

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7010

Petition of Vermont Electric Cooperative, Inc.)
for authority to issue First Mortgage Bonds in)
the amount of \$8,800,000 and to adjust credit)
facilities previously approved)

Order entered: 11/19/2004

I. INTRODUCTION

On September 14, 2004, 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 First Mortgage Bonds, in an amount not to exceed \$8,800,000, and to modify the \$10,000,000 credit facility approved by the Board in Docket Numbers 6850 and 6853. The Bonds are to be secured under VEC's existing First Mortgage Indenture, and will mature within 15 years from the date of issuance, but in no event more than 35 years from the date of issuance. Proceeds of the Bonds are to be used to make capital improvements.

On September 28, 2004, the Vermont Department of Public Service (the "DPS") filed a letter recommending that VEC's petition be approved without hearing or investigation on the basis that the financing will serve the general good of the state in compliance with 30 V.S.A. § 108. The DPS filed a second letter, also on September 28, 2004, stating that the petition is consistent with the Vermont Twenty-Year Electric Plan.

On October 28, 2004, VEC filed a letter with the DPS and the Board requesting to modify its petition. VEC originally anticipated an October 19, 2004, First Mortgage closing date with its creditor. The proposed closing date has now been postponed to early January, 2005. Additionally, VEC seeks approval to modify the amounts of the 2004 Series B and 2005 Series A bonds. The combined amount of the bonds, however, remains unchanged at \$8,800,000. By letter dated November 17, 2004, the DPS states that it has reviewed the proposed revisions and

based on its review has concluded that the revisions do not materially affect the DPS' original conclusion.

In addition to the petition, VEC has submitted the prefiled Testimony of Michael L. Bursell, Chief Financial Officer of VEC ("Bursell pf.").

I have reviewed the petition and supporting evidence and conclude that approval of the Cooperative's petition to issue the new First Mortgage Bonds and to modify the credit facilities 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 September 28, 2004, 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 \$8,800,000 in up to 35-year mortgage bonds and to modify the \$10,000,000 credit facility.

II. FINDINGS

1. VEC is a Cooperative as defined in 30 V.S.A. Section 201. Petition at 1.
2. VEC seeks consent to issue first mortgage bonds in an amount not to exceed \$8,800,000 to finance certain capital improvements and for other corporate purposes over the next two years. Petition at 1.
3. On August 1, 1997, VEC executed a First Mortgage Indenture (the "Indenture") with Banknorth N.A. (formerly known as the Howard Bank, N.A.) as Trustee. The Indenture provides for a mortgage and pledge of substantially all of VEC's operating assets, subject to certain exceptions. The Indenture was approved by the Board in Docket No. 5971. Bursell pf. at 2.
4. Since the Indenture was executed in 1997, VEC has issued several series of bonds under the terms of the First Mortgage Indenture. Each such series has been approved by the Board. *Id.*
5. VEC now seeks to issue two new series of First Mortgage Bonds secured by the Indenture, in a principal amount up to \$8,800,000 and each with a term not to exceed thirty-five years (the "2004 and 2005 Bonds"). Accordingly, VEC proposes to enter into the Tenth and Eleventh Supplemental Mortgage Indentures which would issue, respectively, 2004 Series B Bonds (the "2004 Bonds") and 2005 Series A Bonds (the "2005 Bonds") to National Rural Utilities Cooperative Finance Corporation ("CFC"). *Id.*

6. VEC has reached agreement with CFC as to the terms of the 2004 Bonds, which will be issued in a principal amount of \$4,315,789. The 2004 Bonds will bear a blended yield rate of 4.855%, (based on 9/1/04 effective rate), to be locked in on or before the closing date, with a maturity date within 15 years from the date of issuance, but in no event more than 35 years from the date of issuance. *Id.*

7. The proceeds from the 2004 and 2005 Bonds will be used to fund capital projects and for other corporate purposes. VEC's 2004 approved capital budget, of nearly \$6,500,000, has been funded through the use of operating proceeds and the use of VEC's short-term line of credit facility. The 2004 Bonds will allow VEC to pay down the line of credit facility, as is required by its terms on an annual basis. VEC's 2005 projected capital projects, forecasted to be approximately \$6,600,000, will also be financed through the use of the 2005 Bonds, as well as operating proceeds. *Id.* at 4.

8. The interest rate provided by CFC for the 2004 Bonds is competitive with rates that other lenders could provide. VEC competitively bid the proposed 2004 Bond of \$4,315,789 between CFC and CoBank. CFC provided the most attractive interest rate and will write the bonds with no legal costs. In addition, because CFC currently holds the largest portion of VEC's outstanding bonds and short-term indebtedness, the transaction costs, as well as the time frame, for issuing an additional series of bonds under the Indenture should be significantly less than if a new lender was involved. CFC is a not-for-profit entity, and their goal is to minimize costs versus maximizing profits. The costs of additional reporting to a new bond-holder, and the costs for a potential new bond holder to review and understand VEC's bond resolution, could be significant. *Id.* at 4.

9. The specific terms of the 2005 Bonds have not yet been negotiated but VEC expects that terms for the 2005 Bonds will be consistent with the terms of the 2004 Bonds. *Id.* at 3.

10. VEC's earnings and cash flow are currently adequate to support this additional debt. Earnings through July 2004 are approximately \$1,500,000 and depreciation is approximately \$1,600,000 providing a seven-month net cash inflow of approximately \$3,100,000 or \$5,300,000 on an annualized basis. The cash flow requirements to support the initial first year bond issue (\$4,315,789) in year two will be approximately \$500,000, which includes principal and interest

payments, while the internally generated funds requirement to support the full construction program is \$2,400,000 resulting in a total cash requirement of not less than approximately \$3,000,000. This would leave a balance of \$2,300,000 to cover existing debt service principal payments which appears adequate. September 29, 2004, letter from James Volz.

11. VEC's ratepayers will benefit from the capital improvements to the Cooperative's distribution and transmission systems which the 2004 and 2005 Bonds will fund. In addition, the Bonds will allow VEC to reduce the outstanding line of credit balance on its line of credit agreement to zero for five consecutive days, as required by the agreement. *Id.* at 5.

12. VEC also desires to adjust the short-term credit facilities which the Board approved in Docket Numbers 6850 and 6853 as part of the financing for the acquisition of the Vermont Electric Division of Citizens Communications Company. Rather than having two separate credit facilities, a \$5,000,000 line of credit facility and a \$5,000,000 letter of credit facility, VEC desires to adjust the facility to be a \$10,000,000 credit facility for the Cooperative's combined line of credit and letter of credit needs, with no changes to the total of the currently approved \$10,000,000 credit facility. VEC's lender, CFC, has agreed that this adjustment is acceptable. Once it has received Board approval for the adjustment, VEC will ask its bondholders to consent to allow in excess of \$5,000,000 in short-term debt. *Id.* at 5-6.

III. CONCLUSION

Based upon all the foregoing and the evidence in the record, I find that VEC'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. I also recommend that the requested modification to the credit facility be allowed.

The parties have waived distribution of the proposal for decision pursuant to 3 V.S.A. § 811.

Dated at Montpelier, Vermont, this 19th day of November, 2004.

s/Thomas S. Lyle
Thomas S. Lyle
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. Pursuant to 30 V.S.A. § 108, consent is hereby given to Vermont Electric Cooperative, Inc., to issue up to \$8,800,000 in First Mortgage Bonds, under its existing First Mortgage Bond Indenture, as described in the findings of fact above.
3. The issuance of up to a principal amount not to exceed \$8,800,000 in first mortgage bonds by Vermont Electric Cooperative, Inc., is consistent with the general good of the State of Vermont.
4. The adjustment to VEC's existing credit facilities, as described in the Findings of Fact, is approved.
5. This Order does not constitute approval of the underlying capital structure that may result from the issuance of up to \$8,800,000 in First Mortgage 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 19th day of November, 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: November 19, 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.