

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7501

Petition of Green Mountain Power Corporation)
for Approval to Issue First Mortgage Bonds in)
an Amount up to \$15,000,000)

Order entered: 4/3/2009

I. INTRODUCTION

On February 25, 2009, Green Mountain Power Corporation ("GMP" or "the Company") filed a petition (the "Petition") with the Vermont Public Service Board ("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 \$15 million ("the Bonds") 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 March 5, 2009, GMP filed an amendment to the Petition notifying the Board that the last sentence of Paragraph 5 of the Petition was included in error and should be disregarded. The amended petition also included a copy of a proposed order for this docket.

On March 9, 2009, the Clerk of the Board issued a letter informing GMP that additional financial information in the form of GMP's audited statements for fiscal years 2006, 2007, and 2008 was needed in order to complete the review of the Petition.

On March 10, 2008, GMP filed the additional financial information.

On March 25, 2009, the Department of Public Service ("DPS") informed the Board by letter that it believes that the issuance of long-term debt as set forth in the Petition is consistent with the general good of the state, and recommends approval of the Petition without a hearing.

In a separate filing submitted on March 25, 2009, the DPS's Director for Regulated Planning filed its Determination Under 30 V.S.A. § 202(f) with the Board recommending that the

Board approve the Petition without hearing and finding that the issuance of long-term debt as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f).

I have reviewed the Petition, the supporting testimony, and accompanying documents. I conclude that approval of GMP's Petition, as amended by its letter filed March 5, 2009, pursuant to 30 V.S.A. § 108(a), is appropriate and that such approval may occur without hearing. Based upon the evidence of record, the testimony and exhibits presented in this docket, and the DPS letters of March 25, 2009, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. GMP 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. The Bonds are to be issued by means of a private placement. Although the term and interest rate for the Bonds have not yet been established and will be determined at the time of their placement with a purchaser, it is expected that the term will be 5-15 years and, based on current market interest rates, the Company anticipates that the interest rate will be in the range of 6-7%. GMP's secured bond rating with Moody's is now A3. A recent Blue Chip forecast for A3-rated companies indicated an expected borrowing rate of approximately 6.03% for a six-year issue and 6.69% for a 15-year issue. Bugbee pf. at 2-3; Petition at 1.

3. In December 2008, GMP used its short-term revolving line of credit to fund its investment in Vermont Transco, LLC in the amount of \$7.2 million. The Company estimates that its current borrowing needs to fund 2009 capital expenditures will exceed this amount. Therefore the Company expects to use the proceeds to fund its capital requirements and to reduce its short-term debt. GMP anticipates that the amounts to be borrowed will be drawn in April, 2009. Bugbee pf. at 2.

4. 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.

5. GMP has engaged Societe Generale as the investment firm to manage the Bond placement. The Company chose Societe Generale through a competitive bid process. Bugbee pf. at 4.

6. The capitalization of the Company as of September 30, 2008, was as follows:

Long-term debt	\$125,000,000
Short-term debt	\$ 18,000,000
Common equity	\$163,000,000

As of September 30, 2009, reflecting the anticipated impact of the proposed issuance, capitalization for the Company will be as follows:

Long-term debt	\$140,000,000
Short-term debt	\$ 19,000,000
Common equity	\$171,000,000

Bugbee pf. at 4.

7. The change represented above is not inconsistent with the Company's target capital structure, which is approximately 53% equity, and 47% debt.¹ 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. While the Board should always be concerned with worsening financial ratios, the increased leverage in the rate year should not be problematic as long as the Company's earnings and cash flows do not decline materially. Bugbee pf. at 6.

8. GMP's debt is rated BBB, "Stable" for Standard & Poor's ("S&P"), and A- for secured debt. GMP's secured debt rating from Moody's is A3. The Company's BBB rating from S&P is about average for energy companies. Bugbee pf. at 5.

9. The Company met with its rating agencies in early January, 2009 and has communicated its plans regarding the 2009 long-term debt financing, other significant financial assumptions, and the forecasted impacts of the leverage and rate increases. The rating agencies

1. As of 9/30/08, GMP's capital structure was 59% equity, 41% debt. Based on GMP's projections, the new bond issuance will change that structure to 58% equity, 42% debt.

have not expressed concerns that the forecasted results would reduce the Company's credit rating. S&P's rating committee has completed its review and it confirmed GMP's current rating of A- on February 11, 2009. Bugbee pf. at 7.

10. GMP originally planned to issue a \$30 million bond during the fiscal year ending September 30, 2009. However, due to the current economic events surrounding the liquidity markets and the high credit spreads attached to long-term debt issues, the Company has elected to temporarily maximize its short-term revolver. Without a minimum bond issue of \$15 million, the short-term revolver will exceed its \$30 million cap. By issuing a 5-15 year bond, the interest rates are slightly lower than a 30-year maturity thus lowering the overall cost of borrowing. Bugbee pf. at 6.

11. Without the proposed transactions, the Company's short-term liquidity will be exhausted. GMP does have the option to activate the accordion feature² on its 5-year revolver agreement up to an additional \$15 million in availability; however, if this feature is activated the interest rate for the full line outstanding would be priced at current LIBOR plus 300 basis points. (The Company's current rate on its revolver is LIBOR plus 35 basis points). GMP will be able to maintain healthy liquidity levels, with available borrowings more than sufficient to satisfy the Company's needs, before, during and after the completion of the proposed transactions. Bugbee pf. at 7-8.

III. DISCUSSION & CONCLUSION

Based upon the findings and the evidence in the record, I find that GMP's amended Petition as described above will be consistent with the general good of the State. I therefore recommend that the Board approve the Petition as amended and authorize the requested issuance of long-term debt in the amount of \$15 million to fund GMP's capital requirements and to reduce its short-term debt.

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.

2. This feature involves an extension by the lender of additional credit availability above the originally established credit limit on the existing line of credit. Different institutions use different terminology for this feature, which is also known as a "guidance" or "advisory" line of credit. *Pratt's Commercial Law: A Banker's Handbook*. Vol. 1, § 2-9 (A.S. Pratt & Sons, 1997).

Dated at Montpelier, Vermont this 2nd day of April, 2009.

s/Jay E. Dudley
Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board ("Board") of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The Board consents to the issuance by Green Mountain Power Corporation ("GMP") of long-term debt securities in a maximum aggregate offering amount up to \$15 million, as set forth in the findings, above.
3. The Board consents to the mortgage and pledge of real and personal property of GMP under GMP's First Mortgage Bond Indenture, as set forth in the findings, above.
4. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that GMP may implement with the proceeds from this issuance of long-term debt. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Board, from reviewing or challenging those expenditures and/or the resulting capital structure in any future proceeding.
5. GMP shall inform the Board and the DPS of any material change in the terms and conditions of the financing, if any, prior to closing.
6. Upon request, GMP shall provide the Board and the DPS with a complete set of final executed documents.

Dated at Montpelier, Vermont this 3rd day of April, 2009.

<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: April 3, 2009

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.