STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6943

Petition of Central Vermont Public Service	)
Corporation for Consent (a) to Issue up to $75	)
Million in First Mortgage Bonds and (b) to Issue	)
a Restated First Mortgage Indenture to Amend	)
and Restate the Existing First Mortgage	)
Indenture	)

Order entered: 5/7/2004

I. INTRODUCTION

On April 1, 2004, by letter dated March 30, 2004, 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 for: (1) issuance of $75,000,000 of First Mortgage Bonds (the "New Bonds") to replace the $75,000,000 Second Mortgage Bonds which are due August 1, 2004; and (2) issuance of a new First Mortgage Indenture (the "Restated Indenture") to replace the current 1929 Indenture and its 43 Supplemental Indentures. In support of this Petition, Central Vermont submitted the prefiled testimony and exhibits of Jean H. Gibson, Senior Vice President, Chief Financial Officer and Treasurer for the Company.

On April 13, 2004, the Vermont Department of Public Service ("DPS" or the "Department") provided informal interrogatories to the Company, and on April 16, 2004, the Company provided the Board and Department with responses to the DPS' interrogatories (the "CVPS Interrogatory Responses").

By letter dated March 30, 2004, CVPS gave notice of the petition to the DPS and requested a determination from the Department pursuant to 30 V.S.A. § 202(f) that issuance of $75,000,000 of First Mortgage Bonds to replace the $75,000,000 Second Mortgage Bonds which are due August 1, 2004, and issuance of a new First Mortgage Indenture to replace the current

1929 Indenture and its 43 Supplemental Indentures as proposed by the Company are consistent with the Vermont Twenty-Year Plan. The Department's Determination Under 30 V.S.A. § 202(f), was filed with the Board by letter dated May 3, 2004 (the "DPS Determination"). In the DPS Determination, the Department notified the Board that the DPS waives its rights under 3 V.S.A. § 811[1] and its opportunity for hearing under 30 V.S.A. § 108(a), provided the Board adopts the conditions contained in the DPS Determination (the "DPS Waiver"). By letter dated May 3, 2004, CVPS waived its rights under 3 V.S.A. § 811 and its opportunity for hearing under 30 V.S.A. § 108(a) and agreed to the Board adopting the recommendations and conditions contained in the DPS Determination, and stipulated to the entry of the CVPS Interrogatory Responses into the record of this Docket (the "CVPS Waiver and Agreement").

In accordance with CVPS' request, the Board notified the Connecticut Department of Public Utility Control ("CT DPUC") that the Board was exercising jurisdiction over the petition. I have reviewed the petition, the DPS Determination, the DPS Waiver, the CVPS Waiver and Agreement and the supporting testimony and exhibits. I conclude that approval of CVPS' petition for issuance of $75,000,000 of First Mortgage Bonds to replace the $75,000,000 Second Mortgage Bonds which are due August 1, 2004, and issuance of a new First Mortgage Indenture to replace the current 1929 Indenture and its 43 Supplemental Indentures, all as described in the petition, prefiled testimony and exhibits, pursuant to 30 V.S.A. § 108(a), is appropriate and that such approval may occur without hearing. Based upon the agreements and statements contained in the petition, the DPS Determination, the DPS Waiver, the CVPS Waiver and Agreement and the supporting testimony and exhibits presented in this Docket, I hereby report the following findings and conclusions to the Board in accordance with 30 V.S.A. § 8.

II. Findings Of Fact

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. Petition at 1.

2. The Company requests Board approval pursuant to 30 V.S.A. § 108 for: (1) issuance of $75,000,000 of First Mortgage Bonds to replace the $75,000,000 Second Mortgage Bonds

1. The statute does not require a hearing, but rather the opportunity for a hearing. 30 V.S.A. § 108.

which are due August 1, 2004; and (2) issuance of a new First Mortgage Indenture to replace the current 1929 Indenture and its 43 Supplemental Indentures. Gibson pf. at 2.

3. The Company is seeking approval to issue the New Bonds and to enter the Restated Indenture, based on the evidence of the proposed terms and parameters described in Ms. Gibson's testimony. CVPS Interrogatory Reponses at A.1. This procedure is similar to approvals in 2003 (and previously) for the Company's Letters of Credit and for the issuance of the Second Mortgage Bonds in 1999 (s*ee* Docket Nos. 5043, 4945 and 4817, and Docket No. 6247). In those cases, the Company provided term sheets containing the proposed terms and conditions for the financing and, in the case of the Second Mortgage Bonds, the terms for the Second Mortgage Indenture. In this case, the Company does not yet have a specific term sheet; however, it provided a summary of likely terms, with limits, for the proposed New Bonds (Gibson pf. at 13), and the principal terms of the Restated Indenture (Gibson pf. at exhibit JHG-5, pp. 7-13). The Company requested approval by May 3, 2004, to enable the Company to maximize the benefit of the current low interest rates by setting or guaranteeing the interest rate on or about May 17, 2004, depending on market conditions. To be able to exercise this strategy to maximize savings and reduce its capital costs, the Company seeks to have the parameters of the offering approved. Gibson pf.at 12.

4. The Company has issued an outstanding $75,000,000 aggregate principal amount of 8.125% Second Mortgage Bonds, maturing August 1, 2004. These bonds were approved by the Board in Docket No. 6247. The Company proposes to issue on or before August 1, 2004, up to $75,000,000 aggregate principal amount of new First Mortgage Bonds in one or more series, with one or more maturity dates, at reasonable prevailing interest rates, in a private placement offering to duly qualified investors ("Purchasers"). To maintain financial flexibility over the term of the New Bonds, the Company is currently considering offering two series of bonds, one for $25 million with a 7-year maturity, and a second series for $50 million with a 15-year maturity. Gibson pf. at 4.

5. The Company requests Board approval of its refinancing, according to these specific parameters, which could not be exceeded without additional Board approval:

Maximum amount to be financed:	$75 million
Maximum interest ("coupon") rate:	6.50%

Maximum tranch term:	20 years
Secured by CVPS assets:	First Mortgage Indenture
Covenants substantially as in:	First Mortgage or Restated Indenture
Conditions Precedent:	Customary

Gibson pf. at 13, 14.

6. The Company will seek additional approval of the Board in the event any of these parameters are exceeded, and will provide the Board with notice of the final terms of the financing prior to closing the transaction. Gibson pf. at 13.

7. Interest rates are at historic lows. With the Second Mortgage Bonds coming due this year, the Company is in a strong position to refinance a substantial portion of its existing debt at lower interest rates. Gibson pf. at 5.

8. Refinancing the full $75 million will help the Company maintain a reasonable capital structure and lower the cost of capital to customers. The Company anticipates future cash needs for which the $75 million proceeds will be needed. Gibson pf. at 8.

9. Refinancing the full $75 million provides for CVPS' upcoming requirements for capital expenditures, debt and Preferred Stock redemptions, VELCO investments and potential investments in other affiliates. Gibson pf. at 9-11.

10. As illustrated in exhibit JHG-1, as of 12/31/03 and proforming a $75 million refinancing at a rate of 5%, the Company would have capital structure comprised of 41% debt, 6% preferred equity and 53% common equity, representing a weighted average after-tax cost of capital of 8.2%. Refinancing, as an example, only $60 million of new debt at the same 5% interest rate results in a drop in the debt ratio from 41% to 38% and an increase in the weighted average after-tax cost of capital from 8.2% to 8.4%. Therefore, refinancing the full $75 million lowers the revenue requirements to customers by reducing the average cost of capital. Gibson pf. at 9; exhibit JHG-1. While CVPS could refinance less than the entire $75 million of Second Mortgage Bonds coming due, the Company stated that financing a lesser amount would require it to incur borrowing costs earlier than otherwise anticipated as well as increase the cost of capital charged to customers as illustrated in exhibit JHG-1. CVPS Interrogatory Responses at A.2.

11. The Company has outstanding $35.5 million in First Mortgage Bond debt with terms through 2031, plus $16.3 million Revenue Bonds with terms through 2015. In the next 5 years, the Company has debt maturities of $3 million in 2008 and $5.5 million in 2009. The Company has Preferred Stock mandatory redemptions of $1 million annually through 2012, and can voluntarily redeem an additional $1 million per year. Gibson pf. at 10.

12. The Company investigated calling the existing First Mortgage Bonds prior to their maturity, but its analysis indicated that the costs incurred would have exceeded the savings generated by the lower interest rates. Accordingly, the Company asserts its best opportunity to lower debt costs is through refinancing of the existing Second Mortgage Bonds. Gibson pf. at 5.

13. The Company currently has no specific plans to buy back common or preferred stock outside of its existing mandatory and optional preferred stock sinking fund provisions. CVPS anticipates the full $75 million will be required to meet its anticipated operating and capital needs. CVPS Interrogatory Responses at A.3.

14. The Company may also seek to borrow the funds to repay the Second Mortgage Bonds prior to the repayment date of the Second Mortgage Bonds. If it appears interest rates may rise prior to August 1, 2004 (the repayment date), it may be more cost effective to borrow the funds at an earlier date, at a lower interest rate, and then hold the proceeds until August 1, at which time they would be used to repay the Second Mortgage Bonds. The Company would undertake such an "early proceeds take down" only if the interest savings generated over the life of the new issue exceed the cost of the early proceeds take down. Gibson pf. at 5.

15. The Company anticipates customary conditions precedent for the financing, including no material adverse change, absence of material litigation, all necessary regulatory and third party approvals, good standing certificates, Board of Directors approval, legal opinions, and similar provisions. Gibson pf. at 12.

16. The New Bonds will likely have a "make-whole" provision as that is something that institutional investors typically require in a private placement offering. CVPS states that two points demonstrate that the New Bonds with a "make-whole" provision will be in the public interest. First, the cost of an issue in the private placement market (including both bond coupon and issuance cost) is lower than an issue in the public retail market where a "make-whole"

provision is not typically required. Second, given the currently low level of rates in the market, it is not likely that it would be economical to call these bonds prior to maturity even absent a "make- whole" provision. CVPS Interrogatory Responses at A.5. In addition, to maintain financial flexibility over the term of the New Bonds (even with make whole provisions), the Company is currently considering offering two series of bonds, one for $25 million with a 7-year maturity, and a second series for $50 million with a 15-year maturity. Gibson pf. at 4.

17. The Company anticipates replacing the existing first Mortgage Indenture with a Restated Indenture, which modernizes and provides various covenants, and does not anticipate any materially more restrictive covenants than those provided in the Restated Indenture. Gibson pf. at 12.

18. The Original Indenture has been amended in a patchwork fashion over the past 74 years and is in need of being restated for the following purposes: (1) to eliminate many unnecessary provisions; (2) to modernize and update a number of provisions which are inconsistent with current procedures due to changes in the law and related administrative matters over the years; (3) to make it more readable by consolidating in one document the various changes and amendments contained in a number of supplemental indentures; and (4) to be able to deliver and rely on one document (rather than the Original and 43 Supplemental Indentures) when discussing provisions of the Mortgage with bondholders or others, all of which should produce cost savings. Gibson pf. at 13, 14.

19. The Restated Indenture will entirely replace the existing first Mortgage Indenture and all of its Supplemental Indentures. All of the First Mortgage Bonds, now existing and to be issued, will be subject to the Restated Indenture. The general covenants described in Ms. Gibson's testimony (*e.g.*, Net Plant Test, Coverage Test, Long-Term Debt to Total Capitalization Test) will apply to all such Bonds. Any particular terms applicable to a specific Series of outstanding First Mortgage Bonds (e.g., Make-Whole premiums), but not applicable to any other Series, will be incorporated into the Restated Indenture. CVPS Interrogatory Responses at A.8.

20. There are two principal substantive changes in the Restated Indenture: the Net Plant Test and Restriction on Investments in Unregulated Subsidiaries. The Net Plant Test is based upon the net plant which is presented in the current financial statements. Under the new Net

Plant Test, bonds outstanding may not exceed an amount equal to 70% of net utility plant less an adjustment factor of $24,000,000 for 2004 which factor would reduce $3,000,000 annually. Bond base under the new proposal increases by about $5 million in 2005 and by about $10 million in 2012, and then decreases by about $2 million by 2022. Gibson pf. at 14, 15; exh. JHG-4.

21. Under the Restated Indenture, investments in unregulated subsidiaries ("Restricted Investments") will be equal to the sum of: (1) $17,500,000 plus (2) a portion of the Company's current so-called "dividend basket" equal to 20% of the Company's Net Income for the period commencing on January 1, 2004, to the end of the month next preceding the date on which the Restricted Investments are to be made. Any Restricted Investments from Net Income will use up the availability of the dividend basket for the purpose of issuing future dividends to the extent of the Restricted Investment made. Gibson pf. at 15.

22. The Restated Indenture establishes a Long-Term Debt to Total Capitalization Covenant. This covenant requires the Company to maintain its Long-Term Debt in an aggregate principal amount which will not exceed 65% of Total Capitalization where Total Capitalization means at any time the sum of Long-Term Debt plus Shareholders Equity of the Company at the end of the then most recent financial quarter. The Company is already subject to this covenant under its Articles of Association and, as such, anticipates no problems in meeting this requirement. Gibson pf. at 16.

23. The Restated Indenture establishes a Coverage Test Covenant. Currently, under the Company's First Mortgage Indenture, the coverage test for a bond issuance is 2x the annual bond interest. This covenant will change to an on-going maintenance test which will provide for testing at the end of each financial quarter and at any time when new bonds are issued. For each test, the Company will select 12 consecutive months of net earnings ending within the 15-month period ending on the last day of the financial quarter or on the date preceding the date of authentication of the new bonds. Interest will then be calculated on an historic basis for the quarterly test and a projected pro forma basis for a bond issuance test. Gibson pf. at 16, 17.

24. The Coverage Test Covenant requires that CVPS' net earnings (as defined) must exceed its First Mortgage Bond interest expense by at least a factor of 2, so the test is net

earnings divided by interest expense. Under the current First Mortgage Indenture, CVPS is required to meet this test only when issuing new bonds, and it must be calculated as if the new bonds were already issued. Under the Restated Indenture, that test will apply whenever new bonds are issued and, in addition, CVPS must also meet the Coverage Test Covenant each quarter based on its actual results as of the end of the quarter. CVPS Interrogatory Responses at A.6. As of 12/31/03, CVPS' earnings exceeded its First Mortgage Bond interest expense by more than 15 times, with a margin of about $36 million in annual interest costs. Interest on the New Bonds is not likely to exceed $5 million annually. Accordingly, CVPS anticipates no problems in complying with this covenant. CVPS Interrogatory Responses at A.7.

25. The Restated Indenture establishes that the Company shall not enter into any guaranty for the obligations of any Unregulated Subsidiaries. The Restated Indenture also continues the valuable provision that a financing default by an unregulated subsidiary will not cause a default under the Indenture. Gibson pf. at 17.

26. Draft financing documents and a Restated Indenture were not provided with the petition, as they are not drafted. The Company will be preparing an offering memorandum for circulation to prospective bond purchasers. This offering memorandum will include a draft purchase agreement plus the Restated Indenture. Once the Company has accepted commitments to purchase the bonds, final documents will be prepared. The Company does not expect the financing documents or the Restated Indenture to include any substantive changes or more onerous adverse conditions than as discussed above. As CVPS has done in its prior financing dockets before the Board, it will promptly inform the Board and Department of any adverse changes in any material terms of the transaction, and will file a set of the principal documents after the closing. Gibson pf. at 17, 18.

27. The Company believes the proposed financing and Restated Indenture proposed herewith, by maintaining the Company's access to the financial market on reasonable terms, providing for financial flexibility, lowering the capital costs of the Company, maintaining a reasonable debt to equity ratio, and modernizing the terms under which the Company secures its financing, all enhance the ability of the Company to provide service to its customers and remain

financially viable, and, accordingly, are consistent with the Department of Public Service's Vermont Twenty-Year Electric Plan. Gibson pf. at 18.

28. The Company's Board of Directors has approved the New Bonds and the Restated Indenture, in accordance with the terms discussed in Ms. Gibson's testimony. Gibson pf. at 18; exh. JHG-5.

29. The Department has issued the DPS Determination, noticing the Board that the transactions described in CVPS' petition, prefiled testimony and exhibits are consistent with the Vermont Twenty-Year 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.

30. CVPS has agreed to the recommendations and conditions in the DPS Determination. CVPS Waiver and Agreement.

31. Approval of CVPS' requests pursuant to 30 V.S.A. § 108 for issuance of $75,000,000 of First Mortgage Bonds to replace the $75,000,000 Second Mortgage Bonds which are due August 1, 2004, and issuance of a new First Mortgage Indenture to replace the current 1929 Indenture and its 43 Supplemental Indentures, all as described in the petition, prefiled testimony and exhibits, 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. Conclusion

On the basis of the evidence of record, I recommend that the terms and conditions proposed by CVPS to issue $75,000,000 of First Mortgage Bonds to replace the $75,000,000 Second Mortgage Bonds which are due August 1, 2004, and to issue a new First Mortgage Indenture to replace the current 1929 Indenture and its 43 Supplemental Indentures, all as described in the petition, prefiled testimony and exhibits, 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). 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 __7th___ day of May, 2004.

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 and Conclusion of the Hearing Officer are adopted.

2. The terms and conditions proposed by Central Vermont Public Service Corporation ("CVPS") to issue $75,000,000 of First Mortgage Bonds to replace the $75,000,000 Second Mortgage Bonds which are due August 1, 2004, and to issue a new First Mortgage Indenture to replace the current 1929 Indenture and its 43 Supplemental Indentures, all as described in the petition, prefiled testimony and exhibits, pursuant to 30 V.S.A. § 108(a), are approved.

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

4. CVPS shall promptly inform the Board and Department of any adverse changes in any material terms of the transaction, provide the Board with notice of the final terms of the financing prior to closing the transaction, and provide the Board and the Department with a complete set of final executed material documents when they are available.

Dated at Montpelier, Vermont, this 7th day of May, 2004.

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

OFFICE OF THE CLERK

FILED: May 7, 2004

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.