



**Stowe Electric Department**  
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**To:** Stowe Electric Commission  
**From:** S. Juzek, Director of Finance  
**Date:** December 2, 2025

**Subject: Financial Metrics Policy and FY2025 Results**

Stowe Electric Department (SED) has developed a Financial Metrics Policy to monitor key financial ratios and metrics that support fiscal responsibility, operational efficiency, and long-term organizational sustainability. The metrics and target ranges are based on industry best practices, guidance from the American Public Power Association (APPA) and recommendations from the Department of Public Service (DPS).

**FY2025 Financial Metrics Results**

<b>Metric</b>	<b>Target</b>	<b>SED</b>
Days Cash on Hand:	60-120 Days	88
Current Ratio:	> 1.4	2.1
Quick Ratio:	> 0.9	1.1
Debt Ratio:	< 50%	29%
Debt Service Coverage Ratio:	> 1.24	1.58
Debt to Equity Ratio:	< 1.1	0.6
Operating Ratio:	< 95%	91%
Operating Margin:	5-15%	9%
Return on Assets:	2-5%	7%
Capital Expenditure Ratio:	> 1.0	4.3
Power Cost Adjustment:	+/- 5%	0%
Collection Rate:	> 97%	105%
Aging Accounts Receivable:	< 6%	5%
Bad Debt Ratio:	< 1.0%	0.2%
Rate Affordability Index:	2-3%	2%

Overall, SED is performing well across all financial metrics. The only metric above the target range is Return on Assets. However, this is expected to normalize in FY2026 as SED incorporates the additional Vermont Transco LLC equity investment and rising purchased power costs.



## STOWE ELECTRIC DEPARTMENT

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### FINANCIAL METRICS POLICY

**PURPOSE:** The purpose of this policy is to establish consistent financial ratios and metrics that will be used to monitor the financial health, liquidity, and long-term sustainability of the Stowe Electric Department (SED). These metrics ensure sound financial management, transparency, and compliance with industry standards for municipal electric utilities.

**SCOPE:** This policy applies to all financial reporting, planning, and performance measurement activities undertaken by SED. It serves as a guide for management, staff, and Commissioners in evaluating financial performance and making informed decisions regarding rates, borrowing, investments, and capital planning.

#### DEFINITIONS:

- Days Cash on Hand (DCOH): The number of days the utility can fund operations with available cash and investments.
- Current Ratio: A measure of the utility's ability to meet annual obligations.
- Quick Ratio: A measure of the utility's ability to meet annual obligations using only cash.
- Debt Ratio: The proportion of the utility's assets financed with debt.
- Debt Service Coverage Ratio (DSCR): The ratio of available operating income to annual debt service obligations.
- Debt to Equity Ratio: The ratio comparing total liabilities to the utility's net position.
- Operating Ratio: The percentage of operating revenues consumed by operating expenses.
- Operating Margin: The percentage of operating revenue remaining after operating expenses are paid.
- Return on Assets (ROA): The rate of return generated by total assets.
- Capital Expenditure Ratio: The ratio of annual capital spending to depreciation, indicating reinvestment in infrastructure.
- Power Cost Adjustment (PCA): A mechanism used to track and manage the variability in wholesale power costs.
- Collection Rate: The percentage of billed revenue that is collected from customers within the billing period.
- Aging Accounts Receivable: A measure of how long customer bills remain unpaid.
- Bad Debt Ratio: The proportion of total revenue that is uncollectible and at risk of being written off as bad debt.
- Rate Affordability Index: The percentage of income spent on utility bills.

**POLICY STATEMENT:** SED shall maintain and monitor key financial ratios and performance metrics to ensure prudent financial management. These ratios provide an objective basis for assessing liquidity, debt management, profitability, system reinvestment, and reliability. SED shall review these metrics annually and report findings to the Commissioners.

**FINANCIAL RATIOS AND METRICS:**

Category	Metric	Definition/Formula	Target Range
Liquidity	Days Cash on Hand (DCOH)	Unrestricted Cash / [(Operating Expenses- Depreciation) / 365]	60-120 days
	Current Ratio	Current Assets / Current Liabilities	> 1.4
	Quick Ratio	Unrestricted Cash / Current Liabilities	> 0.9
Debt & Borrowing	Debt Ratio	Total Debt / Total Assets	< 50%
	Debt Service Coverage Ratio (DSCR)	(Net Operating Income + Depreciation) / Annual Debt Service	> 1.24
	Debt to Equity Ratio	Total Liabilities / Total Net Position	< 1.1
Profitability	Operating Ratio	Operating Expenses / Operating Revenues	< 95%
	Operating Margin	Operating Income / Operating Revenues	5-15%
	Return on Assets (ROA)	Current Year Net Position / Total Assets	2-5%
System Investment	Capital Expenditure Ratio	Annual Capital Additions / Depreciation Expense	> 1.0
Reliability & Customer	Power Cost Adjustment (PCA)	(Actual Power Costs - Base Power Costs Included in Rates) / Actual Sales Volume (kWh)	+/- 5%
		Power supply costs used in the PCA calculation are reduced by the snowmaking load-following amounts to maintain consistency with rate case modeling assumptions.	
	Collection Rate	Amount Collected / Total Billed	> 97%
	Aging Accounts Receivable (A/R)	Receivables Over 90 Days / Total Accounts Receivable	< 6%
	Bad Debt Ratio	Uncollectible Accounts / Total Revenues	< 1%
	Rate Affordability Index	Average Annual Utility Bill / Median Household Income	2-3%
		NOTE: Average Annual Utility Bill based on 600kWh consumption per month	

### FINANCIAL TARGETS AND BENCHMARKS:

- System Renewal and Replacement Funding Levels are preferred to be 100-150% of annual depreciation expense, or the level recommended by the most recent capital improvement plan, measured over a multi-year average.
- Capital Improvement Plan funding uses a combination of cash, loans, and external funding sources. Annual depreciation expense serves as the baseline for the cash funding, supporting shorter lived or moderate cost assets, while maintaining adequate operating reserves and relying on cash flow forecasting to determine available funding each year. Long term debt is used for large-scale, long-lived infrastructure improvements, aligning repayment with assets life and ensuring compliance with Act No. 81 and other statutory requirements, including maintaining total outstanding debt below 50% of total assets and keeping annual debt service within 20% of total assets. Federal and state grants and subsidized loan programs are pursued to support compliance, environmental, and energy efficiency projects, maximizing external funding to reduce borrowing needs and mitigate rate pressures.
- Operating Budget is developed to ensure the annual net position provides at least one to two times the coverage of total interest expense, ensuring sufficient capacity to meet financing costs and supporting long-term financial stability.
- Purchased Power Costs are actively monitored through a structured review process to ensure rates remain aligned with actual wholesale market conditions. Financial performance is reviewed monthly, detailed financial reports are provided to the Commission quarterly and forecasted power costs are evaluated on a weekly basis. This ongoing oversight enables SED to identify emerging cost trends promptly and determine whether a rate increase or decrease is warranted, helping maintain stable and cost reflective rates for customers.

### REPORTING AND REVIEW PROCEDURES:

- Yearly Reporting: SED management shall calculate each metric compared to the target range using the most recent Fiscal Year Audited Financial Statements.
- Variance Analysis: Material deviations from targets shall be explained and accompanied by corrective action plans if necessary.
- Target Ranges: Based on industry best practices and guidance from the American Public Power Association (APPA). Adjustments to target ranges may be recommended by management and approved by the Commissioners to reflect changes in economic conditions, rate structures, or operational needs.

**IMPLEMENTATION AND COMPLIANCE:** This policy shall take effect upon approval by the Stowe Electric Department Commissioners. Management is responsible for ensuring the collection, analysis, and reporting of accurate financial data consistent with this policy.

Policy Version: December 2025

  
 Jackie Pratt, General Manager  
 Stowe Electric Department

  
 Lawrence Lackey, Chair  
 Stowe Electric Board of Commissioners