

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7129

Petition of Vermont Electric Power Company,)
Inc. for authority to issue \$14,000,000 principal)
amount of Series P First Mortgage Bonds and to)
mortgage property as security therefor)

Order entered: 1/12/2006

I. INTRODUCTION

On November 18, 2005, Vermont Electric Power Company, Inc. ("VELCO") submitted a petition pursuant to 30 V.S.A. § 108, seeking an order by the Vermont Public Service Board ("Board") consenting to the issuance of \$14 million Series P First Mortgage Bonds. The new Series P Bonds will be used to refinance VELCO's Series M Bonds, which matured on October 1, 2005, and to finance minor additions to transmission plant in service.

Derek W. HasBrouck, of PA Consulting Group, Inc. ("PA") filed testimony in support of VELCO's petition.

On October 31, 2005, Mr. Steven Farmer, Manager of Power Planning, submitted additional information on VELCO'S cash flow forecast and financing plan that covers the period from 2005 through 2010.

On December 6, 2005, the Vermont Department of Public Service (the "Department") requested additional information.

On December 15, 2005, VELCO supplied the additional information requested by the Department.

On December 20, 2005, pursuant to 30 V.S.A. § 202(f), the Department determined that VELCO's proposed financing is consistent with the Vermont Electric Plan, provided that any transmission activities financed by the proceeds meet the requirements of the Vermont Electric Plan.

II. FINDINGS

Pursuant to 30 V.S.A. § 8, and based on the record and evidence before me, I present the following findings of fact and conclusions to the Board.

1. VELCO provides electric power transmission services within the state of Vermont, and is subject to Board jurisdiction. Petition 1.
2. VELCO proposes to issue \$14 million principal amount of Series P First Mortgage Bonds. The new Series P Bonds will be used to refinance VELCO's Series M Bonds, which matured on October 1, 2005, and to finance minor additions to transmission plant in service. HasBrouck pf. at 4.
3. The Series M Bond was a five-year First Mortgage Bond that matured on October 1, 2005. The assets, however, remain in service and are largely un-depreciated and are currently financed through VELCO's short-term line of credit facility. However, it is not desirable to finance long life transmission assets through short-term, variable rate borrowings. *Id.* at 5.
4. The Series P Bond will reduce VELCO's outstanding balance on its variable rate line of credit. The line of credit balance increased when it was used to repay the principal balance of the Series M Bonds that matured on October 1, 2005, whose outstanding principal at maturity was approximately \$13.2 million. The new Series P Bonds will also be used to provide long-term financing for minor additions to transmission plant in service. *Id.* at 4.
5. The Bonds will be privately placed with investors of a similar nature to the insurance companies that currently hold VELCO's outstanding First Mortgage Bonds (Series L, N, and O). VELCO has retained Macquarie Securities (USA) Inc. to assist the Company in placing this debt. Macquarie is one of the global leaders in serving the unique financing needs of electric transmission companies and other infrastructure businesses. *Id.* at 7.
6. Interest will be payable quarterly, and the full principal payment will be made at maturity. This plan is consistent with the long-term financing plan filed with the Board on November 1, 2005. *Id.* at 5.
7. The interest rate on the bonds will be established through a competitive auction process expected to be held later in January, 2006. VELCO anticipates a coupon rate of between 6.15% and 6.40%. *Id.* at 6.

8. The average life of the notes will be thirty years. *Id.* at 7.

9. For two primary reasons, VELCO proposes to use full principal repayment at maturity for Series P bonds as opposed to the home mortgage style amortization approach it has used for earlier issues. First, due to VELCO's planned construction activities, VELCO anticipates a sustained need for cash infusions annually for the foreseeable future. By structuring Series P with full principal repayment at maturity, VELCO will be able to reduce its borrowing requirements next year and in future years by using the annual cashflow from depreciation expense to help fund planned capital expenditures. This will save ratepayers the costs associated with the avoided incremental borrowing. Second, on a long- term basis, VELCO expects to achieve an interest rate for Series P which is near historic lows. Locking in that rate for the long term is in the best interest of ratepayers, as it is likely that some future financings will be at higher interest rates and by locking in an attractive rate now, VELCO will reduce its exposure to higher rates in the future. *Id.* at 5-6.

10. The proposed debt issue as described is consistent with the Vermont Electric Plan, provided that any transmission activities financed with the proceeds from the proposed financing will meet the requirements of the Vermont Electric Plan.¹

III. DISCUSSION AND CONCLUSION

As a result of the Series M Bond maturing on October 1, 2005, VELCO must refinance the recently matured Series M with the Series P Bond. Under the Series P Bond, VELCO will obtain historically low interest rates and will have access to this low cost finance for thirty years.

On the basis of the evidence of record contained in the petition, prefiled testimony, exhibits and supplemental evidence, I recommend that the proposed Series P First Mortgage Bond issuance be approved by the Board as consistent with the general good of the State of Vermont pursuant to 30 V.S.A. § 108.

I also recommend that this matter be decided without hearing pursuant to Board Rule 2.219.

1. Letter from J. Riley Allen, Director for Regulated Utility Planning, Vermont Department of Public Service, dated December 19, 2005.

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 10th day of January, 2006.

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, conclusions and recommendations of the Hearing Officer are adopted.
2. The refinancing of the Series M First Mortgage Bonds and the issuance of \$14 million in new Series P First Mortgage Bonds by Vermont Electric Power Company, Inc., as described in the findings above, are approved.
3. This Order does not constitute approval of any particular capital or operating expenditure, or the underlying capital structure resulting from this financing

Dated at Montpelier, Vermont, this 12th day of January, 2006.

s/James Volz _____)	PUBLIC SERVICE BOARD OF VERMONT
_____)	
s/David C. Coen _____)	
_____)	
s/John D. Burke _____)	

OFFICE OF THE CLERK

FILED: January 12, 2006

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.