

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 6393

Petition of Vermont Electric Cooperative, Inc.        )  
for approval to issue a Term Note in the amount    )  
of \$500,000                                                        )

Order entered: 6/22/2000

**I. INTRODUCTION**

On May 4, 2000, Vermont Electric Cooperative, Inc. ("VEC") filed with the Vermont Public Service Board ("Board") a petition for approval of the issuance of a promissory note, to be secured by a mortgage, in connection with a \$500,000 term loan from CoBank, ACB. Notice of the filing was sent to the Vermont Department of Public Service ("DPS"). In support of the petition, VEC prefiled testimony of Richard D. Camp ("Camp"), the Chief Financial Officer of VEC, and Frederick Parker ("Parker"), a Vice President of CoBank, the proposed lender to VEC.

On June 19, 2000, the DPS recommended approving the petition without hearing provided that the Board approval is consistent with the recommendations made in the Revised DPS Determination Under 30 V.S.A. § 202(f). The DPS filed its Revised Determination the same date.

I have reviewed the petition, the supporting testimony and exhibits, and the subsequent correspondence of VEC and the DPS with the Board, as described above. I conclude that the approval of VEC's petition to authorize approval to issue \$500,000 in a secured Term Note is consistent with the general good of the state. Based on the petition and the supporting testimony and exhibits presented in this Docket and in the subsequent correspondence of VEC and the DPS with the Board, as described above, I hereby report the following findings and conclusions to the Board in accordance with the provisions of 30 V.S.A. § 8.

**II. FINDINGS OF FACT**

1. On June 26, 1997, the Board issued a decision authorizing VEC to issue Mortgage Bonds in the amount of \$21,500,000 and to issue third party beneficiary certificates ("TPB Certificates") to the Rural Utilities Service ("RUS") and the National Rural Utilities Cooperative Finance Corporation ("CFC"). Board Docket No. 5971.

2. Both issuances were essential components of VEC's reorganization plan allowing VEC to emerge from bankruptcy. The Mortgage Bonds were issued under a First Mortgage Indenture

between VEC and the Howard Bank, N.A. as successor trustee to The Bank of New York (the "First Mortgage Indenture"). The Mortgage encumbers various assets of VEC, including all real estate, plant and equipment, with limited exceptions. Petition at Par. 2.

3. Since the First Mortgage Bonds were issued in September 1997, VEC has paid down approximately \$3,000,000 of the principal of those bonds. Gross additions to VEC plant have been approximately \$5,000,000 and membership equity has increased by approximately \$2,900,000. Camp pf. at 1.

4. The TPB certificates, as approved by the Board in Docket No. 5971, contemplated a need by VEC to borrow \$2,000,000 in the year 2000. The need for this borrowing is summarized in the Projected Source and Use of Funds document and the prefiled testimony of Richard La Capra. Exh. A.

5. The TPB Certificates contained procedures whereby the holders could require VEC to sell all of its assets to a qualified buyer, with the TPB Certificate holders receiving most of the net proceeds from any such transfer. If a transfer was not consummated, the TPB Certificates require payment of an amount in redemption of such TPB Certificates. Camp pf. at 2.

6. The holders of the TPB Certificates did not locate a qualified buyer within the time and under the procedures specified in the TPB certificates. See, Order re: Motion to Dismiss dated November 15, 1999, in *Joint Petition of the Villages of Barton, Morrisville, and Swanton, and the Rural Utilities Service of the United States Department Of Agriculture*, PSB Docket No. 6200. Accordingly, in accordance with Section 2, subsection 11(b)(ii) of the RUS TPB Certificate, VEC must now pay a Redemption Price of \$2,475,000. Of such amounts, RUS, holder of the RUS TPB Certificate, holds approximately \$1,800,000 in collateral security, leaving a balance due from VEC of \$675,000. Camp pf. at 2.

7. VEC could not pay the Redemption Price out of its cash flow from rates at their current level. Moreover, VEC has recently entered into a settlement with the Village of Derby Line with respect to Derby Line's municipalization petition. That settlement calls for a cash payment of \$75,000 and other consideration which will have a small impact on VEC's cash flow. VEC intends to finance the foregoing obligations in part with the proposed Term Loan from CoBank. Camp pf. at 2.

8. VEC solicited proposals from CFC, KeyBank National Association, and CoBank. CoBank responded with a proposal that provided the lowest interest cost to VEC. Moreover, as a cooperative bank, VEC expects the loan to be eligible for patronage refunds as a member of CoBank. VEC expects interest rates to increase later this year. By completing the financing at

this time, VEC seeks to lock in a lower interest rate for the five-year term of the loan. Camp pf. at 2.

9. The Term Loan will be for a period of five years, and amortized over such five-year period based on level debt service. Principal and interest payments will be due on a quarterly basis. The Term Loan will be issued under VEC's existing first mortgage indenture and secured on a *pari passu* basis with VEC's outstanding first mortgage bonds. The First Mortgage Indenture was approved in Docket No. 5971. Camp pf. at 3.

10. The loan will be subject to CoBank's terms and conditions embodied in the form loan agreement. It is also contemplated that VEC and CoBank will enter into a Master Loan Agreement that future facilities can be documented under in order to facilitate CoBank approvals in the future. The \$500,000 note would be issued by VEC under a supplement to VEC's existing First Mortgage Indenture. Parker pf. at 2; exh. 1.

11. The proceeds of the loan may be used for general corporate purposes including, without limitation, payment of the TPB Certificate currently held by the RUS. Parker pf. at 2.

12. It is estimated that the notes would bear the following interest rates:

Variable 6.85%, 1-year Fixed 7.70%, 2-year Fixed 7.95%, 3-year Fixed 8.05%,  
4-year Fixed 8.15%, 5-year Fixed 8.10%.

Parker pf. at 2.

13. These rates are estimates as of May 1, 2000, and are subject to change daily. The final rates will be determined on the date of actual advance of funds. VEC can choose either the variable rate or fixed rate option. The interest rates listed above are current estimates and may change depending upon the date of the closing of the Loan. Parker pf. at 2.

14. The Department has examined the proposed financing and recommends its approval, provided that the Board adopts the recommendations and conditions contained in the DPS 202(f) Determination. DPS letter dated 6/19/2000.

### **III. CONCLUSION**

On the basis of the evidence of record, I recommend that the Board grant VEC's petition for the issuance of the Term Note in an amount of \$500,000, as secured under the First Mortgage Indenture. I find that the issuance of this Term Note is consistent with the general good of the State of Vermont. The financing would allow VEC a source of capital at reasonable rates and upon reasonable terms. I also recommend that this matter be decided without hearing, and that the Board adopt the conditions contained in the DPS 202(f) Determination.

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 22<sup>nd</sup> day of June, 2000.

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 of Fact and recommendations of the Hearing Officer are adopted.
2. The petition of Vermont Electric Cooperative, Inc. to issue the Term Note, in an amount of \$500,000, as secured under the First Mortgage Indenture, is consistent with the good of the State of Vermont and is hereby approved.
3. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that Vermont Electric Cooperative, Inc., may implement with the proceeds from the issuance of the Term Note. Nothing in this approval shall preclude the Department or any other party, or the Board, from reviewing or challenging those expenditures and/or the Company's resulting capital structure in any future proceeding.

DATED at Montpelier, Vermont, this 22<sup>nd</sup> day of June, 2000.

<u>s/Michael H. Dworkin</u>	)	
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	)	
	)	BOARD
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<u>s/David C. Coen</u>	)	OF VERMONT

OFFICE OF THE CLERK

FILED: June 22, 2000

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 mail) of any technical 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.*

