

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6981

Petition of Vermont Electric Power Company,)
Inc. for a Certificate of Consent for an)
amendment of its Articles of Association and for)
consent to issue up to 290,000 shares of Class B)
Common Stock at a price of \$100 per share)
)

Order entered: 7/21/2004

I. INTRODUCTION

On June 4, 2004, Vermont Electric Power Company, Inc. ("VELCO" or the "Company") submitted a petition seeking issuance of a certificate of consent for an Amendment to its Articles of Association and a consent of the Vermont Public Service Board ("Board") to the issuance of up to 290,000 shares of Class B Common Stock at a price of \$100 per share. The sale of the 290,000 shares of Class B Common Stock will enable the Company to achieve and maintain a debt-to-equity ratio that will allow it to have access to financial markets for its capital needs on advantageous terms.

Gerald F. Spring, Chief Financial Officer and Treasurer of the Company, filed testimony and exhibits in support of the petition. Copies of the petition, prefiled testimony, and exhibits were served on the Vermont Department of Public Service ("DPS").

VELCO and the DPS have reached agreement on all issues relating to the proposed issuance of up to 290,000 shares of Class B Common Stock.

On July 13, 2004, the DPS' Director for Public Advocacy sent a letter to the Board recommending that the Board approve the petition without hearing provided the approval contains the same conditions as the determination under 30 V.S.A. § 202(f).

The parties have waived the opportunity for review of the Proposal for Decision, briefing, and oral argument, in accordance with 3 V.S.A. § 811. I have reviewed the petition and the accompanying documents filed by the parties. I conclude that approval of VELCO's petition, pursuant to 30 V.S.A. §§ 104 and 108(c), is appropriate.

II. FINDINGS

1. VELCO is a Vermont corporation, subject to the jurisdiction of the Public Service Board. The Company's principal business is the transmission of electric power at high voltage within the State of Vermont. Pet. at 1.

2. VELCO proposes to amend its Articles of Association to increase the number of authorized shares of its Class B Common Stock from 90,000 shares to 430,000 shares, being an increase of 340,000¹ authorized shares. Spring pf. at 1.

3. Amendments to Article IV of VELCO's Articles of Association are necessary to permit the proposed stock offerings. Spring pf. at 4.

4. Each outstanding share of VELCO's Class B Common Stock shall be entitled to one vote on each matter submitted to a vote of the shareholders. Exh. 4, VELCO (GSF-4).

5. Upon receipt of Board approval of a certificate of consent for such proposed amendment and the Board's consent to the proposed issuance, VELCO will issue up to 290,000 shares of its Class B Common Stock, with 160,000 of such shares to be issued in the summer of 2004, and 130,000 of such shares to be issued in the latter part of 2005. Spring pf. at 1-2.

6. The shares will be privately offered to VELCO's existing shareholders, the Vermont electric utilities that have previously purchased shares in the Company, in proportion to each shareholder's share of Vermont's network load, with rights of over-subscription if any such shareholder does not purchase the full number of shares allotted to it. The price will be \$100 per share. The Class B Common Stock shares that would be nominally allotted to Citizens Communications Company (because it made up part of VELCO's network load)² will be allotted to Vermont Electric Cooperative, Inc. ("VEC") because VEC is taking over the Citizens electric distribution system and serving their network load in Vermont. Spring pf. at 4; DPS § 202(f) determination letter of July 2, 2004.

1. VELCO is asking for permission to amend its Articles of Association to increase its shares by 340,000 shares, for a total of 430,000 shares, of Class B Common Stock and for authorization to issue 290,000 shares of Class B Common Stock.

2. In Docket No. 6850 – Joint Petition of VEC and Citizens Communications Company for Transfer of Assets – the allocation of Citizens' 2,290 shares of VELCO stock, which includes VELCO Class B Common Stock total of 2,135 shares and Class C Common Stock of 155 shares, has not been finalized. Docket 6850, Joint exh. 5.

7. The proceeds of the first issuance of up to 160,000 shares in the summer of 2004 will be used to pay down short-term debt. The proceeds of the second issuance of up to 130,000 shares in the latter part of 2005 will be used either to pay down short-term debt or to reduce additional short-term debt that otherwise would be incurred. Spring pf. at 2-3.

8. VELCO's capital structure as of July 1, 2004, shows a debt-to-equity ratio of nearly 8.1 to 1. With 160,000 shares issued at \$100 per share, the debt-to-equity ratio would be 3 to 1. Exh. 2, VELCO (GSF-2).

9. By July 1, 2005, the pro forma debt-to-equity ratio would be approximately 2.85 to 1. With an additional 130,000 shares issued at that time, at \$100 per share, the pro forma debt-to-equity ratio would be approximately 1.9 to 1. Spring pf. at 2-3.

10. VELCO needs the additional equity to be able to attract favorable long-term debt, which it will need to obtain to finance the so-called Northern Loop and the Sandbar PAR, each of which is a project for which the Public Service Board has issued a certificate of public good. Spring pf. at 4.

11. The \$100 per share offering price is the same as the par value of the Class B Common Stock. Spring pf. at 4.

12. Based upon the information provided by VELCO to the DPS, the DPS has determined that the proposed amendment of VELCO's Articles of Association and the issuance of up to 290,000 shares of Class B Common Stock, are consistent with the Vermont Twenty-Year Electric Plan, and will benefit the general good of the State of Vermont. DPS 202(f) determination letter of July 2, 2004; DPS letter to Board dated July 13, 2004.

13. The issuance and sale of the additional shares of Class B Common Stock as described herein are consistent with the general good of the State and will be consistent with the Vermont Electric Plan. Spring pf. at 4.

III. DISCUSSION

Based upon all the foregoing and the evidence in the record, I find that VELCO's petition as described above will be consistent with the general good of the State. The Class B Common Stock has voting rights for all participants that elect to purchase their prorata share of stock.

IV. CONCLUSION

I therefore recommend that the Board approve the petition, and authorize the financing and amendment to VELCO's Articles of Association without hearing.

Dated at Montpelier, Vermont, this 21st day of July, 2004.

s/Ennis John Gidney _____
Ennis John Gidney
Hearing Officer

V. ORDER

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

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. Vermont Electric Power Company, Inc. ("VELCO") may amend its Articles of Association to increase the number of authorized shares of its Class B Common stock from 90,000 shares to 430,000 shares.
3. The Board approves the issuance of up to 290,000 shares of Class B Common Stock.
4. The right to acquire the prorata shares and the number of allocatable shares assigned to and for the electric load of Citizens Communications Company shall be included with and transferred exclusively to Vermont Electric Cooperative, Inc.
5. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that VELCO 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 VELCO's resulting capital structure in any future proceeding.

Dated at Montpelier, Vermont, this 21st day of July, 2004.

<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: July 21, 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.