

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 7184

Petition of Green Mountain Power Corporation )  
for Approval to Issue First Mortgage Bonds in )  
an Amount of up to \$35,000,000 pursuant to )  
30 V.S.A. § 811 )

Order entered: 7/13/2006

**I. INTRODUCTION**

On May 1, 2006, Green Mountain Power Corporation ("Green Mountain Power" or the "Company") filed a petition (the "Petition") with the Vermont Public Service Board (the "Board") for approval pursuant to 30 V.S.A. § 108(a), to issue long-term debt securities, in a maximum aggregate offering amount up to \$35 million by means of a private placement. The bonds will be issued under the Company's First Mortgage Bond Indenture ("Indenture"). The Petition was supported by the testimony of Dawn Bugbee, the Company's Chief Financial Officer, and by accompanying exhibits.

On May 30, 2006, the Department of Public Service ("DPS") informed the Board by letter that it recommended approval of the Petition without a hearing and that the issuance of long-term debt as set forth in the Petition would not be inconsistent with the Vermont Twenty-Year Electric Plan (the "Plan") pursuant to 30 V.S.A. § 202(f).

On June 2, 2006, 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).

On July 5, 2006, the Company filed a Proposed Order with the Board.

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, the supporting testimony, and accompanying documents. I conclude that approval of Green Mountain Power'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 May 30, 2006, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

## II. FINDINGS

1. The Company is a company as defined by 30 V.S.A. § 201, and is subject to the jurisdiction of the Board pursuant to 30 V.S.A. § 203. Petition at 1.
2. The bonds will be issued under the Company's Indenture and, together with the Company's other first mortgage bonds, will be secured under the terms of the Indenture by a first lien on substantially all of the Company's utility property. Bugbee pf. at 2.
3. The terms and interest rate on the bonds will be determined at the time of their placement with a purchaser. The Company expects that the term will be 10-30 years. If interest rates for the ten and thirty-year treasury bonds remain in their present range (approximately 5 percent), the Company has estimated an interest rate between 6 and 7 percent. A recent Blue Chip forecast for BBB-rated companies (the Company's bond rate is also BBB) indicated an expected borrowing rate of approximately 6.7 percent for the time period during which the bonds are expected to be issued. Bugbee pf. at 3.
4. The Company expects to use the proceeds to redeem existing long-term debt of \$14 million and to finance expanded investment in the Vermont Electric Power Company ("VELCO") Northwest Reliability Project. The Company expects that the Company's VELCO-related investments will total approximately \$16 million during 2006. The Company currently estimates its borrowing needs at \$30 million. However, in the event that additional capital requirements arise during the year, or if the Company decides to eliminate projected short-term debt, the Company requests that the Board approve the bonds in an amount of up to \$35 million for these purposes. It is anticipated that up to \$15,000,000 will be drawn in June, 2006 with the balance drawn by the end of the year. Bugbee pf. at 2-3.
5. As with any first mortgage bond issuance, some terms, including interest rate, maturity date(s), redemption options (if any), sinking fund obligations (if any), and the final amount of

bonds to be issued, will be finally determined according to market conditions and negotiated terms with a proposed private placement purchaser or purchasers. Bugbee pf. at 3.

6. Green Mountain Power has retained Sovereign Bank to manage the bond placement. The Company chose Sovereign through a competitive bid process. Sovereign was the low bidder. Bugbee pf. at 4.

7. The Company's capitalization before and after the issuance of the bonds is as follows.

The capitalization of the Company as of December 31, 2005, was:

Long-term debt	\$ 93,000,000	44.21%
Common equity	<u>117,374,000</u>	<u>55.79%</u>
Total Capitalization	<u>\$210,374,000</u>	<u>100.00%</u>

The projected capitalization of the Company as of December 31, 2006, reflecting the impact of the proposed issuance, is as follows:

Long-term debt	\$114,000,000	48.28%
Common equity	<u>122,136,000</u>	<u>51.72%</u>
Total Capitalization	<u>\$236,136,000</u>	<u>100.00%</u>

These capitalizations do not reflect any short-term debt. GMP had a \$30 million 364-day revolving credit agreement that expired June 14, 2006. In a separate proceeding, Docket No. 7185, the Board approved GMP's proposal to enter into a \$30,000,000 revolving credit agreement expiring June 2011, which includes an option to increase the amount available to \$45,000,000 under certain conditions. Bugbee pf. at 4-5.

8. The Company's corporate (unsecured) credit rating is BBB for Standard & Poor's ("S&P"), and its secured debt rating from S&P is also BBB. The S&P corporate rating lies one notch above the lowest available investment grade rating. Moody's rates the Company's secured debt one level higher than the S&P secured debt rating, and the corporate rating for Green Mountain Power is Baa2, one notch above the lowest available investment grade rating. Bugbee pf. at 5.

9. The Company's BBB rating from S&P is about average for energy companies. Approximately 30 percent of companies are rated A- or above, while about 54 percent are rated BBB- to BBB+, with the remainder (16%) rated as speculative or below investment grade. The

trend has been toward ratings reductions over the past few years, with many former A-rated companies being downgraded to BBB. Bugbee pf at 5.

10. The increased proportion of debt in the Company's capital structure is not inconsistent with the Company's target capital structure, which is approximately 53% equity, and 47% percent debt. Practically speaking, the amount of leverage in the Company's capital structure will fluctuate by 3-5 percentage points around the target capital structure amount. The increased leverage should not be problematic as long as the Company's earnings and cash flows do not decline. This could occur, for instance, as a result of non-recovery of significant Company costs, extraordinary outage or storm costs or other extraordinary events that increase the Company's costs, reduce its revenues or otherwise adversely affect cash flows. Bugbee pf. at 6.

11. The Company meets annually with its rating agencies, and has consistently communicated its plans regarding the 2006 long-term debt financing, other significant financial assumptions, and the forecasted impacts of the leverage and rate increases. The rating agencies have not expressed concerns that the forecasted results would reduce the Company's credit rating. Bugbee pf. at 6-7.

12. The proposed transactions will have no adverse impact on the Company's liquidity. Green Mountain Power expects to maintain healthy liquidity levels, with available borrowings more than sufficient to satisfy the Company's needs, at all times before, during and after the completion of the proposed transactions. The completion of the proposed transactions will bring the Company's equity and debt capitalization levels in line with Company targets and reduce the Company's weighted average cost of capital without increasing debt to levels that would adversely affect the Company's investment ratings. Bugbee pf. at 7.

13. The issuance of long-term debt as proposed in the Petition is consistent with the Vermont Twenty-Year Electric Plan. Petition at 2; May 30, 2006, letter of the DPS.

14. The Credit Facility is consistent with the general good of the State, under 30 V.S.A. § 108. See Petition at 2; Bugbee pf. at 7; May 30, 2006, letter of the DPS.

**III. DISCUSSION**

Based upon all the foregoing and the evidence in the record, I find that Green Mountain Power Corporation's Petition as described above will be consistent with the general good of the State.

**IV. CONCLUSION**

I therefore recommend that the Board approve the Petition and authorize the financing without hearing.

Dated at Montpelier, Vermont, this 12<sup>th</sup> day of July, 2006.

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. Pursuant to 30 V.S.A. § 108(a), consent is hereby given to Green Mountain Power Corporation to issue first mortgage bonds in an amount up to \$35,000,000 maximum aggregate offering amount under its existing Indenture of First Mortgage and Deed of Trust, as described in the Findings, above.
3. Green Mountain Power Corporation shall, within 30 days of the completion of the private placement, file a copy of the final Summary of Principal Terms of the first mortgage bonds with the Vermont Department of Public Service and the Vermont Public Service Board.
4. The issuance of first mortgage bonds as set forth in Green Mountain Power Corporation's Petition in this docket, and as described in the Findings is not inconsistent with the general good of the State of Vermont.
5. This Order does not constitute approval of Green Mountain Power Corporation's capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of the short-term debt contemplated in the Petition in this docket. Nothing in this approval shall preclude the Vermont Department of Public Service or any other party, or the Vermont Public Service Board, from reviewing or challenging such expenditures or Green Mountain Power Corporation's resulting capital structure and/or its common stock dividend in any future proceeding.

Dated at Montpelier, Vermont, this 13<sup>th</sup> day of July, 2006.

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

OFFICE OF THE CLERK

FILED: July 13, 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.*