

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7263

Petition of Vermont Electric Cooperative, Inc.,)
pursuant to 30 V.S.A. § 108, for Authority to)
issue evidence of indebtedness)

Order entered: 2/15/2007

I. INTRODUCTION

On January 8, 2007, Vermont Electric Cooperative, Inc. ("VEC") petitioned the Public Service Board ("Board"), pursuant to 30 V.S.A. §108, for authority to issue evidence of short-term indebtedness in an amount not to exceed \$10 million and to grant a security interest in certain assets as collateral under a new loan agreement. In support of the petition, VEC submitted the prefiled testimony and exhibits of Michael Bursell, Chief Financial Officer of VEC. On February 6, 2007, VEC filed the supplement testimony of Michael Bursell.

VEC currently operates under a \$5 million revolving line of credit ("2004 LOC") and a \$5 million master Letter of Credit ("2004 Letter of Credit") with the National Rural Utilities Cooperative Finance Corporation ("CFC"). VEC's 2004 Letter of Credit facility is due to expire on March 31, 2007. Thus, VEC proposes to renew the amount of available credit under this credit facility and consolidate the 2004 Letter of Credit and 2004 LOC into one \$10 million loan agreement ("\$10 Loan Agreement") with the CFC. Under the proposed \$10 million loan agreement, VEC would have the flexibility to either draw down credit in the form of a short-term loan (e.g., similar to a line of credit) or direct CFC to issue a letter of credit on its behalf as long as the total outstanding principal does not exceed \$10 million in the aggregate.¹ Cash advances under the proposed \$10 million loan agreement would be used to finance VEC's working capital

1. Bursell pf. at 3.

requirements and letters of credit issued on VEC's behalf would be used as collateral for wholesale power purchases.

The terms of the \$10 million Loan Agreement require VEC to reduce to zero the principal amount outstanding under the proposed loan agreement for a period of at least five consecutive days every 360 days. Under the proposed \$10 million Loan Agreement, VEC would also continue to grant a security interest in its accounts receivable and inventory. The term of the proposed loan agreement expires in March, 2011.

On February 2, 2007, the Department of Public Service ("Department") informed the Board that it had reviewed VEC's filings. Based on its review, the Department determined that VEC's petition was consistent with the Vermont Electric plan, pursuant to 30 V.S.A. § 202(f). Additionally, on February 7, 2007, the Department informed the Board that it has reviewed the initial and supplement filings of VEC. Based on its review, the Department recommends approval of VEC's request without further investigation or hearing.

Based on the record evidence and the Department's recommendation, I conclude that VEC's request to consolidate existing credit facilities into one \$10 million loan agreement and to pledge a security interest in certain assets is consistent with the public good. Approval would provide VEC additional flexibility to finance its working capital requirements and make spot purchases of electricity on the wholesale power market in a quick and efficient manner. Additionally, consolidating two facilities into one may reduce transaction costs. Therefore, I recommend that the Board consent to the issuance of evidence of indebtedness and issue an Order to that effect without further investigation or hearing.

II. FINDINGS

Based on the evidence of record, I hereby report the following findings to the Board in accordance with 30 V.S.A. § 8.

1. VEC, with a principal place of business in Johnson, Vermont, is duly organized and existing under the laws of the State of Vermont and is a Vermont cooperative electric company as defined by 30 V.S.A. § 201; as such, VEC is subject to the jurisdiction of the Board pursuant to 30 V.S.A. § 203. Pet. at 1, Order of December 4, 2006, in Docket No. 7210.

2. VEC and CFC are currently parties to a \$5 million Revolving LOC agreement, dated as of April 1, 2004, and a \$5 million Letter of Credit. Pet. at 1.

3. The 2004 LOC and the 2004 Letter of Credit expire on March 31, 2009, and March 31, 2007, respectively. Pet. at 1.

4. VEC proposes to enter into a \$10 million Loan agreement that would replace both the 2004 LOC and the 2004 Letter of Credit under one security agreement between VEC and CFC. Bursell pf. at 2; Pet. at 1.

5. Under VEC's existing credit facilities, VEC granted CFC a security interest in its accounts receivable and inventory. Pursuant to the proposed \$10 million loan agreement, VEC would continue to grant CFC a security interest in its accounts receivable and inventory. Bursell pf. at 2.

6. VEC expects to draw down \$2 million in each of the next three years to finance its working capital requirements. Bursell supp. pf. at 4.

7. Certain wholesale power sellers have requested that letters of credit be issued on behalf of VEC in order to secure the company's obligations under wholesale purchased power arrangements. VEC expects that the face value of such Letters of Credit will amount to \$5 million. Bursell pf. at 3-4; Bursell supp. pf. at 4.

8. Consolidating the 2004 LOC and 2004 Letter of credit into a \$10 million loan agreement would reduce transaction costs. Bursell pf. at 4.

III. CONCLUSION

30 V.S.A. § 108(a) states:

A domestic corporation subject to the jurisdiction of the public service board shall not mortgage nor pledge any of its corporate property nor issue any stocks, bonds, notes or other evidences of indebtedness without the consent of the public service board given on petition and after opportunity for hearing of the corporation or its incorporators and a finding of the board that the proposed action will be consistent with the general good of the state. Notice of the hearing shall be given as the board directs.

Based on the record evidence, I find that approval of the request to consolidate VEC's existing short-term credit facilities into a \$10 million loan agreement is consistent with the

general good of the state of Vermont. The proposed \$10 million loan agreement would provide VEC with additional flexibility to effectively finance its working capital requirements and, by instructing CFC to issue letters of credit, secure its obligations under wholesale purchase power arrangements. The proposed loan agreement may also reduce transaction costs as VEC would operate under one security agreement rather than two and would therefore avoid additional transaction fees.

Renewal and consolidation of existing credit facilities into the proposed \$10 million loan agreement would be virtually transparent to customers and not cause confusion or inconvenience. Additionally, the \$10 million loan agreement provides VEC with sufficient amounts of short-term credit to finance daily operations without impairing its ability to generate sufficient cash flows to convert short-term debt into longer-term financial instruments.² Therefore, I recommend that the Board issue an order consenting to the issuance of evidence of short-term indebtedness not to exceed a total of \$10,000,000. I also recommend that the Board require VEC to notify the Department and the Board within ten days of consummating the proposed \$10 million loan agreement.

Opportunity to File Exceptions and Present Arguments

VEC and the Department have waived their opportunity to file exceptions and present arguments pursuant to 3 V.S.A. § 811.

Dated at Montpelier, Vermont, this 15th day of February, 2007.

s/Thomas Lyle
Thomas Lyle
Hearing Officer

2. Bursell supp. pf. at 3-4.

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. Pursuant to 30 V.S.A. § 108, the Board consents to the issuance of evidence of short-term indebtedness to consolidate existing loans into a \$10 million loan agreement pursuant to the terms and conditions of the security agreement presented in this proceeding.
3. The issuance of indebtedness up to \$10,000,000 by Vermont Electric Cooperative, Inc. is consistent with the general good of the State of Vermont.
4. Vermont Electric Cooperative, Inc. shall provide written notice to the Department and the Board within ten days of consummating the \$10 million loan agreement.
5. This Order does not constitute approval of the underlying capital structure that may result from the consolidation of existing loans into a \$10 million loan agreement, referenced herein. Nothing in this approval shall preclude the Department of Public Service or any other party, or the Public Service Board, from reviewing and/or challenging the resulting capital structure in any future proceeding.

Dated at Montpelier, Vermont, this 15th day of February, 2007.

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

OFFICE OF THE CLERK

FILED: February 15, 2007

ATTEST: s/John P. Bentley
Acting 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: psb.clerk@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.