

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6985

Petition of Morrisville Water and Light)
Department for Approval to Finance System)
Improvements and Long-Lived Asset)
Acquisitions)

Order entered: 9/8/2004

I. INTRODUCTION

On June 2, 2004, the Village of Morrisville Water and Light Department ("Morrisville"), pursuant to 30 V.S.A. §108(a), filed a petition seeking Public Service Board ("Board") approval to incur indebtedness of up to \$1,230,000 in order to make necessary generation, transmission and distribution improvements.

Charles J. Underhill, Manager of Rate and Integrated Resources Planning for the Vermont Public Power Supply Authority ("VPPSA"), filed testimony and exhibits in support of the petition.

On July 12, 2004, copies of the petition, prefiled testimony, and exhibits were served on the Vermont Department of Public Service ("DPS"). On July 21, 2004, supplemental materials were filed by Morrisville in support of its petition.

On August 4, 2004, the DPS' Director for Public Advocacy sent a letter to the Board recommending that Morrisville's financing petition for up to \$1,230,000 of short-term financing, that will be converted to long-term financing in 2005, be approved without hearing or investigation on the basis that the proposed action is consistent with the general good of the state, and contains the same conditions as the DPS's determination under 30 V.S.A. § 202(f).

I have reviewed the Petition, the supporting testimony, and accompanying documents. I conclude that approval of Morrisville's petition pursuant to 30 V.S.A. § 108(a) is appropriate and that such approval may occur without hearing. Based upon the evidence of record and the

testimony and exhibits presented in this docket, and the DPS letter of August 2, 2004, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. The generation, transmission and distribution improvements identified in the petition are needed to maintain the operational integrity of Morrisville's municipal plant. Petition at 1.

2. The financing of such improvements in an amount not to exceed \$1,230,000 has been approved by Morrisville at the April 12, 2004, annual meeting. Petition at 1.

3. The requested conversion of outstanding short-term debt to long-term debt is consistent with sound utility practice by virtue of matching the debt term to the asset useful life. Petition at 1.

4. Morrisville plans to finance their 2001-2003 capital expenditures of \$612,597 and 2004 capital expenditures of \$616,000 with short-term debt from their local bank (Union Bank), with interest rates that are forecasted to be somewhat less than 2% over the next year. Underhill pf. at 2; exh. Petitioners 2 and 3 (CJU 2 and 3).

5. The financing will cost approximately \$105,500 in 2005 consisting of \$65,000 in principal payments and \$40,500 in interest. After the conversion of short-term debt to long-term debt and the expenditures of an addition of \$629,000 for plant investment, the effect on the retail revenue requirement will be less than 1 percent. Underhill pf. at 4.

6. As of August 2, 2004, Morrisville has not filed an application or applied for long-term financing through the Municipal Bond Bank. Morrisville plans to file an application before the Municipal Bond Bank cut-off in 2005 that is likely to be in the spring (April or May) or early summer (June). DPS Letter dated August 2, 2004.

7. Morrisville has missed the window of opportunity for 2004 long-term financing this year with the Municipal Bond Bank. *Id.*

8. The Municipal Bond Bank 2004 financings closed in July. The 20-year (blended) \$14 million issue was offered with an initial variable interest rate beginning at 1.9% for the first five years. The forecasted average blended rate over the life of the bonds is projected to be approximately 4.4%. *Id.*

9. Morrisville plans to convert 2004 short-term bank debt into long-term bonded debt that will not exceed \$1,230,000 in 2005. Morrisville is assuming the 2005 interest rate will be slightly higher than the 2004 initial (1.9%) and blended rates (4.4%). *Id.*

10. Morrisville is currently holding two certificates of deposit that have been valued as of July 30, 2004, as follows:

(1) \$1,535,613 that is paying 4.89% and which matures July 27, 2007.

(2) \$1,090,842 that is paying 1.45% and which matures October 16, 2004.

Corse Memorandum dated July 28, 2004, and DPS Letter dated August 2, 2004.

11. With the \$1,090,842 certificate of deposit that is maturing in October 2004, Morrisville plans to acquire a 90% interest (the RDA-guaranteed portion) in a mortgage issued and held by Union bank (who will also own and hold the remaining 10% interest in the mortgage). The 90% interest is valued at between \$900,000 and \$1 million. This mortgage is 90% guaranteed by the United States Rural Development Authority (RDA). Corse Memorandum dated July 28, 2004.

12. The mortgage investment will pay to Morrisville an annual variable interest rate at prime that is currently at 4.25% and forecasted to increase next year as interest rates in general are forecasted to move higher. *Id.*

13. The issuance of general obligations or revenue bonds or notes to finance municipal plant improvements is consistent with the general good of the state. Petition at 1.

III. DISCUSSION

I recommend that Morrisville's financing petition for up to \$1,230,000 of short-term financing, which will later be converted to long-term financing in 2005, be approved without hearing or investigation on the basis that the proposed action is consistent with the general good of the state.

The new short-term debt or interim financing will carry an interest rate (2.0%) that will be less than the interest income to be received from the investment in the mortgage (4.25%). Upon conversion of the short-term debt to long-term debt, the interest income to be received for the mortgage investment (4.25%-2004; 4.40% to 5%--projected 2005) may be greater than, but is estimated to be not less than, the interest expense to be paid on the long-term Municipal bonds (4.4% blended-2004; projected 4.5% blended-2005). This has the potential to result in a positive

gain for Morrisville ratepayers and in the worst case will result in no gain or loss for Morrisville ratepayers. There is some possibility that the interest paid on the long-term bonds may exceed the income to be received from the mortgage investment. Should this occur, ratepayers will be disadvantaged and the mortgage should then be sold and the proceeds used to redeem the bonded debt.

Based on the foregoing, the parties have waived their rights under 3 V.S.A. § 811 to review a Proposal for Decision, to file exceptions, and to present briefs and oral argument regarding the above provided the approval is consistent with the DPS determination under 30 V.S.A. § 202(f).

IV. CONCLUSION

Based upon all the foregoing and the evidence in the record, I find that Morrisville's petition as described above will be consistent with the general good of the State. I therefore recommend that the Board approve the petition and authorize the financing without hearing.

Dated at Montpelier, Vermont, this 31st day of August, 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, conclusions and recommendations of the Hearing Officer are adopted.
2. The Board approves the interim short-term financing by notes of such improvements in an amount not to exceed \$1,230,000.
4. The Board approves the conversion of the short-term financings to long-term debt in 2005 in an amount not to exceed \$1,230,000.
5. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that the Village of Morrisville Water and Light Department 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 Morrisville's resulting Times Interest Earned Ratio in any future proceeding.

Dated at Montpelier, Vermont, this 8th day of September, 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: September 8, 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.