

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6590

Petition of Vermont Electric Power Company,)
Inc. for authority to issue \$27,000,000 principal)
amount of Series N First Mortgage Bonds and to)
mortgage property as security therefor)

Order entered: 11/28/2001

I. INTRODUCTION

On November 2, 2001, Vermont Electric Power Company, Inc. ("VELCO" or the "Company") submitted a petition seeking an order by the Public Service Board ("Board") consenting to the issuance of \$27.0 million Series N First Mortgage Bonds. The new bonds are to be secured by VELCO's current property and after-acquired property. Proceeds from the sale of the Series N First Mortgage Notes would be used to refund approximately \$17.4 million in short-term obligations and refinance another \$9.6 million in existing Series J and Series K First Mortgage obligations. If approved, VELCO expects the new notes to be issued before the end of December 2001.

Gerald Spring, Chief Financial Officer and Treasurer of VELCO, filed testimony in support of the petition. On November 16, 2001, Mr. Spring submitted answers to written questions from the Hearing Officer regarding the scope of the proposed financing and any alternatives considered.¹

On November 20, 2001, pursuant to 30 V.S.A. § 202(f), the Vermont Department of Public Service (the "Department") determined that VELCO's proposed financing is consistent

1. Letter to Susan M. Hudson, Clerk of the Board, dated November 16, 2001.

with the Vermont Electric Plan, provided that any distribution and transmission activities financed by the proceeds meet the requirements of the Vermont Electric Plan.²

II. FINDINGS

Pursuant to 30 V.S.A. § 8, and based on the record and evidence before me, I present the following findings of fact and conclusions to the Board.

1. VELCO provides electric power transmission services within the state of Vermont, and is subject to Board jurisdiction. Petition 1.
2. Since 2000, VELCO has incurred approximately \$17.4 million in short-term indebtedness to finance construction of certain long-term capital projects, the most significant of which were the remainder of the Essex FACTS project and the Pinnacle Ridge facilities. Spring pf. at 3.
3. VELCO's Series J and Series K bonds are scheduled to mature in 2002 and 2003, respectively, and have combined sinking fund requirements of \$4.295 million in 2002 and \$3.954 million in the following year. *Id.*; VELCO exh.-1, at 1.
4. The present maturity schedule of VELCO's debt obligations results in a depreciable asset life of approximately 25 years. In contrast, the industry average for transmission assets is 35-40 years. Spring pf. at 3.
5. VELCO's goal is to have a minimum 30-year depreciable asset life. Spring's November 16, 2001, responses.
6. VELCO collects its depreciation expense in the rates it charges its customers (Vermont's electric utilities). Spring pf. at 5-6; VELCO exh.-3.
7. At the Series N First Mortgage Bonds' expected interest rate of 7.1% to 7.5%, the refinancing would reduce transmission costs by \$4,074,666 in 2002 and \$3,716,333 in 2003 through extending the maturities and depreciation schedule. These savings would result in a 15% reduction in overall transmission costs. Spring pf. at 3.

2. Letter from William Steinhurst, Director for Regulated Utility Planning, Department of Public Service, dated November 20, 2001.

8. Adjusted for the proposed financing, VELCO's total long-term debt would be \$52.928 million, equivalent to 86.8% of total capital. The proposed financing could thus maintain the mortgage indenture's required debt-to-equity ratio of 9:1. *Id.*

9. The proposed debt issue as described is consistent with the Vermont Electric Plan, provided that any distribution and transmission activities financed with the proceeds from the proposed financing will meet the requirements of the Vermont Electric Plan. Steinhurst letter of November 20, 2001.

10. VELCO may in the future consider moving away from aligning its depreciation schedule to the sinking fund on its mortgage obligations to a more conventional fixed-asset accounting methodology. VELCO will consider such a move in the context of broader changes affecting the regional transmission system. Spring pf. at 4.

III. DISCUSSION AND CONCLUSION

Since 2000, VELCO has incurred short-term debt obligations of approximately \$17.4 million to finance certain long-term capital projects. In addition to these short-term obligations, the Company faces scheduled debt maturities of approximately \$9.6 million over the next two years. The timely refinancing of these obligations will result in a more balanced matching of the useful life of VELCO's assets and the duration of their funding.

Consequently, I recommend that the proposed First Mortgage Bond issuance be approved by the Board as consistent with the general good of the State of Vermont pursuant to 30 V.S.A. § 108.

I also recommend that this matter be decided without hearing.

VELCO's current practice is to tie the depreciation schedule of its assets to the sinking fund requirements on its long-term debt. Depreciation expense is recouped in transmission rates, providing the required source of cash to meet the sinking fund requirements. However, this practice also has resulted in a relatively rapid depreciable life of VELCO's assets of approximately 25 years. In comparison, the industry-wide average life of transmission assets is 35 to 40 years. In the eventuality of implementation of region-wide transmission rates where one rate will be charged regardless of the cost of the local provider, it will may well be advantageous for VELCO

to have the depreciable life of its assets more in line with industry averages.³ I recommend that the Board encourage VELCO to consider this alternative in its future financial planning.

All parties to this proceeding have waived the opportunity to comment on this Proposal for Decision in accordance with 3 V.S.A. § 811.

Dated at Montpelier, Vermont this 27th day of November, 2001.

s/Hope G. Crifo
Hope G. Crifo
Hearing Officer

3. FERC has approved a NEPOOL transition plan for a region-wide transmission rate, whereby all load in this region will pay the same transmission rate regardless of the cost of the local provider. Spring pf. at 4.

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusions and recommendations of the Hearing Officer are accepted.
2. The refinancing of Series J and Series K First Mortgage Bonds and the issuance of \$27.0 million in new First Mortgage Bonds by Vermont Electric Power Company, Inc. as described in the findings above are approved.
3. This Order does not constitute approval of any particular capital or operating expenditure, or the underlying capital structure resulting from this financing.

Dated at Montpelier, Vermont, this 28th day of November, 2001.

<u>s/Michael H. Dworkin</u>)	
)	PUBLIC SERVICE
)	
<u>s/David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: November 28, 2001

ATTEST: s/Susan M. Hudson

Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or mail) of any technical errors, in order that any necessary corrections may be made. (E-mail address: Clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.

