

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7002

Petition of Central Vermont Public Service)
Corporation for Consent to extend Letters of)
Credit and Reimbursement Agreements with)
Citizens Bank of Massachusetts regarding)
Millstone Pollution Bonds, Seabrook Pollution)
Bonds and East Barnet Hydroelectric Bonds)

Order entered: 9/28/2004

I. INTRODUCTION

On August 11, 2004, by letter dated August 10, 2004, Central Vermont Public Service Corporation ("CVPS") (and including CVPS' subsidiary, Central Vermont Public Service Corporation—East Barnet Hydroelectric, Inc., ("CV-EHB"), collectively where appropriate, "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 to extend three letters of credit, three Reimbursement Agreements, and a Guaranty with Citizens Bank of Massachusetts ("Citizens Bank") to provide three letters of credit, with terms expiring on November 30, 2005, to secure the Company's indebtedness under each of the Millstone, Seabrook, and East Barnet Bonds. The Company also requested that a new docket be opened to consider these yearly renewals, in place of former Docket Nos. 5043, 4945 and 4817; the Company believes there is no need for three separate dockets to consider these renewals, and replacing the three dockets with a single docket increases administrative efficiency and lowers the potential for confusion. As the request is reasonable, this Docket was opened.

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.

By letter dated September 22, 2004, CVPS submitted a revised term sheet, Exhibit JHG-2, which provided that Citizens Bank is releasing the security interest in the Company's Series PP, QQ and RR First Mortgage Bonds.

By letter dated August 10, 2004, CVPS gave notice of the petition to the Vermont Department of Public Service ("DPS" or the "Department") and requested a determination from the Department pursuant to 30 V.S.A. § 202(f) that extension of the letters of credit, the Reimbursement Agreements and the Guaranty with Citizens Bank 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 September 16, 2004 (the "DPS Determination"). In the DPS Determination, the Department notified the Board that the DPS waives its rights under 3 V.S.A. § 811¹ and its opportunity for hearing under 30 V.S.A. § 108(a), provided the Board adopts the recommendations and conditions contained in the DPS Determination (the "DPS Waiver"). 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 (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 to extend three letters of credit, Reimbursement Agreements, and a Guaranty with Citizens Bank to provide three letters of credit, with terms expiring on November 30, 2005, to secure the Company's indebtedness under each of the Millstone, Seabrook, and East Barnet Bonds, 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

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

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 and its subsidiary, Central Vermont Public Service Corporation—East Barnet Hydroelectric, Inc., are companies as defined by 30 V.S.A. § 201, and are subject to the jurisdiction of the Board pursuant to 30 V.S.A. § 203. Petition at 1.

2. The Company requests Board approval to extend the three letters of credit and Reimbursement Agreements with Citizens Bank. The present letters of credit expire on November 30, 2004. The general terms and cost of these extended letters of credit are provided on the "Summary of Proposed Terms and Conditions," dated July 23, 2004, provided as Exhibit JHG-1 (the "Term Sheet"). Gibson pf. at 2.

3. CVPS submitted a revised term sheet, Exhibit JHG-2, which provided that Citizens Bank is releasing the security interest in the Company's Series PP, QQ and RR First Mortgage Bonds. Letter of September 22, 2004.

4. The Company requests Board approval in mid to late October, to allow for a closing at the end of October and no later than October 31, 2004, so that the extension is in place within the time frame required by each of the underlying Indentures.² Without the extensions in place, the Company would be required to redeem the bonds. Gibson pf. at 2.

5. Prior Docket No. 5043 concerned the Millstone bonds. These bonds were issued by the Connecticut Development Authority pursuant to an Indenture dated December 1, 1985, in the principal amount of \$5,000,000, to mature on December 1, 2015. The purpose of the bond issue was to fund certain pollution control devices at the Millstone nuclear project, in which CVPS has an ownership interest. The Millstone bonds are currently secured by a letter of credit issued by Citizens Bank in the amount of \$5,133,562 (including \$133,562 of interest). In 2002, Citizens Bank replaced Toronto-Dominion as the bank issuing the letter of credit. CVPS' obligation to reimburse Citizens Bank in the event of a draw on the letter of credit is contained in the

2. By letter dated September 13, 2004, CVPS stated that in fact it needed a Board decision by September 28, 2004, in order to allow for closing by October 1, 2004.

Reimbursement Agreement with Citizens Bank, dated March 1, 2002, as approved in Docket No. 5043. Gibson pf. at 3.

6. Prior Docket No. 4945 concerned the Seabrook bonds. These bonds were issued by the New Hampshire Industrial Development Authority pursuant to an Indenture dated December 1, 1984, in the principal amount of \$5,500,000, to mature on December 1, 2009. The purpose of the bond issue was to fund certain pollution control devices at the Seabrook nuclear project, in which CVPS had an ownership interest at the time of the issuance of the bonds. The Seabrook bonds are currently secured by a letter of credit issued by Citizens Bank in the amount of \$5,736,125 (including \$286,125 of interest). In 2002, the Company redeemed \$50,000 of the Seabrook bonds, and the face amount of the letter of credit has been reduced accordingly. In 2002, Citizens Bank replaced Toronto-Dominion as the bank issuing the letter of credit. CVPS' obligation to reimburse Citizens Bank in the event of a draw on the letter of credit is contained in the Reimbursement Agreement with Citizens Bank, dated March 1, 2002, as approved in Docket No. 4945. Gibson pf. at 3, 4.

7. Prior Docket No. 4817 concerned the East Barnet bonds. These bonds were issued by the Vermont Industrial Development Authority pursuant to an Indenture dated December 1, 1983, in the principal amount of \$5,800,000, to mature on December 1, 2013. The purpose of the bond issue was to fund development of a hydroelectric project owned by Central Vermont Public Service Corporation-East Barnet Hydroelectric, Inc. ("CV-EBH"), a wholly-owned subsidiary of the Company. The East Barnet bonds are currently secured by a letter of credit issued by Citizens Bank in the amount of \$6,015,275.35 (including \$215,275.35 of interest). CV-EBH's obligation to reimburse Citizens Bank in the event of a draw on the letter of credit is contained in the Reimbursement Agreement with Citizens Bank, dated March 1, 2002, as approved in Docket No. 4817. CV-EBH's obligations to Citizens Bank are guaranteed by CVPS pursuant to the Guaranty, dated March 1, 2002, made by CVPS in favor of Citizens Bank, as approved in Docket No. 4817, and renewed yearly. Gibson pf. at 4, 5.

8. The interest rates on the Millstone, Seabrook and East Barnet Bonds are 1.15% (variable, at December 31, 2003), 5.5%, and 1.15% (variable, at December 31, 2003), respectively. The Seabrook Bonds remarket every five years, and will be remarketed effective

December 1, 2004. It is not economic to remarket the Seabrook Bonds as unsecured debt. Gibson pf. at 5.

9. Citizens Bank has offered an extension term through November 30, 2005. For this term, Citizens is waiving its per-renewal fee of \$10,000 this year for all three facilities (not each); Citizens is waiving the fee as a courtesy, as CVPS used Citizens' parent bank, Royal Bank of Scotland, as its agent for the recent issue of \$75 million in First Mortgage Bonds. There is an annual fee, payable quarterly in arrears, of 90 basis points at the Company's current First Mortgage Bond rating. The fee increases to 134 basis points if the Company's FMB rating drops below BBB-, which would then be below investment grade. The fee decreases if CVPS' rating increases. The current rating on the First Mortgage Bonds is BBB+ (S&P) and BBB (Fitch). These fees are lower than last year's fees, for this year only. Gibson pf. at 5.

10. Incidental fees include \$100 per amendment, if any, and a \$250 fee per drawing. Reporting requirements and conditions precedent remain the same as in the current agreements, except that certain reporting requirements have been conformed to match the Company's public reporting requirements and to eliminate the need for especially prepared reports. The Company will pay the usual closing, legal and documentation expenses. Gibson pf. at 5, 6.

11. The letters of credit have been secured by First Mortgage Bonds, Series PP, QQ and RR, issued July 30, 1999. Citizens Bank is releasing the security interest represented by such Bonds. Letter dated September 22, 2004; exh. JHG-2.

12. Draft financing documents were not provided with the petition. The Company anticipates no material or adverse changes from current conditions in the terms and conditions of each new document or the overall transaction and, accordingly, this approval is based upon Exhibit JHG-1. As CVPS has done in its prior financing dockets before the Board, it shall 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 6.

13. The extended letters of credit, Reimbursement Agreements and Guaranty proposed herewith, and the Company's obligations thereunder, are consistent with the Department of Public Service's *Vermont Twenty-Year Plan*. Extending the letters of credit, as well as maintaining the underlying bonds in place now and in the future provides the Company with

financial stability. In addition, extending the security provided by the letters of credit, maintaining the current rating of the underlying bonds, and avoiding the requirement to offer to repurchase the outstanding bonds, all contribute to the financial stability of the Company. Gibson pf. at 7.

14. The Company's Board of Directors and CV-EBH's Board of Directors have approved these transactions. Gibson pf. at 7; exh. JHG-2.

15. 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.

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

17. Approval of CVPS' requests to extend three letters of credit, three Reimbursement Agreements, and a Guaranty with Citizens Bank to provide three letters of credit, with terms expiring on November 30, 2005, to secure the Company's indebtedness under each of the Millstone, Seabrook, and East Barnet Bonds, 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 extend three letters of credit, Reimbursement Agreements, and a Guaranty with Citizens Bank of Massachusetts to provide three letters of credit, with terms expiring on November 30, 2005, to secure the Company's indebtedness under each of the Millstone, Seabrook, and East Barnet Bonds, all as described in the petition, prefiled testimony and exhibits, pursuant to 30 V.S.A. § 108, should 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 pursuant to Board Rule 2.219.

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 27th day of September, 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, Conclusion and recommendations of the Hearing Officer are adopted.
2. The terms and conditions proposed by Central Vermont Public Service Corporation to extend three letters of credit, three Reimbursement Agreements, and a Guaranty with Citizens Bank of Massachusetts, with terms expiring on November 30, 2005, to secure Central Vermont Public Service Corporation's indebtedness under the Millstone (Docket No. 5043), Seabrook (Docket No. 4945), and East Barnet (Docket No. 4817) Bonds, all as described in the petition, prefiled testimony and exhibits, pursuant to 30 V.S.A. § 108, are approved.
3. 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 Vermont 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.
4. Central Vermont Public Service Corporation shall provide the Board and the Department with a complete set of final executed documents when they are available.

Dated at Montpelier, Vermont, this 28th day of September, 2004.

s/Michael H. Dworkin)

) PUBLIC SERVICE

s/David C. Coen)

) BOARD

s/John D. Burke)

) OF VERMONT

OFFICE OF THE CLERK

FILED: September 28, 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.