

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6892

Petition of Central Vermont Public Service)
Corporation for Approval of Security)
Agreement with ISO New England Inc. and)
Provision of Cash Collateral Thereunder)

Order entered: 10/7/2003

I. INTRODUCTION

By letter dated July 1, 2003, Central Vermont Public Service Corporation ("Central Vermont," "CVPS" or the "Company") filed a petition pursuant to 30 V.S.A. § 108(a) with the Vermont Public Service Board ("Board"), seeking approval of a Security Agreement with ISO New England Inc. ("ISO") (and as agent for the New England Power Pool ("NEPOOL")) and provision of cash collateral thereunder. The purpose of the Security Agreement is to allow CVPS to provide cash collateral, if necessary and from time to time, to satisfy the NEPOOL Financial Assurances Policies. As CVPS would be providing a security interest in its corporate property (cash held by ISO), approval for the Security Agreement is required pursuant to 30 V.S.A. § 108(a).

In support of its petition, Central Vermont submitted the prefiled testimony and exhibits of Jean H. Gibson, Senior Vice President, Chief Financial Officer and Treasurer for the Company.

By letter dated July 1, 2003, CVPS gave notice of the petition to the Vermont Department of Public Service (the "Department") and requested a determination from the Department pursuant to 30 V.S.A. § 202(f) that approval of the Security Agreement and provision of cash collateral thereunder as proposed by the Company are consistent with the Vermont Twenty-Year Plan. The Department's Determination Under 30 V.S.A. § 202(f), dated July 25, 2003, was filed with the Board by letter dated August 5, 2003 (the "DPS Determination"), and was followed by a

Department recommendation of approval on October 2, 2003.

By letter dated October 2, 2003, CVPS notified the Board that as the Vermont Yankee plant was at the time off line due to an unplanned outage, CVPS anticipated that it might need to provide cash collateral as early as Monday, October 6, 2003, in order not to risk losing its ability to acquire necessary power through ISO.¹ CVPS represented that pursuant to the Bounds of Authority granted by the CVPS Board of Directors to its President, the President of the Company has approved the Security Agreement.

By letter dated October 2, 2003, the Department reviewed the filing and recommends that be approved without hearing provided the approval is consistent with the Department's § 202(f) determination. The Department also waives its rights under 30 V.S.A. § 811 to review a Proposal for Decision, to file exceptions, and to present briefs and oral argument regarding this petition, provided the approval is consistent with the Department's letter.

In today's Order, we approve the Security Agreement and the provision of cash collateral thereunder.

II. FINDINGS

1. Central Vermont is a company as defined by 30 V.S.A. § 201, and is subject to the jurisdiction of the Board pursuant to 30 V.S.A. § 203.
2. The Company requests Board approval of a Security Agreement with ISO. The Security Agreement was provided with Ms. Gibson's testimony as Exhibit CVPS JHG-1. The purpose of the Security Agreement is to allow CVPS to provide cash collateral, if necessary and from time to time, to satisfy the Financial Assurance Policy for NEPOOL Members. Gibson pf. at 2.
3. According to the Company, CVPS has obligations under the Financial Assurance Policy for NEPOOL Members. CVPS purchases and sells power through ISO. CVPS has a credit limit ("CL") established with ISO, which allows CVPS to purchase and sell power up to approximately \$2.5 million of outstanding net balances without providing financial assurance. The CL, as determined by the policy, is based on a company's credit rating (by a nationally

1. In a telephonic status call among the Board, the Department and CVPS on October 6, 2003, the Company indicated that it did not need approval from the Board prior to October 7, 2003.

recognized rating agency) yielding a factor to be applied to the company's tangible net worth (common and preferred equity) resulting in its CL. CVPS' corporate credit rating assigned by Standard and Poor's is BBB-. Based on the Financial Assurance Policy's CL matrix, CVPS' CL is 1.2% of its tangible net worth or approximately \$2.5 million. If CVPS' credit rating were to improve to BBB+, its CL factor would increase to 2.3% resulting in a CL of approximately \$5.0 million. Conversely, if CVPS' credit rating were to fall below BBB-, its CL would decrease to zero. If CVPS exceeds its CL, it must post with ISO some form of security to assure ISO that CVPS can meet its increased financial obligation. Gibson pf. at 2-3.

4. The security can be in the form of a cash deposit, a payment bond, a letter of credit, or a third-party guaranty, each of which would require approval of the Board prior to issue. The security must be provided in a ratio of \$2.60 of security for each \$1.00 of obligation (for example, CVPS would have to post 2.6 times the outstanding net balance over its CL). CVPS believes that the alternative of using cash collateral under the Security Agreement is currently the preferred option, as it is the least costly and most easily implemented. Gibson pf. at 3.

5. Under its proposal, CVPS would provide no collateral (and incur no cost for a bond, letter of credit or other facility) unless it anticipated exceeding the CL. In that event, CVPS would send ISO sufficient cash to secure the outstanding balance above the CL. The Security Agreement gives ISO the legal, enforceable security interest in CVPS' cash, and is required by ISO before the cash collateral option may be used by CVPS. At the time CVPS' outstanding net balance decreases, it would request a return of the cash collateral from ISO. ISO is then required to return any portion of the cash deposit that is no longer needed under the Financial Assurance Policy within five days. While ISO holds the cash collateral, it is deposited in government or agency securities, with earnings accruing to CVPS. Gibson pf. at 3.

6. CVPS will only deposit money with ISO when required under the Financial Assurance Policy for NEPOOL members, thereby allowing it to sustain its ability to trade with ISO. Under normal circumstances CVPS expects that its CL, based on its current credit rating of BBB-, is adequate to cover the outstanding net balance CVPS normally expects to carry with ISO. The need for cash collateral would likely only arise for some material contingency, such as an unplanned outage of Vermont Yankee or other disruption in CVPS' power supply. CVPS

anticipates that any need to provide cash collateral would not exceed 50 days (based on the ISO's current billing cycle), and should be less. Gibson pf. at 4.

7. By letter dated October 2, 2003, CVPS notified the Board that as the Vermont Yankee plant was at that time off line due to an unplanned outage, such a contingency had occurred. CVPS anticipated that it may need to provide cash collateral as early as Monday, October 6, 2003, in order not to risk losing its ability to acquire necessary power through ISO. CVPS letter, dated October 2, 2003.

8. If CVPS exceeded its CL and did not provide security, it would be unable to trade with ISO until its outstanding balance went below the CL. This could be costly for CVPS, and could jeopardize its ability to serve. Gibson pf. at 5.

9. CVPS has not needed to post security in the past. It is seeking approval of the Security Agreement now because the ISO requirement of filing a Security Agreement to allow the use of cash as collateral became effective May 1, 2003. Gibson pf. at 5.

10. CVPS requests the Board's approval of the Security Agreement so that CVPS has the flexibility to meet its financial assurance obligations to ISO in the most cost-effective manner. As the Security Agreement is evergreen, with no stated expiration date, the Company suggested that the Board could condition an approval on a requirement for seeking a new approval after some specified term; CVPS suggested 5 years. Gibson pf. at 5-6.

11. The Security Agreement, and the cash collateralization potentially provided thereunder, is consistent with the Department of Public Service's Vermont Twenty-Year Electric Plan. The DPS Determination does not imply approval by the DPS of the capital structure resulting from any financing, or use of funds for purposes other than those specifically described in the petition. DPS Determination. The Company's ability to purchase power from ISO in the event of contingencies is valuable to protect the Company and its ratepayers. In addition, having this option in place provides financial stability to the Company, as it substantially reduces the risk of the Company being unable to satisfy its power needs in a cost-effective and predictable manner. Gibson pf. at 6.

12. Pursuant to the Bounds of Authority granted by the CVPS Board of Directors to its President, the President of the Company has approved the Security Agreement. CVPS representation of October 2, 2003.

13. Approval of the Security Agreement and cash collateral provided thereunder to allow CVPS to provide cash collateral, if necessary and from time to time, to satisfy the Financial Assurance Policy for NEPOOL Members, all as described in the prefiled testimony, exhibits and subsequent filings, pursuant to 30 V.S.A. § 108(a), will be consistent with the general good of the State of Vermont as required by 30 V.S.A. § 108(a).

III. ORDER

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

1. The terms and conditions proposed by Central Vermont Public Service Corporation to enter a Security Agreement and to provide cash collateral thereunder, to allow Central Vermont Public Service Corporation to provide cash collateral, if necessary and from time to time, to satisfy the Financial Assurance Policy for NEPOOL Members, all as described in the prefiled testimony, exhibits and subsequent filings, pursuant to 30 V.S.A. § 108, are approved, for a period not to exceed five (5) years from the date of this Order.

2. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that Central Vermont Public Service Corporation may implement. Nothing in this approval shall preclude the Department of Public Service or any other party, or the Board, from reviewing and/or challenging those expenditures and/or the Company's resulting capital structure in any future proceeding.

Dated at Montpelier, Vermont, this 7th day of October, 2003.

s/Michael H. Dworkin)

) PUBLIC SERVICE

s/David C. Coen)

) BOARD

s/John D. Burke)

) OF VERMONT

OFFICE OF THE CLERK

FILED: October 7, 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.