

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 6897

Petition of Vermont Electric Cooperative, Inc.     )  
for approval to issue Bonds in the amount of     )  
\$500,000     )

Order entered: 12/4/2003

**I. INTRODUCTION**

On October 1, 2003, Vermont Electric Cooperative, Inc. ("VEC" or the "Cooperative") submitted a petition in the above-captioned matter seeking Public Service Board ("Board") permission under 30 V.S.A. § 108(a) to issue 2003 Series B Bonds, totaling \$500,000, to CoBank ACB ("CoBank"). The Bonds are to be secured under VEC's existing First Mortgage Indenture, and will mature in 25 years. Proceeds of the Bonds are to be used to make capital improvements to the Cooperative's warehouse and administrative offices.

In a letter dated October 23, 2003, the Vermont Department of Public Service ("Department") informed the Board that it supports the Cooperative's request, and finds that the issuance of the \$500,000 Bonds is consistent with the general good of the State of Vermont, provided two conditions are met. The Department's conditions require (a) that VEC have a plan for locking in a fixed interest rate on the proposed note that is consistent with the requirement to provide least-cost service, and (b) that VEC file with the Board and Department a copy of the plan for making the decision as to whether and when to lock in the interest rate.

In addition to the petition, VEC has submitted the prefiled Testimony of Pamela J. Jarvis, Chief Financial Officer of VEC ("Jarvis pf.") and Horace Harrod, Vice President of CoBank, ACB ("Harrod pf.").

I have reviewed the petition and supporting evidence and conclude that approval of the Cooperative's petition to issue the new Bonds is appropriate and consistent with the general good. Based on the petition and the Department's determination under 30 V.S.A. § 202(f), filed

with the Board on October 23, 2003, and pursuant to 30 V.S.A. § 108, I hereby report the following findings and conclusions to the Board in support of granting permission under 30 V.S.A. § 108(a) for the Cooperative to issue \$500,000 in 25-year mortgage bonds.

## **II. FINDINGS**

1. VEC is an electric cooperative corporation duly organized and existing under the laws of the State of Vermont, with its principal place of business at 182 School Street, Johnson, Vermont. Petition at 1.
2. VEC is authorized to issue Mortgage Bonds in the amount of \$21.5 million under a First Mortgage Indenture between VEC and Banknorth, National Association. Substantially all of VEC's operating real estate, plant and equipment are pledged as security for the Mortgage Bonds. Petition at 1.
3. VEC will use the proceeds of the 2003 Series B Bonds to provide funds for capital improvements to expand its warehouse facility through the addition of office space. A portion of the cost of such office addition will be paid through sales proceeds of VEC's existing administrative office building. Jarvis pf. at 2-3.
4. Cost savings of \$43,900 from the consolidation of the office and warehouse consist of the projected reduction in phone and computer services of \$7,900, travel time and reduced wear and tear on the vehicles of \$30,000, efficiencies in heating and cooling of the building of \$1,000, and savings on snow plowing of \$5,000. Jarvis pf. at 4.
5. The new 2003 Series B Bonds will be issued under an additional supplement to the First Mortgage Indenture, and will mature in 25 years. Principal payments will commence within five years from the date of issuance, and are based on a level debt service. Harrod pf. at 3.
6. CoBank ACB, a national cooperative banking corporation, is extending the loans to VEC on either a variable rate or a fixed rate basis. CoBank's current variable rate is 2.78 percent, versus the lending institution's current fixed rate of 6.95 percent, for a 25-year term. Harrod pf. at 3.
7. The proposed terms of the 2003 Series B Bonds are reasonable under current market conditions. Jarvis pf. at 4.

8. The financing is in the interest of VEC ratepayers, and consistent with the general good of Vermont. Petition at 2.

### **III. DISCUSSION**

As a result of the proposed financing, CoBank is offering VEC attractive variable rates. The 417 basis points spread between CoBank's variable and fixed rate terms indicates that, in the short-term, the variable financing option is more cost effective, and thus preferable. The level of floating rate debt exposes VEC to the risk of rising interest rates. To mitigate this risk, the Department requests that as a condition of approval that VEC file with the Board and Department a copy of VEC's plans for making the decision as to whether and when to lock in the interest rate. I concur with this condition of approval.

### **IV. CONCLUSION**

I recommend that Vermont Electric Cooperative, Inc.'s petition to issue in the aggregate no more than \$500,000 2003 Series B Bonds be approved by the Board as consistent with the general good of the State of Vermont.

I also recommend that this matter be decided without hearing or further inquiry.

The foregoing is hereby reported to the Public Service Board in accordance with the provisions of 30 V.S.A. § 8. The parties have waived distribution of the proposal for decision pursuant to 3 V.S.A. § 811.

Dated at Montpelier, Vermont, this 3<sup>rd</sup> day of November, 2003.

s/Ennis John Gidney  
Ennis John Gidney  
Hearing Officer

### V. BOARD DISCUSSION

After reviewing the Hearing Officer's Proposal for Decision, on November 3, 2003, the Board asked VEC to respond to the following questions:

1. Has the proposed use of the requested financing (i.e., the capital investments and real estate office space enhancement) been considered in light of VEC's proposed acquisition of Citizens Utilities' assets (including office space facilities)?

and

2. At the status conference on October 29, 2003, in Docket 6850, Mr. Burak (counsel to VEC) stated that VEC might need a rate increase, absent an expeditious resolution of the proposed acquisition of Citizen's properties. If VEC's financial situation is as strained as Mr. Burak suggests, is this an appropriate time to assume the new obligations set out in the proposed financing?

VEC responded to the questions on November 12, 2003, by filing supplemental prefiled testimony from Michael Bursell. Based on this supplemental testimony, the Board makes the following additional findings:

9. The office addition, and sale of the old office building, will provide benefits to VEC whether or not the proposed acquisition is consummated. Bursell Supp. pf. at 3.

10. The preliminary work, at a cost of \$154,000, has included the purchase of sewer easements, survey work, office design and permitting. This cost will have to be expensed in 2003, if the loan is not granted, rather than amortized at about \$31,000 a year, over the life of the facility. Bursell Supp. pf. at 3.

11. The current office space is in need of the following repairs:

Repair or replacement of roof	\$10,000
Overhead door replacement	11,000
Seven window replacements with energy efficient windows	35,000
Carpet replacement	<u>Unknown</u>
Total	<u>\$56,000</u>

Bursell Supp. pf. at 5.

12. The overall cost for repairs, improvements, and the write off of the preliminary survey will be approximately \$210,000. Bursell Supp. pf. at 5.

Based on these additional findings of fact, we conclude that VEC has sufficiently addressed our concerns.

**V. 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 adopted, as supplemented by the Board's findings.
2. Pursuant to 30 V.S.A. § 108, consent is hereby given to Vermont Electric Cooperative, Inc., to issue \$500,000 in 2003 Series B Bonds, under its existing First Mortgage Bond Indenture, as described in the findings of fact above.
3. Vermont Electric Cooperative, Inc., shall have a plan for locking in a fixed interest rate on the proposed notes that is consistent with the requirement to provide least-cost service, and shall file with the Vermont Public Service Board and the Vermont Department of Public Service a copy of the plan for making the decision as to whether and when to lock in the interest rate.
4. The issuance of \$500,000 in 2003 Series B Bonds to CoBank ACB by Vermont Electric Cooperative, Inc., is consistent with the general good of the State of Vermont.
5. This Order does not constitute approval of the underlying capital structure that may result from the 2003 Series B Bonds. Nothing in this approval shall preclude the Vermont Department of Public Service or any other party, or the Public Service Board, from reviewing and/or challenging the resulting capital structure and interest costs in any future proceeding.

Dated at Montpelier, Vermont, this 4<sup>th</sup> day of December, 2003.

s/Michael H. Dworkin )

) PUBLIC SERVICE

s/David C. Coen )

) BOARD

s/John D. Burke )

) OF VERMONT

OFFICE OF THE CLERK

FILED: December 4, 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.*