to expenditures through reviewing discussions in minutes, intra-village staff e-mails, and the timing of loan draws versus invoice payments.

As a result, the research is not 100% conclusive that all TAN and CEN expenses are electric department related but VPPSA believes there is sufficient documentation to infer such a link where one is not explicit.

### **Summary**

Between short term borrowings, intra-village transfers, and past due accounts payable VPPSA has identified approximately \$2.8 million of short-term operational debt outstanding (not including the CREBS loan balance).

As noted, VPPSA's Controller has researched expenses back through 2019 to tie short-term borrowing to specific uses. In some cases, this has been challenging due to a draw on the TAN or CEN being used to cover expenses approved on a monthly warrant without direct linkage to specific payments or purchases, however, VPPSA has been able to document direct ties between loan draws and either specific electric expenses or warrants that included substantial electric department expenses.

VPPSA's research has also identified questions regarding the validity of the TAN and various CEN issuances, for example whether the TAN was subject to regulatory approval. Those questions have limited Hyde Park's options as VPPSA has worked to avoid default and craft a path forward.

### **Recent Events**

#### **Transformer Failure**

On December 11, 2025, HPED staff were informed that the main HPED transformer was making significant noise. Upon investigation HPED and MWL staff determined that the transformer was arcing internally and at imminent risk of failure. It was immediately red tagged and all HPED load was connected to the MWL distribution system.

In making the transition to MWL the HPED line fuses repeatedly melted causing MWL personnel to essentially re-fuse the majority of the HPED system and shut off the Waterhouse Solar Project to maintain service. A roughly 6-hour outage was required.

Further discussion with MWL's outside engineer indicated that the likely cause of the arcing was a combination of low oil level, loss of the gas blanket inside the transformer, and the severe line phase imbalance. It is possible that oil and gas replacement, coupled with phase balancing, could allow the transformer to operate again with a likely remaining life of 2-3 years.

With help from Green Mountain Power (“GMP”) MWL identified a contractor that could assess the transformer viability and that analysis has been conducted. The initial results determined that the transformer core is in acceptable shape to reenergize. HPED is now awaiting confirmation that oil samples also show no issues. Assuming the oil passes testing, the transformer could be re-energized immediately after the phase imbalance issue described below is resolved, estimated to be within 2 weeks. This temporary fix is estimated to cost roughly \$50,000 to replace the oil and re-establish the gas blanket. A new transformer purchase is estimated at \$700,000 with a two-year lead time.

### **Phase Imbalance**

In response to the fuse failures upon connection to MWL, load loggers were placed throughout the HPED system to identify the amperage flowing on each circuit and phase. The collected data identified a significant phase imbalance on the HPED system. Phases A and C each showed roughly 65 amps while Phase B recorded over 150 amps. It appears that all new loads on the HPED system have been connected to Phase B for several years.

HPED and MWL personnel have been working with MWL’s outside engineers to develop a rebalancing plan where individual neighborhoods will be moved off from Phase B onto Phases A & C. This work was waiting for warmer weather when customers are more able to withstand short outages, and advance notice can be provided; however, with the transformer test results now in hand it will be proceeding expeditiously.

### **Customer Call Center**

During the initial cutover from the HPED transformer to the MWL system, and during subsequent outages, it became apparent that HPED’s after-hours phone service was not working effectively. During significant call volumes the service either placed customers on hold or left them with a busy signal, while billing HPED by the minute for the unserved calls. The impact of this result is compounded by the fact that HPED has no automated outage detection technology and therefore counts on customer calls to identify/track outages.

It should be noted that Hyde Park’s service territory is sheltered from high wind conditions experienced by neighboring utilities and therefore has experienced very low historic outage rates. This lack of weather-related outages masked the call center issues that materialized upon the large-scale outage caused by the transformer failure.

Interim Manager Johnstone initially conducted outreach to the service provider to correct the situation but has seen no improvement to date. As a result, he has initiated efforts to move HPED onto the Cooperative Response Center, Inc. (“CRC”) service used by most other municipal utilities.

### **Transparency Efforts and Public Forums**

Interim Manager Johnstone has taken affirmative steps to assure that HPED's financial circumstances are being managed transparently with residents and ratepayers. He has hosted 1-hour public forums prior to each Village Trustee and Electric Commissioner meeting since assuming his role last October 31st. Two Commissioners have attended each forum such that local elected officials have participated without violating any open meeting law requirements. VPPSA has also been present at all forums.

Initial attendance was several dozen people with the most recent meeting in February being about a dozen. In each meeting attendees have been provided the latest information about HPED's status to the extent available and not subject to confidentiality requirements. Interim Manager Johnstone has also posted the joint Hyde Park and PSD interim filing made in this Case on the Hyde Park website. Discussions have remained cordial with meeting attendees asking very well-informed and direct questions.

### **Staffing**

Said simply the Hyde Park office staff is overwhelmed and unable to function effectively without additional support. They have had an unfilled position for some time and have struggled to both find and retain qualified people.

VPPSA's Controller has been operating out of the Hyde Park offices since October 2025 and has been providing day-to-day financial and customer service support in addition to the services VPPSA was initially hired to perform under the Consulting Agreement. While she was initially placed in Hyde Park to perform the research needed to unravel the identified financial issues, her role has become more akin to an office manager monitoring key tasks and making sure HPED meets its day-to-day financial management obligations.

VPPSA also identified that a contributing factor to the office staff overload is that Hyde Park has had its Superintendent/Foreman position vacant for several years resulting in much of the field-related paperwork that position was handling (such as line extension estimating) being transferred to the office personnel who were not trained to do the additional work.

VPPSA strongly believes that HPED's long term viability will require that the electric department hire both a dedicated staff accountant and filling of the working Superintendent/foreman position.

### **Phase I Rate Case Impacts**

Despite HPED having filed its Phase 1 rate case in November 2025 effective with service rendered starting January 1, 2026, HPED's financial situation has continued to deteriorate. The customer bills for January service weren't issued until early February, meaning that the additional revenue contemplated in the Phase 1 rate case began to

materialize in mid-February. In the meantime, past-due accounts payable have continued to increase.

VPPSA continues to believe past-due accounts payable will stabilize as the new revenues begin to arrive. However, HPED will need to continue to closely manage cashflow pending the outcome of the Phase 2 rate case.

### **Tax Anticipation Note (TAN) Refinancing**

The Village of Hyde Park's TAN matured on February 6, 2026, and absent a replacement the full \$1,080,733.85 plus interest would have become due and payable on that date. As everyone now recognizes, neither the Village, nor HPED could make the required payment.

To avoid default, VPPSA and Hyde Park's village attorney negotiated with Union Bank for several weeks toward a solution. As mentioned above, there were significant legal questions about whether the TAN was validly issued and therefore the options that were available for a replacement were severely limited.

Ultimately, Hyde Park and Union Bank agreed on converting the TAN to a taxable Current Expense Note (the "2026 CEN") with a 4-month duration to align it with the 2025 CEN that matures on June 30, 2026.

Both parties agreed that the longer-term goal is to replace the combined 2025 CEN and 2026 CEN with a new Term Note that would be clear of legal defect and would provide manageable repayment over time.

To move discussions toward the Term Note, the parties agreed to the following interim structure surrounding the 2026 CEN:

- They would negotiate in good faith toward a Term Note to replace both CENs.
  - Basic terms of the Term Note are to be agreed to in time to be incorporated into the Phase II rate proceeding to be filed by April 15, 2026.
- They would enter a Forbearance Agreement that essentially retains both parties' rights under the TAN if the 2026 CEN is ever found invalid.
  - The Forbearance Agreement also explicitly allowed Hyde Park to defer its February 6th interest payment to February 20th
- They would enter a Rate Revenue Pledge Agreement whereby HPED would agree to pledge electric department revenues toward repayment of the CEN if and when the PUC approved such treatment.

At their regular meeting on February 5th the Village Trustees unanimously approved four documents to implement this structure:

- 1) A Board Resolution
- 2) The Current Expense Note itself
- 3) The Forbearance Agreement
- 4) The Rate Revenue Pledge Agreement

They also subsequently convened as the Board of Electric Department Commissioners to approve the Rate Revenue Pledge Agreement as that body independently.

These actions resulted in the TAN obligation being replaced by the 2026 CEN obligation which now matures on June 30, 2026. The interest on the TAN was subsequently paid on February 20th as Hyde Park had committed.

### **January Power Market Impacts**

HPED's direct ISO New England ("ISO" or "ISO-NE") participant status brought it to within 24-hours of default at the end of first week of February.

As a direct ISO participant HPED must pay ISO-NE bills twice a week, two days after receipt. Further, as an unrated and uncreditworthy participant, according to ISO-NE, they must also maintain financial assurance with ISO-NE in accordance with ISO-NE policies. They do not qualify for the automatic \$25 million credit threshold afforded credit rated municipal entities. Failure either to pay a bill when due or maintain adequate financial assurance would result in them being suspended from wholesale market participation, which in turn would put them in default on their various energy contracts.

During the last week of January HPED received two ISO invoices for roughly \$50,000 each, much larger than their usual ISO-NE invoices, and was simultaneously required to post an additional \$100,000 of financial assurance. At the same time the village's TAN was maturing (it matured on February 6th), and a resulting \$64,000 interest payment was due to Union Bank.

HPED was able to scrape together the necessary payment to ISO-NE and, as stated above, Union Bank agreed to defer the interest payment until February 20<sup>th</sup> allowing the Village to avoid default on the TAN.

### **VPPSA Strategic Membership**

As identified in the introduction, HPED became a VPPSA Strategic member on February 4th. This approval occurred during the height of HPED's financial stress when it was unclear if they could survive through February without defaulting on one or more obligations.

The VPPSA Board of Directors was fully aware of the significant stress HPED was under; therefore, as part of their approving HPED's membership they agreed to allow VPPSA to

replace the \$325,000 in cash financial assurance HPED had posted in an ISO-NE bank account with a \$500,000 Letter of Credit posted by VPPSA for HPED's benefit and drawn on VPPSA's line of credit. By VPPSA taking this action it would allow HPED to recall the \$325,000 in cash and improve its near-term cashflow. For this support the VPPSA Board requested that HPED pay VPPSA's outstanding \$75,000 past-due balance that had accrued since last October (which includes MWL billings to Hyde Park that VPPSA has been covering) with a portion of the reclaimed funds.

VPPSA has subsequently struggled to gain ISO-NE acceptance of a VPPSA backed letter of credit to replace Hyde Park's cash financial assurance. Despite ISO-NE initially indicating this was acceptable, upon VPPSA's submittal of the letter of credit ISO-NE made VPPSA aware that Hyde Park's Strategic Membership was not sufficient for them to be considered a VPPSA "affiliate" under the ISO-NE rules. Through discussions to resolve the MAC Event described below VPPSA learned that ISO-NE would accept a so-called "third party letter of credit" backed by VPPSA but issued solely in Hyde Park's name. VPPSA is presently working to implement a third-party letter of credit.

#### **ISO-NE Material Adverse Change (MAC) Event**

On February 25, 2026, ISO-NE's Market & Credit Risk Department sent a letter to Hyde Park notifying it that ISO-NE was calling a Material Adverse Change (MAC) Event due to Hyde Park's failure to notify ISO-NE of its financial situation or the departure of General Manager Evans- Mongeon, as required by ISO-NE's Financial Assurance Policy. The letter demanded an additional \$100,000 in financial assurance be provided to ISO-NE by end of day on February 27, 2026, or ISO-NE would initiate proceedings to terminate Hyde Park from the wholesale market.

VPPSA immediately notified PSD Commissioner Johnson of the letter and the possible ramifications and sought the Commissioner's assistance in making ISO-NE aware of the broader implications of its MAC notice. Commissioner Johnson spoke with ISO-NE senior leadership, while VPPSA simultaneously submitted a response to ISO-NE's Market & Credit Risk department seeking the alternate remedy of VPPSA posting a letter of credit for Hyde Park, as had previously been envisioned.

ISO-NE responded on February 27th that VPPSA could not guarantee Hyde Park's overall financial assurance due to restrictions within the ISO-NE tariff; however, it was willing to allow VPPSA to post the \$100,000 MAC call amount "on Hyde Park's behalf" in conjunction with ISO-NE placing a freeze on Hyde Park's cash collateral. Subsequent discussions between VPPSA and ISO-NE also uncovered that if VPPSA was able to secure a "third party letter of credit" covering Hyde Park's full financial assurance amount, whereby VPPSA would secure the letter of credit with the issuing bank but the letter of credit submitted to ISO-NE would be solely in Hyde Park's name, then that would also

cure the MAC call while allowing Hyde Park to recall its cash assurance. In its February 27th response ISO-NE also revised its compliance deadline to March 3, 2026.

After working with Community Bank, its lender, for the subsequent 2 days it became clear to VPPSA that it could not obtain all required approvals for the third-party letter of credit by the March 3<sup>rd</sup> deadline and instead submitting the \$100,000 letter of credit would need to be implemented (Community Bank had previously approved a \$500,000 similarly structured letter of credit).

However, when VPPSA asked Community Bank to revise the letter of credit amount down to \$100,000, Community Bank's legal department required a new application be submitted and approved. VPPSA finally received the revised letter of credit at 4:45pm on March 3<sup>rd</sup> and submitted it to ISO-NE. VPPSA staff left work that evening believing Hyde Park was compliant with the MAC. However, VPPSA was contacted at 6:00pm that evening and notified that ISO-NE's legal department had rejected the letter of credit because language in one paragraph implied it would activate on a VPPSA default rather than an HPED default.

As a result, HPED did not make the MAC call as required. ISO-NE's Market & Credit Department informed VPPSA that termination proceedings would not begin immediately and that if the MAC was rectified on March 4<sup>th</sup> the proceedings could be avoided. However, on March 4<sup>th</sup> ISO-NE began notifying HPED's counterparts that it would be suspended from the ISO-NE markets on March 9<sup>th</sup> if the MAC was not cured by that time. VPPSA fielded several calls from counterparts and explained the situation, while notifying Commissioner Johnson and continuing to work with Community Bank to obtain an acceptable letter of credit. At roughly 12:00pm on March 4<sup>th</sup> VPPSA submitted a "corrected" letter of credit that was accepted by ISO-NE, and the suspension process was cancelled.

### **Allocation Anomalies**

Like all municipalities, Hyde Park allocates its internal costs between its various funds (general, electric, water, wastewater). This allocation is typically applied to labor overheads, office costs, shared software, and other shared costs.

VPPSA has found multiple cases where Hyde Park's previous management obtained Village Trustee approval and changed the allocation of assigned costs between village departments such that obvious electric department expenses were re-allocated to other village departments. These included allocating a disproportionate amount of cost from the NISC customer information system project to other departments and reallocating village overhead costs among village departments to a 1/3 split between electric, water, and wastewater despite the electric department representing roughly 85% of all direct operational costs.

Although the rationale for these allocation decisions was not explicitly documented VPPSA notes that they seemed to begin when it became clear that HPED was in significant financial distress and had the effect of lowering electric department costs at the expense of other village funds.

VPPSA notified the Trustees of its findings and obtained their approval to implement allocations more in line with best practice beginning in 2026.

### **Governance**

The Charter for the Village of Hyde Park provides that the Village Trustees shall also serve as the Electric Commissioners. Likewise, the Trustees serve as the Water and Sewer Commissioners. The Village Trustees also serve the Village Planning Commission. And as with other municipalities, the Village Trustees also serve as part of the Board of Civil Authority and the Abatement Board.

VPPSA and Attorney Shems immediately noted concerns over HPED governance upon being hired. Governance concerns have also been expressed by both the public during the forums held by Interim Manager Johnstone and by the PSD during discussions with VPPSA. VPPSA and other Hyde Park representatives have received many questions about what the Village Trustees/Electric Commissioners knew, or should have known, and when. VPPSA has also been pressed to comment on whether the Trustees have fulfilled their fiduciary roles as electric department Commissioners and whether they should have, or could have, more closely managed past managers.

Based on attendance at every Trustee and Electric Commissioner meeting since executing the Consulting Agreement and numerous other interactions with the Trustees during that time, a few truths have become clear to VPPSA personnel involved.

The Hyde Park Trustees are all very conscientious public servants who are trying to do what they feel is right for the Village. The research and interactions to date have reinforced that the Trustees believed they were fulfilling their roles as the issues described herein unfolded, while the details surrounding many of the concerns VPPSA and others have identified were revelations to them.

The governance issues evident in Hyde Park, in VPPSA's experience, are prevalent in many small communities in Vermont. The regulatory landscape in each of the multiple areas served by the Village Trustees is increasingly complex and specialized. Effective governance requires both a competent manager and a strong board willing to press for information and willing to seek outside assistance so that it fully understands any proposed action. An imbalance between management and board capabilities can easily lead to difficulty. In Hyde Park's case, the evidence suggests such an imbalance lasted

for two successive strong willed, overly confident, managers and a continually deferential board.

It has become clear to VPPSA that, as a group, Hyde Park's Trustees do not possess the financial or governance expertise necessary to fully grasp the actions they approved, or their implications. Nor has VPPSA found any indication that previous management recognized this fundamental gap in ability or assisted the Trustees in gaining the needed skillsets.

To the contrary, the Trustee meeting agendas routinely comingled village, electric, water, and wastewater items such that it was unclear which hat the trustees were wearing in making decisions. The TAN is such an example. It has also become obvious that there was not a clear delineation of duties between the Village/Electric Department Manager and Trustees to the point that the Village Manager became a gatekeeper between the Trustees and other elected/appointed officials such as the Village Treasurer and outside consultants hired to work directly with the Trustees, including the outside auditors. Significant information regarding operational and financial issues appears to have been hidden from Trustee and Electric Commissioner view due to this gatekeeper mentality.

VPPSA experienced this attempted gatekeeping upon its initial hiring through Hyde Park's manager attempting to manage the information it was providing to the Trustees and to state regulators. VPPSA's General Manager had to rebuff numerous attempts by the former manager to modify information or filings, despite the Electric Commissioners' explicit charge that VPPSA or Attorney Shems act as HPED's exclusive liaisons to the PSD and PUC.

At the same time, it has become clear that, as a group, the Trustees lacked confidence or expertise to challenge prior management's aggressive tactics. On more than one occasion individual trustees have noted that they felt "bullied" and "intimidated" by previous management.

Interim Manager Johnstone and VPPSA staff have also experienced a lack of questioning proposals put forth, despite explicit solicitation of feedback and questions. Though not homogenous, with each Trustee or Commissioner having a differing level of comfort with confrontation, few of them feel confident asking questions, demanding answers and information, or opposing management direction.

Attorney Shems, and VPPSA, are countering this by explicitly requesting feedback on proposed solutions as they are presented and providing the Trustees with specific governance and electric utility training through monthly 2-hour-long sessions. In addition, discussions relating to board reconfiguration have commenced and are ongoing.

## **Improvements To Date**

The vast majority of VPPSA's efforts to date have focused on crisis management, unraveling historic decisions sufficiently to meet future regulatory requirements, and more recently beginning to identify the structure and resources needed to return HPED to a self-sufficient utility capable of meeting its regulatory and customer expectations. However, along the way improvements have slowly been made that will accelerate as the immediate crises subside. A few examples include:

### **Accounting systems**

Upon taking over interim management of the Village, VPPSA initiated a postponement of the conversion to NISC's financial system, that was underway, to reduce the Hyde Park staff workload and simplify operations. At the same time a concerted effort was undertaken to post all remaining accounts payable invoices in order to develop a full vision of past due balances and aging.

The result is that Hyde Park staff has been able to post all accounts payable invoices, collect several long past due invoices, prepare preliminary 2025 financials, and begin the 2025 financial audit several months ahead of the timeline for the 2024 audit.

### **Internal controls**

Through VPPSA's Controller working out of the Hyde Park office and providing financial administration support VPPSA has been slowly implementing its operating procedures in Hyde Park. This cannot be fully activated until sufficient staffing exists, but the basics are being put in place.

Further, through governance training, VPPSA and Hyde Park's attorneys have advised the Village Trustees on appropriate policies to implement and provided access to templates. The Trustees have assigned various members to work with their consultants to either draft initial policies where needed, or to update existing policies where appropriate for board discussion and approval.

### **Management improvements**

Interim manager Johnstone has been implementing best practices utilized in Morrisville for handling customer issues, running Trustee meetings, and communicating with Village Trustees. Customer requests that sometimes had gone unaddressed for months are systematically being reviewed and responses are being put in place. The Trustee meeting agenda is now clearly delineated by department, and the agenda is maintained through adjourning each department meeting before opening the next. In addition, there is communication with Trustees between meetings to keep them informed of actions taken.

As noted, VPPSA found several cases where internal allocations did not comply with best practices. Best practice has now been implemented such that each department is contributing appropriately to shared services.

Interim Manager Johnstone is also proactively positioning all Village Departments to plan for capital projects and be prepared for grant opportunities that may materialize.

### **Transparency with regulators and ratepayers**

As noted above, a public forum is being conducted prior to each Trustee meeting. Information is being posted to social media whenever possible, and significant filings are being posted to the Village website.

Due to the legal issues surrounding much of the effort underway the Village needs to carefully vet information made public, but the Trustees have made it clear that they want as much information public as possible.

VPPSA and Interim Manager Johnstone are working closely with both the Village's and HPED's attorneys to parse out that information that can be made public and provide it as quickly as possible.

VPPSA's General Manager has remained in close contact with Commissioner Johnson as issues arise, and various informal communications are routinely occurring between VPPSA, Interim Manager Johnstone, Attorney Shems and PSD staff.

### **Path Forward (Action Plan)**

As this Report demonstrates, HPED faces significant financial, operational, and governance challenges. It is not at all guaranteed that HPED and the Village can survive as viable entities without significant concerted effort, cooperation, and coordination among the HPED, the Village, VPPSA, state regulators, Union Bank, and other creditors.

The DPS intervention, and subsequent hiring of Attorney Shems and VPPSA occurred just as HPED reached the tipping point in its ability to maintain operations. VPPSA staff, Attorney Shems, and MWL staff (most notably MWL Manager Johnstone) have all expended significant resources to correct HPED's trajectory back to that of a viable and compliant utility.

Options are extremely limited, but VPPSA continues to believe there is a viable path to returning HPED to a healthy enough position to allow Village residents and HPED ratepayers to decide HPED's future for themselves. Recognizing that such a path will require both DPS and Commission support, the following action plan has been developed as a starting point for the Commission's investigation.

## **2025 CEN and 2026 CEN Restructuring**

The biggest challenge HPED, and Hyde Park as a village, faces is the roughly \$1.5 million in Current Expense Note short term debt that now matures on June 30, 2026. Without a restructuring of this debt the broader Village of Hyde Park cannot make the payments due. Indeed, without the ability to repay this debt through electric rates it is unlikely that the Hyde Park Village taxpayers could repay this debt regardless of any agreed upon restructuring.

VPPSA's research and documentation has identified that nearly all this \$1.5 million debt was used to cover HPED operational costs.

Through its efforts with Union Bank to convert the TAN to a CEN VPPSA believes it has identified a path forward for addressing this situation and allowing the Commission to complete its full due diligence:

- Hyde Park and Union Bank will be negotiating in good faith toward a Term Note with the intent to have an agreement prior to March 19<sup>th</sup> that:
  - Converts both the 2025 and 2026 CENs to long-term debt
  - Is structured as a General Obligation of the village taxpayers
  - Memorializes the arrangement in an MOU or Commitment Letter sufficiently definitive for reliance as part of in HPED's Phase 2 rate filing
  - Includes a Rate Revenue Pledge Agreement like that for the 2026 CEN obligating the Village to pledge electric revenues if/when the Commission approves such treatment
- HPED will include the term note debt service in the Phase 2 rate filing as a known and measurable adjustment
- HPED will also seek §108 approval from the Commission as soon as practical to close on the new Term Note prior to the 2024 and 2025 CEN maturities on June 30<sup>th</sup>
- Treatment of the Term Note debt service will be fully litigated in the Phase 2 rate case proceeding
- Depending on the Term Note structure HPED may also request an Accounting Order to recover sufficient revenue to pay the debt service.
  - Since there will be no associated depreciation, meeting debt service reserve requirements may be problematic under the traditional rate recovery process

VPPSA recognizes that this approach will be subject to vetting as part of the anticipated PUC investigation, the Phase II rate case, the § 108 approval process, and likely further vetting as part of an accounting order process.

During a check-in call with Union Bank on March 9<sup>th</sup> Hyde Park's loan officer explained that she would be providing a proposal to the bank's loan committee on March 18<sup>th</sup> based on a 20-year term, fixed principle payments with declining interest, and interest rates similar to those presently in place for the 2025 and 2026 CEN. Because the 2026 CEN is taxable, separate term notes will be required as part of the restructuring. Hyde Park should receive a formal proposal from Union Bank following the loan committee meeting on March 18<sup>th</sup>.

### **Accounts Payable**

HPED will also include past due accounts payable and intra-village transfers in the Phase 2 rate case and seek an Accounting Order from the Commission to create a regulatory asset to amortize rate recovery of those items.

Together the past due accounts payable and intra-village transfers total another roughly \$1.3 million. Without handling those costs in the Phase 2 rate case Hyde Park's financial viability will remain tenuous even if the proposed Term Note is addressed.

### **Financial Plan**

In addition to addressing Hyde Park's outstanding debt, VPPSA is preparing a 5-year financial forecast for the Commission and the Union Bank. In preparing this plan VPPSA will be looking at necessary staffing levels, operational improvements, capital investments, and any longer-term impacts of the debt restructuring. VPPSA anticipates completing this plan prior to entering the MOU or Commitment Letter with Union Bank.

VPPSA anticipates this plan to recommend, among other things:

- Hiring a full-time village manager in addition to adding two HPED positions (a dedicated electric department accountant and reinstatement of the Superintendent/foreman position)
- Reinstating a tree-trimming budget line item
- Developing a capital plan to replace the failing transformer within 2-3 years among other improvements including technology upgrades
- Moving forward with full VPPSA membership and using VPPSA services to replace existing contracted services wherever economic
- Considering a sale of Waterhouse solar or entering a PPA to offload part of the output and cost
- Considering joining the VPPSA Tier 3 Renewable Energy Standard program and offering customer rebates rather than retiring Tier 2 RECs

## **Phase 2 Rate Case**

VPPSA anticipates filing the Phase 2 rate case on April 15<sup>th</sup> and plans to incorporate a combination of the debt restructuring and financial plan steps above while focusing on the immediate investments needed to return HPED to financial and operational viability.

To address issues raised by the PSD during the Phase 1 rate case, VPPSA will be directly managing all aspects of the Phase 2 case, including preparing the power supply portion of the case.

It should be noted that the Scheduling Order in this Case requires the Phase 2 rate case to be filed by April 1<sup>st</sup>. For administrative reasons VPPSA normally files rate cases on the 15<sup>th</sup> such that the 45-day waiting period for the rates to go into effect on an interim basis occurs on the first day of the month. This greatly simplifies billing, and in the event refunds are required simplifies that procedure as well. For that reason, Hyde Park will likely request a short extension to file the Phase 2 rate case on April 15<sup>th</sup> for effect on June 1<sup>st</sup>. Additional time would also be welcomed because of the extraordinary amount of work and continuing crisis management detailed in this status update is competing with the time needed to prepare for the Phase 2 rate and related filings.

## **Near Term Operations**

As described throughout this Report, several steps will need to be taken during preparation of the Phase 2 rate case and pending investigation just to maintain operations.

- MWL is proceeding with having a contractor test and re-energize HPED's main transformer so that HPED returns to its normal operating configuration.
- MWL is also working with its outside engineer to develop a phase balancing plan and will move various loads when warmer weather allows, and short outages can be planned.
- Interim Manager Johnstone is also working to change call center providers such that HPED will utilize the same service as other area utilities.
- VPPSA is actively seeking temporary office staff for Hyde Park to fill the vacant position and failing that may utilize an unfilled VPPSA position as an interim solution to provide staffing.

- The Trustees are undergoing monthly training workshops starting with governance and open meeting/public record requirements and eventually moving into specific electric utility operations and regulatory issues.
- VPPSA is securing a \$500,000 Letter of Credit to serve as the financial assurance for HPED with ISO-NE so that HPED's cash financial assurance can be recalled.
- VPPSA is working diligently to close Hyde Park's 2025 financial books and obtain a 2025 audit as expeditiously as possible
- Customer meetings continue and Hyde Park is working to develop an online log of actions/status to keep residents informed of findings and progress.
- The accounts payable backlog is being actively managed with the goal of reducing the arrearage aging as Phase 1 revenues begin to arrive
- VPPSA is finalizing HPED's Strategic membership and positioning HPED to move forward with full VPPSA membership upon unwinding of HPED's long notice contracts

## **Conclusion**

In this Report VPPSA has both attempted to share with the Commission its experience with Hyde Park's challenges, and a fulsome view of the potential path forward. It is important that the Commission understand just how close HPED and the Village have come to defaulting on their obligations, and hears the unvarnished reality that default is still quite possible at this juncture. It is also important that the Commission gain a full view of how cooperatively a wide range of parties have been working to put HPED back on a viable path and in full regulatory compliance.

Rate recovery of the Term Note debt service and an amortization of the past due accounts payable and intra-village transfers are critical to resolving this crisis. VPPSA recognizes the significant challenge this situation poses for ratepayers, the PSD, Commission, and the public. VPPSA, MWL, and both the Hyde Park and HPED attorneys have tried to keep the regulatory lens in full view as they have jointly worked to resolve the very difficult issues at play. The PSD has been a very patient and constructive partner throughout the effort to date, while maintaining its regulatory role.

VPPSA hopes that the information contained herein gives the Commission a clearer view of the issues at play and the drivers behind the upcoming Phase 2 rate case.



## VILLAGE OF HYDE PARK

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# Hyde Park Electric Department Financial Report December 31, 2025 – Preliminary

### **Summary:**

The Hyde Park Electric Department currently has an operating loss for the 12 months ending December 31, 2025. The year-to-date operating loss for 2025 is \$297,973 or 50.46% greater than the operating loss for the same period in 2024. HPED is prioritizing cash outlays to meet current obligations to ISO-NE, debt payments, the EEU, employee payroll and benefits, and accounts payable due to vendors.

### **In a year-over-year revenue comparison:**

- HPED has increased retail sales by \$283,96 or 16.42%
- Likewise commercial sales have increased by \$72,963 or 15.76%
- Public authority sales have also increased by \$17,845 or 13.02%
- Meanwhile industrial sales have decreased by \$2,914 or 1.09%

### **In a year-over-year expense comparison:**

Overall expenses have increased by \$487,061 or 17.34% more than the operating expenses for the same period in 2024. Power supply costs, administrative costs, and interest expense has increased while savings have been realized in other areas of operation.

- Power supply costs have increased by \$222,216 or 11.10%
- Interest expense has increased by \$25,519 or 32.26%
- Administrative costs have increased by \$149,839 or 30.98%
  - Legal fees have increased by \$77,946 or 58.96%
  - Management fees have increased by \$25,522 or 100%
  - Employee benefits have increased by \$34,269 or 131.48%



**VILLAGE OF HYDE PARK**  
**SUMMARY BALANCE SHEET**  
**PRELIMINARY - DECEMBER 31, 2025**

**Assets**

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**Fixed Assets**

Utility Plant in Service	\$	5,972,215
Accumulated Reserve	\$	(3,430,826)
<b>Net Utility Plant</b>	<b>\$</b>	<b>2,541,389</b>

Other Property and Invest	\$	780,938
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**Current and Accrued Assets**

Cash	\$	149,969
Temporary investments	\$	245,158
Special deposits	\$	97,640
Notes receivable	\$	-
Customer accts receivable	\$	584,304
Other accts receivable	\$	32,124
Accum prov for uncoll	\$	5,214
Municipal receivables	\$	227,549
Materials and supplies	\$	119,912
Prepayments	\$	-
Other accrued assets	\$	8,827

**Deferred Debits**

Unamortized debt exp	\$	-
Extraordinary loss	\$	-
Other deferred debits	\$	130,992

**Total Assets** **\$** **4,924,016**

**Liabilities**

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Appropriated earned surplus	\$	-
Unappropriated earned surp	\$	(536,538)
Bonds	\$	1,980,160

**Current and Accrued Liabilities**

Notes payable	\$	1,489,074
Accounts payable	\$	860,779
Payables to municipality	\$	537,929
Customer deposits	\$	10,242
Taxes accrued	\$	9,337
Interest accrued	\$	-
Other accrued liabilities	\$	(16,787)

**Deferred Credits**

Unamortized debt premium	\$	-
Customer advances	\$	146,974
Other deferred credits	\$	442,847

Operating reserves	\$	-
Contributions in aid of const.	\$	-

**Total Liabilities** **\$** **4,924,015**



# VILLAGE OF HYDE PARK

## HYDE PARK ELECTRIC DEPARTMENT

### 2026 BUDGET

	Actual 2024	Preliminary 2025	Projection 2026	\$ Change	% Change
<b>Revenue</b>	2,848,987	2,979,828	3,575,793	595,966	20.00%
<b>Expenses</b>					
Power Supply	1,969,650	2,223,888	2,355,605	131,717	5.92%
Customer Accounts	344,709	253,550	261,157	7,607	3.00%
Admin & Gen	442,165	558,780	696,056	137,276	24.57%
Depreciation	121,382	120,175	123,780	3,605	3.00%
Taxes	200,805	166,408	171,400	4,992	3.00%
	3,078,711	3,322,801	3,607,997	285,196	
Operating (Loss)/Income	(229,724)	(342,973)	(32,204)	310,769	-90.61%
Non-Op Revenue	36,663	45,000	50,000	5,000	11.11%
Change in Net Pos.	(193,061)	(297,973)	17,796	315,769	1774.38%
<b>EOY Net Position</b>	<b>(350,928)</b>	<b>(648,901)</b>	<b>(631,105)</b>	<b>(315,336)</b>	<b>-49.97%</b>

**Projection Assumptions:**

1. A 20% rate increase went into effect in January
2. A 3% annual inflation applied to expenses except where noted
3. Includes average monthly VPPSA management hours through December 2026 at reduced rate
4. Includes average monthly MW&L Interim management fees through December 2026
5. Includes average monthly MW&L call outs through December 2026
6. Assumes continued additional legal support through December 2026
7. Assumes vegetation management expense of \$25,000
8. Assumes transformer repair cost of \$40,000
9. No additional rate increase is assumed for Phase II