

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6841

Petition of Vermont Electric Power Company,)
Inc. for authority to issue \$25,000,000 of First)
Mortgage Bonds and to mortgage property as)
security therefor, and to issue up to 3,837 shares)
of Class C Common Stock at a price of \$100 per)
Share)

Order entered: 7/2/2003

I. INTRODUCTION

On April 22, 2003, Vermont Electric Power Company, Inc. ("VELCO" or the "Company") submitted a petition seeking an order of the Vermont Public Service Board ("Board") consenting to the issuance of up to \$25,000,000 in Series O First Mortgage Bonds.

On June 17, 2003, VELCO amended its petition to seek approval for the sale of up to 3,837 additional shares of its authorized but unsold shares of Class C Common Stock at a price of \$100 per share.

The new bonds are to be secured by VELCO's current and after-acquired property. Proceeds from the sale of the bonds would be used to repay short-term indebtedness and to finance new acquisitions. The sale of additional Class C Common Stock will enable the Company to remain in compliance with its indenture debt to equity ratio requirements.

Gerald F. Spring, Chief Financial Officer and Treasurer of the Company, filed testimony and exhibits in support of the petition and the amended petition.

On May 26, 2003, pursuant to 30 V.S.A. § 202(f), the Vermont Department of Public Service (the "Department") determined that VELCO's proposed debt financing is consistent with

the Vermont Electric Plan, provided that any distribution and transmission activities financed by the proceeds meet the requirements of the Vermont Electric Plan.¹

On June 24, 2003, pursuant to 30 V.S.A. § 202(f), the Department determined that VELCO's proposed sale of stock is consistent 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

I have reviewed the two petitions, the supporting testimony and accompanying documents, and conclude that approval of VELCO's petitions is appropriate and that such approval may occur without hearing. Accordingly, I recommend granting VELCO's petitions to issue \$25,000,000 in new series O First Mortgage Bonds and to sell up to 3,837 shares of Class C Common Stock at \$100 per share.

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.

II. FINDINGS

1. VELCO provides electric power transmission services within the state of Vermont, and is subject to Board jurisdiction. Petition 1.

2. VELCO proposes to issue up to \$25,000,000 principal amount of First Mortgage Bonds, to be designated as Series O (the Bonds) and to mortgage its property, including after-acquired property, as security therefor. Spring pf. at 2-3.

3. The Bonds are expected to bear interest at a rate of 6.0 percent, and will have a maturity of thirty years. Closing is anticipated in June of 2003. Spring supp. pf. at 3.

4. Proceeds from the bonds will be used to repay short-term indebtedness incurred in connection with the Company's Rutland Regional Reliability Project (Board Docket No. 6479) and several other smaller projects, and to finance the acquisition of the Citizens Communications Company's 120 kV line and associated facilities, should the Board approve the purchase thereof (Board Docket No. 6825.) Spring pf. at 3.

1. Letter from William Steinhurst, Director for Regulated Utility Planning, Department of Public Service, dated May 23, 2003.

2. Letter from John Sayles, Deputy Commissioner, Vermont Department of Public Service, dated June 23, 2003.

5. If the Citizens sale is approved, the financing will occur in two stages, an initial stage of \$17,000,000, and a second stage in the amount of the purchase price for the Citizens assets, which VELCO now estimates at approximately \$8,000,000. The interest rate for the second stage will be at a fixed spread, to be fixed at the time of the fixing of the interest rate for the first stage, above a benchmark U.S. Treasury rate. If the Citizens sale is not approved, VELCO will not be obligated to sell the additional bonds. Spring pf. at 3; exh VELCO-2.

6. Fleet Securities, Inc. will arrange to place the entire \$25,000,000 of the proposed bonds with an insurance company, although the buyer has not yet been determined. Spring pf. at 2.

7. Before the proposed financing, VELCO's long-term debt is \$51,063,000, or 86.28 percent of the capital structure. The common stock and retained earnings applicable to common stock amount to \$8,119,265, or 13.72 percent of capital. Total capital immediately before the financing is \$59,182,265. After the proposed financing, total long-term debt will amount to \$76,063,000, or 89.95 percent of capital. Common stock and retained earnings will still be in the amount of \$8,502,965, but will then be 10.05 percent of capital, maintaining the 9:1 debt to equity ratio required by the Company's indenture. Total capitalization after the proposed financing will amount to \$84,565,965. Spring pf. at 3; exh VELCO-1.

8. The estimated fees and expenses incurred in connection with the financing total \$250,000, including legal expenses of \$68,000, \$16,700 for printing, \$1,700 for recording, \$5,100 for the Trustee's fee, \$150,000 in placement fees and \$8,500 for miscellaneous expenses. Spring pf. at 4-5.

9. The issuance and sale of the Bonds and Class C Common Stock is consistent with the general good of the state, and, provided that proceeds from their sale used for the acquisition of facilities from Citizens Communications Company and for VELCO's Northern Loop Project are in accordance with approvals granted in Public Service Board Docket Nos. 6792 and 6825, will be consistent with the Vermont Electric Plan. Spring pf. at 5.

10. The proposed debt issue and the sale of Class C common stock 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. Department letters of May 26, 2003, and June 26, 2003.

III. DISCUSSION AND CONCLUSION

VELCO has incurred short-term debt obligations of \$10,000,000 to finance the Rutland Regional Reliability Project and other long-term capital projects. In addition to these short-term obligations, the Company is in the process of purchasing the Citizens 120 kV line which is estimated to cost between \$7,000,000 and \$8,500,000.

Consequently, I recommend that the proposed Series O First Mortgage Bond issuance and sale of Class C common stock be approved by the Board as being 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.

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 30th day of June, 2003.

s/Ennis John Gidney
Ennis John Gidney
Hearing Officer

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 issuance of \$25,000,000 in new series O First Mortgage Bonds by Vermont Electric Power Company, Inc. as described in the findings above are approved.
3. The sale of up to 3,837 shares of Class C Common Stock by Vermont Electric Power Company, Inc. as described in the findings above are approved.
4. 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 2nd day of July, 2003.

s/Michael H. Dworkin)

) PUBLIC SERVICE

s/David C. Coen)

) BOARD

s/John D. Burke)

) OF VERMONT

OFFICE OF THE CLERK

FILED: July 2, 2003

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 in writing) of any apparent 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.