JOSEPH C. McNEIL GENERATING STATION

Special-Purpose Financial Statements

June 30, 2017 and 2016

(With Independent Auditors’ Report Thereon)

JOSEPH C. McNEIL GENERATING STATION

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KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report

The Joint Owners
Joseph C. McNeil Generating Station:

We have audited the accompanying special-purpose financial statements of the Joseph C. McNeil Generating Station (the Station), as of and for the years ended June 30, 2017 and 2016, and the related notes to the special-purpose financial statements, which collectively comprise the Station's special-purpose financial statements as listed in the table of contents.

Management's Responsibility for the Special-Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the joint owners' agreement. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these special-purpose financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special-purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special-purpose financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the special-purpose financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the assets, owners' equity and liabilities of the Joseph C. McNeil Generating Station as of June 30, 2017 and 2016, and the related changes in owners' equity and Station operating expenses thereof for the years then ended in accordance with the joint owners agreement.

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firm of the KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss entity.

Basis of Accounting

We draw attention to note 2 of the special-purpose financial statements, which describes the basis of accounting. The special-purpose financial statements are prepared by the Joseph C. McNeil Generating Station on the basis of the financial reporting provisions of the joint owners agreement, which is a basis of accounting other than U.S. generally, accepted accounting principles, to comply with the financial reporting provisions of the joint owners agreement referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the Joseph C. McNeil Generating Station and its joint owners and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Burlington, Vermont
October 30, 2017

JOSEPH C. McNEIL GENERATING STATION

Special-Purpose Statements of Assets, Owners' Equity, and Liabilities

June 30, 2017 and 2016

Assets		**2017**	**2016**
Steam production plant, at cost:			
Land and land rights	$	276,599	276,599
Structures and improvements		20,146,392	19,853,645
Boiler plant equipment		57,393,911	57,359,872
Turbine generator		12,730,420	12,502,144
Accessory electrical equipment		2,159,296	2,149,663
Miscellaneous power plant equipment		1,369,658	1,407,020
Other steam production plant		1,077,774	1,196,282
Construction work in progress		545,732	78,554
Total steam production plant		95,699,782	94,823,779
Cash		401,814	542,723
Inventories, at average cost:			
Fuel		1,542,683	1,419,947
Materials and supplies		3,116,605	3,059,879
Other assets		524,011	349,822
Total assets	$	101,284,895	100,196,150
Owners' Equity and Liabilities			
Owners' equity:			
Burlington Electric Department	$	50,460,344	49,880,223
Vermont Public Power Supply Authority		19,033,393	18,812,947
Green Mountain Power Corporation		31,054,381	30,694,712
Total owners' equity		100,548,118	99,387,882
Liabilities:			
Accounts payable		598,184	616,336
Accrued liabilities		138,593	191,932
Total liabilities		736,777	808,268
Total owners' equity and liabilities	$	101,284,895	100,196,150

See accompanying notes to special–purpose financial statements.

JOSEPH C. McNEIL GENERATING STATION

Special-Purpose Statements of Changes in Owners' Equity

Years ended June 30, 2017 and 2016

		2017	2016
Contributions by joint owners:			
Burlington Electric Department	$	11,857,475	14,438,531
Vermont Public Power Supply Authority		4,505,840	5,486,641
Green Mountain Power Corporation		7,351,635	8,951,889
		23,714,950	28,877,061
Property taxes paid by individual joint owners		1,251,116	1,225,828
Total contributions by joint owners		24,966,066	30,102,889
Less station operating expenses, net		23,805,830	29,233,887
Net increase in owners' equity		1,160,236	869,002
Owners' equity at beginning of year		99,387,882	98,518,880
Owners' equity at end of year	$	100,548,118	99,387,882

See accompanying notes to special–purpose financial statements.

JOSEPH C. McNEIL GENERATING STATION

Special-Purpose Statements of Station Operating Expenses

Years ended June 30, 2017 and 2016

		2017	2016
Operation expenses:			
Supervision and engineering	$	407,768	380,248
Fuel – oil		3,788	2,726
Fuel – wood		15,568,993	21,269,718
Fuel – gas		103,795	32,784
Steam		1,619,224	1,718,440
Electric		680,085	754,965
Miscellaneous steam power expense		608,518	418,489
Total operation expenses		18,992,171	24,577,370
Maintenance expenses:			
Supervision and engineering		131,777	221,294
Structures		40,575	79,653
Boiler plant		822,870	1,030,277
Electric plant		537,564	475,331
Miscellaneous steam power expense		19,338	25,190
Total maintenance expense		1,552,124	1,831,745
Transmission expenses		38,590	110,884
Total production expenses		20,582,885	26,519,999
Administrative and general expenses		1,158,555	1,163,305
Total operating expenses		21,741,440	27,683,304
Taxes, including payment in lieu of taxes to the City of Burlington, Vermont		1,252,128	1,226,964
Loss on sale of equipment		903,010	395,944
Other income		(88,868)	(70,096)
Interest income		(1,880)	(2,229)
Station operating expenses, net	$	23,805,830	29,233,887

See accompanying notes to special-purpose financial statements.

(1) Station Organization

The Joseph C. McNeil Generating Station is a wood, natural gas, and oil fired, 50 megawatt steam generating unit located in the City of Burlington, Vermont. Under the Agreement for Joint Ownership, Construction and Operation of the Joseph C. McNeil Generating Station (the Station), dated May 14, 1982 as amended (the Agreement), the joint owners are tenants in common with undivided interest in the Station. Ownership percentages of the Station as of June 30, 2017 and 2016 are as follows:

	2017	2016
Burlington Electric Department	50%	50%
Green Mountain Power	31	31
Vermont Public Power Supply Authority	19	19
	100%	100%

The City of Burlington, Vermont Electric Department (the Department) has sole responsibility for operation of the Station. The Station began commercial operations in 1984. The McNeil Plant capacity factor for the fiscal year 2017 was 61.4% compared to 72.2% in 2016, supplying 269,077 MWH and 316,909 MWH, respectively, of its energy production to the Joint Owners.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying special-purpose financial statements have been prepared in order to comply with the terms of the Agreement. They summarize certain financial transactions occurring as a result of the Agreement and, accordingly, they are not intended to be a presentation in conformity with U.S. generally accepted accounting principles. The significant differences from generally accepted accounting principles are as follows:

- A statement of cash flows is not presented.
- Station costs are classified in accordance with Federal Energy Regulatory Commission (FERC) guidelines and include all direct and indirect costs and expenses incurred with respect to the Station which are properly chargeable to the design, engineering, procurement, installation, construction, operation, maintenance, insuring, licensing, shutdown, demolition or disposal of the Station, taxation, and payments in lieu thereof, and all costs of keeping accounting and other records, of furnishing accounts, reports, and other information with respect to the Station and of audits pursuant to Section 15, including both financial and engineering audits. Each of the owners has financed its respective participation in station costs. Accordingly, an allowance for funds used during construction is not included in station costs. Other costs assessed directly to individual owners are not included in station costs except for property taxes. The Station incurred capital costs of $1,791,861 and $1,924,219, in 2017 and 2016, respectively, which are recorded as part of steam production plant.
- The notes to the special purpose financial statements are not compliant with U.S. generally accepted accounting principles.

- No depreciation of station costs has been recorded in the special-purpose financial statements. Each owner records depreciation expense based on the total cost of its investment in the Station, its depreciation method, and its useful life for rate-making purposes. Major expenditures for steam production plant which are major improvements or extend the life of the asset are capitalized. Maintenance and repairs are expensed as incurred. When assets are replaced, the costs associated with such replacement are capitalized and the previously capitalized costs are removed from steam production plant.
- Significant costs of the Station, e.g., costs of financing construction, have been incurred by individual owners and are not recorded in these special-purpose financial statements.

(b) Payment of Station Costs

Owners advance funds to the Department on a monthly basis based on anticipated cash requirements. Excess cash funds are temporarily invested by the Department prior to use.

(c) Fuel Inventories

Fuel inventories comprised of fuel oil and wood chips are stated at lower of cost or market as determined using the average cost method.

(d) Revenue and Transmission Expense

Revenue from sales of electricity, net of related transmission expense, is credited to individual owners and owners' participants by the Vermont Electric Power Company (VELCO) and/or Independent System Operator-New England (ISO-NE).

(e) Income Taxes

The Station is an unincorporated organization that has elected, pursuant to Internal Revenue Code Section 761(a), not to be treated as a partnership. No provision is made for income taxes since such liability is the responsibility of the individual joint owners.

(f) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in owners' equity during the reporting period. Actual results could differ from these estimates.

(3) Related-Party Transactions

Station costs include $19,548 and $19,596 in 2017 and 2016, respectively, representing administrative and general expenses incurred by the Department acting in its capacity as manager of the Station.