

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 6247

Petition of Central Vermont Public Service )  
Corporation for Consent to Issue up to )  
\$75,000,000 in Five-Year Second Mortgage )  
Bonds to be Registered for Resale Under the )  
Securities Act, and \$16,300,000 in First )  
Mortgage Bonds to Secure Three Existing )  
Letters of Credit )

Order Entered: 7/9/1999

**I. INTRODUCTION**

On June 9, 1999, Central Vermont Public Service Corporation ("Central Vermont," "CVPS" or the "Company") filed a petition pursuant to 30 V.S.A. §108(a) with the Vermont Public Service Board ("Board"), seeking approval of a multi-part transaction: to issue \$75,000,000 in second mortgage bonds ("Second Mortgage Bonds") through a so-called "Rule 144A" transaction, including registration for resale; to use a portion of these proceeds to repay any outstanding indebtedness under, and to cancel, its existing \$40,000,000 (previously \$50,000,000) Revolving Credit Agreement with Toronto Dominion, dated as of November 5, 1997 (the "TD Credit Agreement"); simultaneously, to issue \$16,300,000 in First Mortgage Bonds (the "Pledge Bonds") which will provide substitute security for the three existing Letters of Credit (defined below); and to cause Toronto Dominion to discharge the second mortgage securing the TD Credit Agreement and the Letters of Credit, thus allowing the new Second Mortgage Bonds to have priority second only to the First Mortgage Bonds (including the Pledge Bonds). The petition was supported by the prefiled testimony of Francis J. Boyle, Senior Vice President, Chief Financial Officer and Treasurer of the Company, and accompanying exhibits including the term sheet for the proposed transactions and resolutions approving the transactions as adopted by the Company's Board of Directors.

Also on June 9, 1999, CVPS gave notice of the petition to the Vermont Department of

Public Service ("DPS" or the "Department") and requested a determination from the Department pursuant to 30 V.S.A. § 202(f) that the above-described transactions are consistent with the Vermont Twenty-Year Electric Plan (the "Vt. Electric Plan"). The Department's Determination Under 30 V.S.A. § 202(f) was filed with the Board by letter dated July 2, 1999 (the "DPS Determination"). The DPS Determination provided that the proposed transactions would be consistent with the Vt. Electric Plan, provided that the cost of funding is no greater than 30 basis points above the level originally requested by the Company.

By letter dated July 2, 1999 (the "CVPS July 2 Letter"), the Company provided additional factual information requested by Board staff, amended the Company's petition regarding the description and amount of Pledge Bonds to be issued, and requested a mechanism for expedited Board approval (or denial) in the event the bond pricing would be above the level discussed in the DPS Determination and CVPS wished to proceed.

By letter dated July 7, 1999, the Department notified the Board that the DPS waives its rights under 3 V.S.A. § 811 and its opportunity for hearing under 30 V.S.A. § 108(a),<sup>1</sup> provided the Board adopts the recommendations and conditions contained in the DPS Determination (the "DPS Waiver"). In its filing letter dated June 20, 1999, to the Board, CVPS had also waived its rights under 3 V.S.A. § 811 and its opportunity for hearing under 30 V.S.A. § 108(a), and agreed to the Board adopting the recommendations and conditions contained in the DPS Determination (the "CVPS Waiver"); in addition, the CVPS Waiver provided one minor correction to the petition and Mr. Boyle's prefiled testimony, discussed the possibility of short administrative amendments to the Letters of Credit, and stated that no material changes had occurred in the transactions as described in CVPS' initial filing.

By memorandum dated July 7, 1999, the Clerk of the Board described an alternate proposal regarding Board approval in the event the bond pricing would be above the level discussed in the DPS Determination, and asked the parties to comment on whether such a change would be acceptable to

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1. The statute does not require a hearing, but rather the opportunity for a hearing. 30 V.S.A. § 108.

them.<sup>2</sup> By letter dated July 8, 1999 ("Second DPS Waiver"), the DPS notified the Board that it has no objection to the proposal discussed in the Clerk's July 7 memorandum, and that it continues to waive its rights under 3 V.S.A. § 811 to review a Proposal for Decision if the Board's order included such a provision. By letter dated July 8, 1999 ("Second CVPS Waiver"), CVPS notified the Board that it has no objection to the proposal discussed in the Clerk's July 7 memorandum, and that it still waives its rights under 3 V.S.A. § 811 to review a Proposal for Decision if the Board's order included such a provision.

I have reviewed the petition, the DPS Determination, the DPS Waiver, the CVPS Waiver, the CVPS July 2 Letter, the DPS Second Waiver, the CVPS Second Waiver, and the supporting testimony and exhibits. I conclude that approval of CVPS' petition for approval to issue \$75,000,000 in Second Mortgage Bonds through a so-called "Rule 144A" transaction, including registration for resale, provided that the bond pricing be no greater than 375 basis points above five-year Treasury Notes (with the condition that, if the bond pricing is between 330 basis points and 375 basis points above five-year Treasury Notes, the DPS must be notified of the pricing and not object to the issuance within one-half day of the notification); to repay any outstanding indebtedness under, and to cancel, the TD Credit Agreement; simultaneously, to issue up to \$17,000,000 in First Mortgage Pledge Bonds to provide substitute security for the three existing Letters of Credit; and to cause Toronto Dominion to discharge the second mortgage securing the TD Credit Agreement and the Letters of Credit, thus allowing the new Second Mortgage Bonds to have priority second only to the First Mortgage Bonds (including the Pledge Bonds), all as described in the petition, prefiled testimony, exhibits and filings, pursuant to 30 V.S.A. § 108(a), is appropriate and that such approval may occur without hearing. Based upon the agreements and statements contained in the petition, the DPS Determination, the DPS

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2. The alternative proposal would provide that the Board would issue an order approving the issuance provided the cost of funding is no more than 375 basis points above five-year U.S. Treasury Notes, with the condition that, if the cost of the funding is greater than 330 basis points above five-year Treasury Notes, the DPS must be notified of the pricing and given one-half day to object to the issuance. If the cost of the funding is no more than 375 basis points above five-year Treasury Notes and the DPS did not object, CVPS could then issue the bonds without obtaining additional Board approval.

Waiver, the CVPS Waiver, the CVPS July 2 Letter, the DPS Second Waiver, the CVPS Second Waiver, and the supporting testimony and exhibits presented in this docket, I hereby report the following findings and conclusions to the Board in accordance with 30 V.S.A. § 8.

## II. FINDINGS OF FACT

1. Central Vermont 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. Central Vermont seeks approval by the Board of a multi-part transaction which will add liquidity, replace the TD Credit Agreement, discharge the existing second mortgage and resecure the remaining Letters of Credit. Because of the interrelationship of these transactions, the Company made a combined filing to provide a much more efficient method for consideration and review by the Board and the Department, rather than providing essentially redundant separate filings. Petition at 2; Boyle pf. at 1, 2.

3. The Company has outstanding a \$40,000,000 (previously \$50,000,000) Revolving Credit Agreement, dated as of November 5, 1997 (as provided above, the "TD Credit Agreement"), which has been amended four times since its effective date eighteen months ago. The TD Credit Agreement was first approved by the Board by Order entered April 2, 1998, in Docket No. 6058; subsequent amendments were approved by the Board on October 7, 1998, and May 21, 1999, such approvals also including the approval of a second mortgage on the Company's assets to secure the TD Credit Agreement and the Letters of Credit. The Company proposes to fully pay and cancel the TD Credit Agreement and the second mortgage under the Company's proposal. As of June 7, 1999,<sup>3</sup> there was \$10 million outstanding under the TD Credit Agreement. Petition at 1, 2; Boyle pf. at 2, 3.

4. The Company has outstanding three Letters of Credit, totaling approximately \$16,300,000 in principal amount, with Toronto Dominion and one of the other TD Credit Agreement lenders, each secured by the second mortgage securing the TD Credit Agreement. The Company's \$5,133,562

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3. The Company's original filing incorrectly referred to the date of June 7, 1998; the CVPS Waiver corrected this date to be June 7, 1999.

portion of Millstone Pollution Control Bonds is secured by one letter of credit (the "Millstone Letter of Credit"); transactions relating to the Millstone Letter of Credit have been reviewed and approved by the Board in Docket No. 5043. The Company's \$5,778,750 portion of Seabrook Pollution Control Bonds is secured by one letter of credit (the "Seabrook Letter of Credit"); transactions relating to the Seabrook Letter of Credit have been reviewed and approved by the Board in Docket No. 4945. Central Vermont Public Service Corporation-East Barnet Hydroelectric, Inc.'s \$6,015,275.35 East Barnet Industrial Development Bonds are secured by one letter of credit (the "East Barnet Letter of Credit"), which in turn is guaranteed by the Company; transactions relating to the East Barnet Letter of Credit and the Company's guarantee thereof have been reviewed and approved by the Board in Docket No. 4817. (The three letters of credit are herein referred to, collectively, as the "Letters of Credit.") Petition at 2; Boyle pf. at 4.

5. The total of the Letters of Credit amounts is \$16,937,587.35 and includes the principal amounts plus certain amounts of accrued interest at the time the individual Letters of Credit were issued. The Company initially proposed that the principal amount of First Mortgage Bonds to be issued would be \$16,300,000; however, CVPS later amended its petition to provide that the amount of First Mortgage Bonds to be issued should be up to \$17,000,000. While this amendment changes the face value of the Pledge Bonds, the actual amount which would have been secured by the \$16,300,000 Pledge Bonds is the same, as the Pledge Bonds would secure both principal and any interest then due, which would have included the additional interest amounts comprising the \$700,000 amendment. Boyle pf. at 4, 5; CVPS July 2 Letter.

6. As part of the issuance of the Pledge Bonds as substitute security for the Letters of Credit, the Company anticipates that Toronto Dominion may require the provision of such replacement security to be memorialized in short administrative amendments to each of the Letters of Credit, that no other terms of the Letters of Credit would be modified, and that approval herein of the issue of the Pledge Bonds would include approval of such administrative amendments to the Letters of Credit. If such administrative amendments become necessary, they would be designated: Amendment No. 6 to

Millstone Letter of Credit Reimbursement Agreement; Fourth Amendment to Seabrook Letter of Credit Reimbursement Agreement; and Fifth Amendment to East Barnet Letter of Credit Reimbursement Agreement (collectively, the "Letter of Credit Amendments"). CVPS Waiver.

6. The Company has outstanding \$76,500,000 in First Mortgage Bonds, comprising Series EE through JJ and LL through 00; all other Series have been repaid. Over the next five years, the Company will reduce this outstanding amount through \$41,000,000 in sinking fund and redemption payments. Petition at 2; Boyle pf. at 5.

7. The transactions for which the Company is seeking Board approval in this filing are briefly described as follows:

(a) CVPS will issue \$75,000,000 in Second Mortgage Bonds through a so-called "Rule 144A" transaction (a private placement, with registration of the securities to follow; the Company expects that this registration process will be accomplished through exchanging the originally-issued Second Mortgage Bonds with duly registered "Exchange Bonds," and such Exchange Bonds are included in the definition of the "Second Mortgage Bonds" for which the Company is seeking approval).

(b) With a portion of these proceeds, CVPS will repay any outstanding indebtedness under, and will cancel, the TD Credit Agreement.

(c) Simultaneously, CVPS will issue up to \$17,000,000 in First Mortgage Bonds called the "Pledge Bonds", which will provide substitute security for the three Letters of Credit. The Company will receive no proceeds from the Pledge Bonds; the Pledge Bonds will simply provide a mechanism for priority and collection in the event of a default.

(d) With the TD Credit Agreement paid, and the Letters of Credit secured by the Pledge Bonds, Toronto Dominion will discharge the second mortgage securing the TD Credit Agreement and the Letters of Credit, thus allowing the new Second Mortgage Bonds to have priority second only to the First Mortgage Bonds (including the Pledge Bonds).

Petition at 2, 3; Boyle pf. at 5, 6; CVPS July 2 Letter.

8. The transactions are described in comprehensive resolutions, which were approved by the Company's Board of Directors on June 7, 1999. Petition at 3; Boyle pf. at 6, 7; Exhibit CVPS FJB-1.

9. The Company is working with its financial and legal advisors, Donaldson Lufkin & Jenrette ("DLJ") and Milbank Tweed Hadley & McCloy ("Milbank"), respectively, to prepare the offering memorandum and other documentation and to obtain a rating for the proposed Second Mortgage Bonds. Based on DLJ's and Milbank's experience in this market and their knowledge of the Company's needs and financial condition, and following numerous discussions with Company personnel, DLJ prepared a Preliminary Term Sheet, dated June 7, 1999, and provided as Exhibit CVPS FJB-2. Boyle pf. at 7; Exhibit CVPS FJB-2.

10. The new Second Mortgage Bonds will be in the principal amount of \$75,000,000, with a five-year term expiring in 2004. The Second Mortgage Bonds will be secured by a second mortgage covering the same assets as the First Mortgage Bonds. Interest rate or "coupon" is anticipated to be 200-300 basis points above five-year U.S. Treasury Notes. As of June 8, 1999, the Treasury rate was 5.75 percent, which would result in an interest rate of 7.75 percent to 8.75 percent. Petition at 3; Boyle pf. at 7, 8; Exhibit CVPS FJB-2.

11. CVPS amended its petition to raise the coupon spread to be approved by the Board to 330 basis points above five-year Treasury Notes, so that the Company has an additional small margin within which to accept an offer. CVPS July 2 Letter.

12. The proceeds of the Second Mortgage Bonds will be used to repay and cancel the TD Credit Agreement and for other corporate purposes; these purposes are consistent with CVPS' prior First Mortgage Bond issues, the proceeds of which were used to retire short-term debt and for other corporate purposes. The Second Mortgage Bonds will either be non-callable by the Company, or callable with a "make-whole" premium, similar to the practice often included in CVPS' First Mortgage Bonds. In the event of a change of control, the Company must offer to repurchase the Second Mortgage Bonds at 101 percent of their principal amount, plus interest and other costs. Petition at 3; Boyle pf. at 7, 8; Exhibit CVPS FJB-2.

13. Certain restrictive covenants, such as limitations on other secured indebtedness, dividends and other transactions, will be negotiated as part of the sale; the Company expects to include such covenants in a supplemental indenture, rather than the underlying mortgage, so that such restrictions would only apply to that specific offering and not to all future bonds issued under the second mortgage. The underlying indenture for the Second Mortgage Bonds is expected to be an "evergreen" indenture, like CVPS' First Mortgage Bond Indenture, to allow for future issues of additional or replacement series of Second Mortgage Bonds with a supplemental indenture. Such future issues will not occur without the Company obtaining necessary regulatory approvals. Petition at 3, 4; Boyle pf. at 7, 8; Exhibit CVPS FJB-2.

14. Exhibit CVPS FJB-1 describes the necessary steps which must be completed for these transactions to occur. These steps, in the order they are included in Exhibit CVPS FJB-1, are:

**Second Mortgage Bond Financing:**

- (a) **Offering Memorandum:** This document is being drafted currently, and when completed, will be printed and distributed to prospective purchasers.
- (b) **Indenture:** The Indenture for the Second Mortgage Bonds will, through a supplemental indenture, secure the issue for which CVPS is seeking approval in this docket, and will allow for the issue of future replacement or additional Second Mortgage Bonds, provided necessary regulatory approvals are obtained.
- (c) **Purchase Agreement:** The Purchase Agreement will be entered between the Company and each of the purchasers, and will determine the particular conditions for the closing (such as good standing certificates, various legal opinions and other requirements standard for this type of transaction).
- (d) **Registration Rights Agreement:** The Registration Rights Agreement will be entered between the Company and each of the purchasers, and will provide that CVPS will cause the Second Mortgage Bonds, after initial purchase, to be registered for resale under the Securities Act.

- (e) **Terms of the Bonds; Use of Proceeds:** The term is five years, and the use of proceeds will be to repay and retire the TD Credit Agreement and for other corporate purposes.
- (f) **Blue Sky Authorization:** CVPS anticipates that the Second Mortgage Bonds will be qualified and registered for sale under the various states' securities laws ("Blue Sky laws").
- (g) **Rating Agencies and The Depository Trust Company:** The Company will enable (i) the rating agencies to provide respective credit ratings for the Second Mortgage Bonds, and (ii) the Second Mortgage Bonds to be cleared and settled through The Depository Trust Company.
- (h) **Registration of the Exchange Bonds or the Bonds and Qualifications Under the Trust Indenture Act of 1939; Effectiveness of Registration Statement; Securities Exchange Listing Requirements:** When originally issued at the closing, the Second Mortgage Bonds will not be registered for resale. Pursuant to the Registration Agreement, the Company will agree to cause the due registration and Securities Exchange listing of the Second Mortgage Bonds. The actual registration will likely be of so-called "Exchange Bonds," as defined in the particular resolution in Exhibit CVPS FJB-1, which will be exchanged for the originally-issued Second Mortgage Bonds. This process will not change the principal, interest and other underlying terms of the Second Mortgage Bonds, and the Exchange Bonds are included under the term "Second Mortgage Bonds" for which the Company is seeking approval. This process is similar to the issue of replacement certificates for CVPS' First Mortgage Bonds, which after initial issue are often exchanged for new bond certificates in different denominations or with new holders. The Pledge Bonds, which are the First Mortgage Bonds issued to secure the Letters of Credit, will not be registered.

**Discharge of Existing Second Mortgage and Issuance of New Series of First Mortgage Bonds:**

(i) **Supplemental Indenture and Form of the Bonds; Pledge Bonds as Security; Trustee; Form Authentication and Execution of the Pledge Bonds:** The "Pledge Bonds" are the new up to \$17,000,000 First Mortgage Bonds which will be used to securitize the existing Letters of Credit, and replace the security of the existing second mortgage. CVPS has not provided a "Series" designation, such as "Series PP", because CVPS may issue one or three series and the designations may not follow the previous series designations. (Short administrative Letter of Credit Amendments may also be required by Toronto Dominion to memorialize the new security under the Pledge Bonds. See CVPS Waiver.)

**General Authorizations:**

(j) **Regulatory Approvals; Perfection of Security Interests; Other General Authorizations:** Many activities, such as regulatory filings, mortgage and security interest recordings and legal reviews and opinions, are required to complete these transactions. The Company's Board of Directors has authorized CVPS' officers, employees and agents to undertake and complete all of the underlying tasks necessary to complete these transactions.

Boyle pf. at 9-12; Exhibit CVPS FJB-1.

15. The Company has not provided drafts of the Offering Memorandum, Indenture, Purchase Agreement, Registration Rights Agreement, Second Mortgage Bond forms, Supplemental Indentures or Pledge Bond forms. These documents are being drafted. The Offering Memorandum has not been completed or distributed as of June 20, 1999 (See CVPS Waiver). The Company desires to close these transactions no later than mid-July, 1999. Mr. Boyle states that the Preliminary Term Sheet, which was only made available on June 7, 1999, provides the essential terms and reasonable ranges within which certain terms may be modified (such as a 200-300 basis point range for interest above Treasury Notes). CVPS does not expect any material deviations from those terms, other than the increase of the upper limit of the basis point range to 330, in accordance with the DPS Determination;

accordingly, its request for Board approval is based upon the Preliminary Term Sheet and the more descriptive resolutions provided as Exhibit CVPS FJB-1. DPS Determination; CVPS July 2 Letter.

16. In the event of any material changes to the terms and conditions contained in the Preliminary Term Sheet, filed as Exhibit CVPS FJB-2, the Company has agreed to provide specific notice to the Board of such changes. CVPS has requested a slight increase in the possible pricing from 300 to 330 basis points above five-year Treasury Notes. Other than that modest change, CVPS has stated that no such material changes have occurred, and that the transactions are proceeding as filed. Petition at 4; Boyle pf. at 13; CVPS July 2 Letter; CVPS Waiver.

17. Upon Board approval of the transactions, and execution of the various documents, the Company will file with the Board a complete set of the executed documents. Boyle pf. at 12, 13.

18. Short administrative Letter of Credit Amendments may also be required by Toronto Dominion to memorialize the new security under the Pledge Bonds; if so, such executed Letters of Credit Amendments will be filed with the Board. CVPS Waiver.

19. Fees for this series of transactions are significant; however, Mr. Boyle advised that this large financing is intended to be in place for five years, or longer with additional and replacement bonds, and will remove the necessity for the recent stream of relatively expensive amendments to the TD Credit Agreement and Letters of Credit. Mr. Boyle estimates that fees for Milbank, CVPS' principal outside counsel, will be \$200,000-300,000, plus perhaps \$50,000 for the registration and "Blue Sky" authorization for the Pledge Bonds, fees for the Company's outside New York, Connecticut, New Hampshire and Maine counsel will total \$20,000-40,000, Toronto Dominion's counsel fees will be \$15,000-25,000, and DLJ's "underwriting spread" and fees as Manager (of which 12.5 percent is shared with Toronto Dominion as Co-Manager) will be 1.75 percent of the offering, or \$1,312,500. Printing, filing and recording fees will be in addition to these fees. Boyle pf. at 13, 14.

20. These transactions are necessary at this time as a result of the financial circumstances facing the Company, which Mr. Boyle has explained at length in testimonies previously filed in support of the TD Credit Agreement and its amendments (Docket No. 6058) and amendments to the Letters of Credit (Docket Nos. 5043, 4945 and 4817) on a regular basis since late 1997. Boyle pf. at 14, 15.

21. The Company investigated establishing a longer-term facility to provide liquidity, stabilize interest and fees, and avoid the inherent uncertainty of a major financing facility which is only in place on a year-to-year basis. The Company analyzed its needs, and determined that the amount and term of the proposed Second Mortgage Bonds are sufficient to meet the needs of the Company for the proposed five-year term and should be available in the market. In addition, the nature of an "evergreen" indenture securing the Second Mortgage Bonds, which provides for the issuance of additional or replacement bonds from time to time, permits this facility great flexibility and consistency to meet the Company's future needs. Finally, the proposed five-year term of the Second Mortgage Bonds should avoid the need for repetitive, costly and time-consuming renewals or amendments. Petition at 4; Boyle pf. at 15, 16.

22. CVPS' projected Vermont utility capital expenditures for 1999, 2000 and 2001 are \$16,600,000, \$14,900,000, and \$15,400,000, respectively. Scheduled payments on CVPS' long-term debt and preferred stock with mandatory sinking fund requirements for 1999, 2000 and 2001 are \$4,000,000, \$17,500,000, and \$5,000,000, respectively. Petition at 4; Boyle pf. at 16, 17.

23. The transactions will provide CVPS with liquidity and financial flexibility as well as cost stability, and will promote administrative efficiency for the Company as well as for the Board and Department, by eliminating the need for numerous filings, approvals, amendments and changes. Boyle pf. at 17.

24. By providing the Company with financial flexibility allowing Central Vermont to meet its imminent and future financial obligations, CVPS believes the transactions described in Mr. Boyle's testimony, the Preliminary Term Sheet (Exhibit CVPS FJB-2), and the resolutions (Exhibit CVPS FJB-1) are consistent with the Department of Public Service's Vt. Electric Plan. Boyle pf. at 17.

25. The Department has issued the DPS Determination, noticing the Board that the transactions described in CVPS' petition are consistent with the Vt. Electric Plan, provided that the cost of funding is no greater than 330 basis points above five-year Treasury Notes, any projects and uses of the proceeds of this financing are consistent with CVPS' IRP and the Vt. Electric Plan, and, in particular, all future investing in distribution system upgrades supported by any proceeds of this financing will be consistent with the Vt. Electric Plan. The DPS Determination does not imply approval by the DPS of the capital structure resulting from any financing, or use of funds raised by this financing for purposes other than those specifically described in the petition. DPS Determination.

26. CVPS has agreed to the recommendations and conditions in the DPS Determination. CVPS Waiver.

### **III. CONCLUSION**

On the basis of the evidence of record, I recommend that the terms and conditions of CVPS' multi-part transaction, through which CVPS proposes: to issue \$75,000,000 in Second Mortgage Bonds through a so-called "Rule 144A" transaction, including registration for resale of Exchange Bonds, provided that the bond pricing be no greater than 375 basis points above five-year Treasury Notes (with the condition that, if the bond pricing is between 330 basis points and 375 basis points above five-year Treasury Notes, the DPS must be notified of the pricing and not object to the issuance within one-half day of the notification); to use a portion of these proceeds, to repay any outstanding indebtedness under, and to cancel, its existing \$40,000,000 (previously \$50,000,000) TD Credit Agreement; simultaneously, to issue up to \$17,000,000 in First Mortgage Pledge Bonds which will provide substitute security for the three existing Letters of Credit; and to cause Toronto Dominion to discharge the second mortgage securing the TD Credit Agreement and the Letters of Credit, thus allowing the new Second Mortgage Bonds to have priority second only to the First Mortgage Bonds (including the Pledge Bonds), all as described in the petition, the prefiled testimony of Mr. Boyle and the exhibits attached thereto, the CVPS Waiver and the CVPS July 2 Letter, with such transactions including the issue, execution, delivery, and/or filing, as appropriate, of an Offering Memorandum,

Second Mortgage Bond Indenture and supplemental indenture, Purchase Agreement, Registration Rights Agreement, Second Mortgage Bonds, Exchange Bonds, Securities Exchange Listing and Blue Sky Authorization of Exchange Bonds, discharge of the existing Second Mortgage, First Mortgage Pledge Bonds, and First Mortgage Bond supplemental indenture (and, if necessary, Letter of Credit Amendments), should be approved by the Board as consistent with the general good of the State of Vermont.

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 9<sup>th</sup> day of July, 1999.

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 and Conclusion of the Hearing Officer are adopted.
2. The terms and conditions of CVPS' multi-part transaction, through which CVPS proposes to issue \$75,000,000 in Second Mortgage Bonds through a so-called "Rule 144A" transaction, including registration for resale of Exchange Bonds, provided that the bond pricing be no greater than 375 basis points above five-year Treasury Notes (with the condition that, if the bond pricing is between 330 basis points and 375 basis points above five-year Treasury Notes, the DPS must be notified of the pricing and not object to the issuance within one-half day of the notification); to use a portion of these proceeds to repay any outstanding indebtedness under, and to cancel, its existing \$40,000,000 (previously \$50,000,000) TD Credit Agreement; simultaneously, to issue up to \$17,000,000 in First Mortgage Pledge Bonds which will provide substitute security for the three existing Letters of Credit; and to cause Toronto Dominion to discharge the second mortgage securing the TD Credit Agreement and the Letters of Credit, thus allowing the new Second Mortgage Bonds to have priority second only to the First Mortgage Bonds (including the Pledge Bonds), with such transactions including the issue, execution, delivery, and/or filing, as appropriate, of an Offering Memorandum, Second Mortgage Bond Indenture and supplemental indenture, Purchase Agreement, Registration Rights Agreement, Second Mortgage Bonds, Exchange Bonds, Securities Exchange Listing and Blue Sky Authorization of Exchange Bonds, discharge of the existing Second Mortgage, First Mortgage Pledge Bonds, and First Mortgage Bond supplemental indenture (and, if necessary, Letter of Credit Amendments), all as described in the petition, prefiled testimony, exhibits and filings, pursuant to 30 V.S.A. § 108(a), are approved.
3. The Board consents to the issue of the Second Mortgage Bonds, Exchange Bonds, Second Mortgage Bond Indenture and supplemental indenture, First Mortgage Pledge Bonds, and First Mortgage Bond supplemental indenture (and, if necessary, Letter of Credit Amendments), in

accordance with the terms set forth in the Findings set forth above.

4. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that Central Vermont Public Service Corporation may implement with the proceeds from the issuance of the debt and securities authorized hereby. Nothing in this approval shall preclude the Department or any other party, or the Board, from reviewing and/or challenging those expenditures and/or the Company's resulting capital structure in any future proceeding.

5. This Order does not constitute approval of the issuance of any additional principal amount of First Mortgage Bonds or Second Mortgage Bonds other than those specifically described and approved herein.

6. 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 9<sup>th</sup> day of July, 1999.

<u>s/ Michael H. Dworkin</u>	)	
	)	PUBLIC SERVICE
	)	
<u>s/ Suzanne D. Rude</u>	)	BOARD
	)	
	)	OF VERMONT
<u>s/ David C. Coen</u>	)	

OFFICE OF THE CLERK

FILED: JULY 9, 1999

ATTEST: s/ John 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 of any technical errors, in order that any necessary corrections may be made. 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.*