

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6406

Petition of New England Power Company for)
authorization and approval of (1) the extension of)
the authority to issue long-term debt; and (2) the)
issuance of new long-term debt)

Order entered: 8/31/2000

I. INTRODUCTION

On July 24, 2000, New England Power Company ("NEP" or the "Company") submitted a petition seeking Board approval for: (1) the extension of the authority to issue not exceeding \$300,000,000 of new long-term debt, which may be in the form of bonds, notes, or debentures; and (2) the issuance of long-term debt pursuant to one or more loan agreements or supplemental loan agreements in connection with the refunding of pollution control revenue bonds (collectively, the "Financings").

NEP sought an order by the Board disclaiming jurisdiction over the Financings under 30 V.S.A. § 108, or in the alternative, a finding that the Financings are consistent with the general good of the State of Vermont under 30 V.S.A. § 108 and consenting to the Financings.

The petition was supported by the prefiled testimony of Thomas F. Killeen, Senior Financial Analyst in the Treasury Service Department of National Grid USA Service Company, Inc., and Exhibit NEP-1.

On August 21, 2000, NEP and the Vermont Department of Public Service ("DPS" or "Department") filed a stipulation (the "Stipulation") and Proposal for Decision recommending that the Board consent to the Financings. In the Stipulation, the DPS did not request a hearing and recommended that the Board issue a consent to the Financings.

The matter is appropriate to be decided without hearing pursuant to 30 V.S.A. § 108 and Board Rule 2.219, which adopts V.R.C.P. 56 for proceedings before the Board. Based upon the Stipulation and my review of the evidence of record, I hereby report the following findings to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS OF FACT

1. NEP is a Massachusetts corporation that is primarily engaged in the transmission of electric energy in wholesale quantities to other electric utilities. NEP owns and operates properties in Massachusetts, New Hampshire, Connecticut, Maine and Vermont. NEP is qualified to transact business in Vermont as a foreign corporation. NEP is a subsidiary of National Grid USA, a Delaware corporation. Pet. at 1; Killeen pf. at 2.

2. NEP does not engage in local distribution of electricity in Vermont, although NEP does provide service directly to two end-use customers in Vermont, the Island Corporation and Simpson Paper Company. Pet. at 1; Proposal for Decision at 3.

3. The total capitalization of NEP at March 31, 2000, was \$1,030,136,000. Pet. at 1; Killeen pf. at 13.

4. NEP is requesting authority to incur long-term debt of \$38,500,000 in connection with the issuance of \$38,500,000 of long-term Pollution Control Revenue Refunding Bonds ("PCRRBs") to refund outstanding short-term PCRRBs. Also, NEP is requesting authority to issue \$300 million of NEP Notes pursuant to § 8(d)(5) of the IPP Contracts Transfer Agreement described below. NEP's current authority, granted in Docket No. 6039 to issue \$100,000,000 of NEP Notes, expires December 31, 2000. Killeen pf. at 3.

5. As part of NEP's divestiture of its non-nuclear generation assets to PG&E Generating (formerly USGen New England, Inc.), NEP entered into an IPP Contracts Transfer Agreement (the "IPP Agreement") with PG&E Generating. Pet. at 1-2; Killeen pf. at 8.

6. Pursuant to § 8(5) of the IPP Agreement, NEP is obligated to use reasonable efforts to obtain and maintain, from all regulatory authorities having jurisdiction, approvals for the issuance of up to \$100,000,000 in long-term securities for the purpose of funding Trigger Payments. Killeen pf. at 8; pet. at 2.

7. Trigger Payments occur upon certain trigger events such as assignment of a power purchase agreement to PG&E Generating, termination of a power purchase agreement, or changes to an agreement resulting in a reduction of the obligations under a power purchase agreement. Killeen pf. at 8-9; pet. at 2.

8. In Docket No. 6039, NEP received authority from the Board for the issuance of up to \$100 million of long-term debt, which authorization expires at the end of this year. Killeen pf. at 9; pet. at 2.

9. NEP seeks to extend such authority through December 31, 2004, and to increase the authorized aggregate principal amount to \$300,000,000. *Id.*

10. NEP proposes to issue up to \$300,000,000 of new long-term debt, which may be in the form of bonds, notes, or debentures (the "NEP Notes") through December 31, 2004. Pet. at 2; Killeen pf. at 9.

11. Each new series and/or new issue of NEP Notes will have various terms of maturity, but no NEP Notes shall mature more than thirty years from the date as of which they are issued. The NEP Notes may be sold at a price, exclusive of accrued interest and expenses, of not less than ninety five percent (95%) nor more than one hundred percent (100%) of their principal amount. Pet. at 3; Killeen pf. at 9-10.

12. The NEP Notes may be issued under an indenture or other form of financing agreement. Pet. at 2.

13. The NEP Notes may be sold through agents, competitive bidding, negotiation with underwriters, negotiation with investors, sale to one or more agents as principal for resale to investors, or a combination thereof. Pet. at 3; Killeen pf. at 10.

14. Since NEP is unable to anticipate market conditions during the period that it is proposing to issue the NEP Notes, it is requesting the Board to allow for a maximum interest rate of eleven percent (11%). Pet. at 3; Killeen pf. at 11.

15. NEP is requesting authority to issue an increased principal amount of NEP Notes (\$300,000,000) because its Trigger Payments would be \$600,000,000 or \$700,000,000 if the Company were to buy out of all of its remaining non-nuclear power purchase agreements, and in some cases, the buyout amount for one agreement may exceed \$100,000,000. Killeen pf. at 9.

16. NEP believes that issuance of the NEP Notes will be consistent with the general good of the State of Vermont. Killeen pf. at 11-12.

17. In September 1999, NEP entered into a Loan Agreement with the Connecticut Development Authority (the "CDA") to support the issuance by CDA of \$38,500,000 of CDA Pollution Control Revenue Bonds (New England Power Company Project – 1999 Series) (the "Short-Term Bonds"). The Short-Term Bonds were issued to refund Pollution Control Revenue Bonds originally issued by the CDA in 1985. The Company seeks the authority to allow the maturity of the Short-Term Bonds to be extended for an additional fifteen years until October 15, 2015 (the "New Bonds"). Pet. at 4; Killeen pf. at 3-5.

18. The New Bonds would be tax-exempt bonds offering NEP the opportunity for significantly reduced interest costs compared to taxable debt. The reduction in interest rate is approximately two percentage points, a benefit to NEP's customers. Pet. at 4; Killeen pf. at 4.

19. The 1999 Loan Agreement with the CDA provides that all regulatory approvals relating to the incurrence of long-term indebtedness must be obtained prior to September 28, 2000, or the New Bonds will be mandatorily tendered and NEP will lose the benefit of the tax-exempt Financings. Killeen pf. at 7; pet. at 4.

20. The New Bonds will be sold pursuant to the existing remarketing agreement, loan agreement, and Indenture of Trust for the Short-Term Bonds sold in September of 1999. Killeen pf. at 6; pet. at 10.

21. The New Bonds would be sold at a price not less than nor more than one hundred percent of the principal amount. Pet. at 5.

22. The interest rate on the New Bonds could be fixed or be a variable rate. The Company will most likely request the CDA to issue variable rate New Bonds rather than fixed rate New Bonds. The rate for 30-day variable rate tax-exempt commercial paper in July 2000 was approximately 3.75 percent. Since NEP is unable to anticipate market conditions during the period that the New Bonds would be outstanding, it is requesting the Board to allow for a maximum interest rate of eleven percent (11%). Killeen pf. at 5-6; pet. at 5.

23. NEP believes that the issuance of the New Bonds will be consistent with the general good of the State of Vermont because of the savings in interest costs. Killeen pf. at 8.

III. CONCLUSION

Based upon the foregoing, I find that the Financings are likely to result in a lower cost of debt, and I find that the proposed Financings are consistent with the general good of the State of Vermont. Accordingly, I recommend that the Board find that the proposed Financings are consistent with the general good of the State of Vermont and issue an order to that effect.

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 31st day of August, 2000.

s/Ennis John Gidney
Ennis John Gidney
Hearing Officer

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.