

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7465

Petition of Central Vermont Public Service)
Corporation and Central Vermont Public Service)
Corporation-East Barnet Hydroelectric, Inc. for)
Consent to extend Letters of Credit and)
Reimbursement Agreements and Guaranty with)
RBS Citizens, N.A., successor by merger to)
Citizens Bank of Massachusetts, regarding)
Millstone Pollution Bonds, Seabrook Pollution)
Bonds and East Barnet Hydroelectric Bonds, and to)
Provide Security with Existing First Mortgage)
Bonds, Series PP, QQ and RR, issued July 30, 1999)

Order entered: 9/18/2008

I. INTRODUCTION

On August 1, 2008, Central Vermont Public Service Corporation ("CVPS" or "the Company") and Central Vermont Public Service Corporation-East Barnet Hydroelectric, Inc. ("CV-EBH" and collectively where appropriate, "the Companies") filed a petition pursuant to 30 V.S.A. § 108(a) with the Vermont Public Service Board ("Board") seeking approval to: (a) extend three Letters of Credit and Reimbursement agreements; and (b) renew a Guaranty under CV-EBH's reimbursement agreement, with RBS Citizens, N.A., successor by merger to Citizens Bank of Massachusetts ("Citizens Bank"). The Letters of Credit and Reimbursement Agreements and the Guaranty (collectively the "Instruments") are due to expire November 30, 2008; and December 1, 2008. The purpose of the Instruments is to secure payment of three existing industrial-development bonds issued in 1983, 1984, and 1985 to fund respectively, CVPS's investments in the East Barnet hydroelectric facility and the Millstone and Seabrook Nuclear Plants. The Instruments are collectively secured by First Mortgage Bonds, Series PP, QQ and RR, issued July 30, 1999.

On September 8, 2008, the Vermont Department of Public Service ("Department") informed the Board that it had reviewed the petition and supporting documentation. Based on its review, the Department recommended that the Board find the Companies' petition to be consistent with the general good without hearing or further investigation. On September 9, 2008, the Department also determined that the Companies' filing was consistent with the Vermont Electric Plan, pursuant to 30 V.S.A. § 202(f).

Based on the evidence presented and the Department's recommendation, I find that approval to extend the Instruments is appropriate and that such approval may occur without hearing or further investigation. The proposed extension and renewal would extend the terms of existing security arrangements with Citizens Bank and therefore maintain the financial stability of the Companies. By extending the terms of the existing Instruments, the Companies would also avoid having to repurchase outstanding bonds.

II. FINDINGS

In accordance with 30 V.S.A. § 8, I hereby report the following findings and conclusions.

1. Central Vermont Public Service Corporation 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. CVPS and CV-EBH request Board approval to extend the three Letters of Credit, Reimbursement Agreements and the Guaranty under the East Barnet Reimbursement Agreement with Citizens Bank, for terms that expire November 30, 2009 (December 1, 2009 for those related to the Seabrook Plant), and to provide security if required by Citizens Bank. The present Instruments expire on November 30, 2008, and December 1, 2008. The general terms and cost of these extended Instruments are provided in the "Terms and Conditions," dated June 2, 2008, provided as CVPS Exhibit PJK-I (the "Term Sheet"). Keefe pf. at 2.
3. Citizens Bank has offered an extension term through November 30, 2009 (December 1, 2009 for Seabrook). For this term, CVPS prepaid a total commitment fee of \$30,000 for all three credit facilities. Upon extension as discussed in the filing, there will be no further commitment fee to be paid. In addition, there is an annual fee, payable quarterly in arrears, at a

rate which is dependent upon CVPS' senior secure credit rating. The annual fee is based upon the continuing security under CVPS's First Mortgage Bonds. Incidental fees include \$150 per amendment, if any, and \$275 per drawing. The Companies will pay typical closing, legal and documentation expenses. Keefe pf. at 6, 7.

4. The Millstone bonds were previously addressed in Docket Nos. 5043, 7002, 7096, 7216 and 7338. 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 III 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 Bank as the issuer of the letter of credit. CVPS's obligation to reimburse Citizens Bank in the event of a draw on the letter of credit is set forth in the Reimbursement Agreement with Citizens Bank, dated March 1, 2002, as originally approved in Docket No. 5043 and as amended and approved in that docket and in Docket Nos. 7002, 7096, 7216 and 7338. Keefe pf. at 3, 4.

5. The Seabrook bonds were previously addressed in Docket Nos. 4945, 7002, 7096, 7216 and 7338. 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 Bank as the issuer of the letter of credit. CVPS's obligation to reimburse Citizens Bank in the event of a draw on the letter of credit is set forth in the Reimbursement Agreement with Citizens Bank, dated August 1, 2002 (stated as March 1, 2002, in prior dockets in error), as approved in Docket No. 4945 and as amended and approved in that docket and in Docket Nos. 7002, 7096, 7216 and 7338. The Seabrook bonds mature on December 1, 2009, and must be redeemed by the

Company on that date. Citizens Bank has agreed to extend the expiration of the Seabrook Reimbursement Agreement and underlying letter of credit by one day to December 1, 2009, so that there will be no unsecured period prior to redemption. Keefe pf. at 4, 5.

6. The East Barnet bonds were previously addressed in Docket Nos. 4817, 7002, 7096, 7216 and 7338. 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., 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 \$6,015,215 (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 set forth in the Reimbursement Agreement with Citizens Bank, dated March 1, 2002, as approved in Docket No. 4817 and as amended and approved in that docket and in Docket Nos. 7002, 7096, 7216 and 7338. 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 Nos. 4817, 7002, 7096, 7216 and 7338. Keefe pf. at 5, 6.

7. The interest rates for the bonds are: Millstone 1.45% (variable monthly); Seabrook 3.75% (fixed for 5-year periods); and East Barnet 1.55% (variable monthly). The Seabrook bonds remarket every five years, and were remarketed effective December 1, 2004. Keefe pf. at 6.

8. The Instruments had been secured by First Mortgage Bonds, Series PP, QQ and RR, issued July 30, 1999 (the "FM Bonds"). The Board previously approved the granting of these security interests in Docket Nos. 7096, 7216, and 7338. In 2004, Citizens Bank agreed to release its security interest in those FM Bonds, and the FM Bonds were held in CVPS's Treasury. The FM Bonds continued to be "authorized and issued," but were not held as security by any party. The only purpose of these FM Bonds, as approved by both the Public Service Board and CVPS's Board of Directors, is for security for the Instruments. Keefe pf. at 7.

9. As a result of downgrades in the Company's credit rating, Citizens Bank requested in

2006 that the Company provide the security represented by the First Mortgage Bonds, Series PP, QQ and RR. Keefe pf. at 7.

10. The re-granting to Citizens Bank of the security represented by the First Mortgage Bonds, Series PP, QQ and RR was approved by the Board in an Order entered September 27, 2006, in Docket No. 7216.

11. To continue the first mortgage priority of the extended Instruments, the existing First Mortgage Bonds, Series PP, QQ and RR, will remain in place. No new First Mortgage Bonds will need to be issued. Keefe pf. at 7, 8.

12. The rate on the Instruments is based on the senior-secured-debt credit rating. The current senior-secured rating applicable to CVPS's First Mortgage Bonds is BBB by S&P, which is still investment grade for secured debt. Pursuant to the pricing grid set out in the Terms and Conditions, the current rate for a secured facility is 90 basis points. Keefe pf. at 8.

13. As CVPS has done in its prior financing dockets before the Board, it has agreed to 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. Keefe pf. at 8.

14. The extended Instruments, and the security interests provided by the First Mortgage Bonds, Series PP, QQ and RR, are consistent with the Vermont Electric Plan. Keefe pf. at 9; Department 202(f) determination letter of September 9, 2008.

15. Extending the Instruments, as well as maintaining the underlying bonds in place now and in the future, provides the Company with low-cost debt and financial stability. In addition, extending the security provided by the Instruments, 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. Keefe pf. at 9.

16. CVPS's Board of Directors has approved these transactions, and CV-EBH's Board of Directors is expected to approve the transaction relative to East-Barnet Hydro. Exhs. PJK-4 and PJK-5 (proposed).

17. The Company requests Board approval by mid-to-late September, but no later than September 24, 2008, to allow for a closing before October 1, 2008, so that the extensions are in place within the time frame required by each of the underlying Indentures. Without the

extensions in place, the Company would be required to redeem the underlying industrial development bonds which these letters of credit secure. Keefe pf, at 2, 3.

III. DISCUSSION

Based on the evidence, I conclude that CVPS's petition, as amended, to extend the terms of the existing Instruments would be consistent with the general good of the state. Extension of the Instruments would allow CVPS to continue to secure its Letters of Credit obligations under existing first mortgage bonds issued in July, 1999, and therefore contribute towards maintaining the Company's financial stability. By extending the terms of the Instruments, CVPS would also avoid the requirement of having to repurchase the bonds. Thus, I recommend that the Board find that approval of CVPS's petition is consistent with the general good of the state and issue an order to that effect.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. § 811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont this 17th day of September, 2008.

s/Jay E. Dudley
Jay E. Dudley
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 ("CVPS" or "Company") and Central Vermont Public Service Corporation-East Barnet Hydroelectric, Inc. to extend the three Letters of Credit and Reimbursement agreements, and the Guaranty with RBS Citizens, for terms expiring on November 30, 2009, and December 1, 2009, are consistent with the general good of the state.
3. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that the Company may implement. Nothing in this approval shall preclude the Department of Public Service ("Department") or any other party, or the Public Service Board, ("Board") from reviewing and/or challenging those expenditures and/or the Company's resulting capital structure in any future proceeding.
4. Upon request, CVPS shall provide the Board and the Department with a complete set of final executed documents when they are available.

Dated at Montpelier, Vermont, this 18th day of September, 2008.

s/James Volz)

PUBLIC SERVICE

s/David C. Coen)

BOARD

s/John D. Burke)

OF VERMONT

OFFICE OF THE CLERK

FILED: September 18, 2008

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: 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.