

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6411

Petition of Vermont Electric Power Company,)
Inc. for authority to issue \$15,000,000 of)
First Mortgage Bonds and to mortgage property)
as security therefor)

Order entered: 8/31/2000

I. INTRODUCTION

Vermont Electric Power Company, Inc. ("VELCO" or "Company") seeks authorization under 30 V.S.A. § 108(a) to issue \$15,000,000 principal amount of Series M First Mortgage Bonds and to mortgage and pledge property as security therefor. VELCO's petition for such authority was filed with the Vermont Public Service Board ("Board") on August 11, 2000.

A copy of the filing was also served on the Vermont Department of Public Service ("DPS"). The parties have waived an evidentiary hearing and have stipulated to the facts as found herein.

In support of its petition, VELCO submitted the prefiled testimony and five exhibits of Gerald F. Spring, Chief Financial Officer and Treasurer of VELCO, and the prefiled testimony and one exhibit of Jonathan Scott Smith, Vice-President, in the Debt Capital Markets group of FleetBoston Robertson Stephens, Inc.

On August 25, 2000, the DPS stated that, based on the filing and the affidavit of the Company in support of its filing, the DPS recommended that the petition be granted without hearings or further investigation.

I have reviewed the petition, the supporting testimony, and accompanying documents. I conclude that approval of VELCO's petition pursuant to 30 V.S.A. § 108 is appropriate and that such approval may occur without hearing.

Based upon the evidence of record and the testimony and exhibits presented in the Docket, I hereby report the following findings of fact in accordance with 30 V.S.A. § 8.

II. FINDINGS OF FACT

1. VELCO is a Vermont corporation whose principal business is the transmission of electric power at high voltage within the State of Vermont. VELCO is subject to the jurisdiction of the Public Service Board. Petition at paragraph 1.

2. The subject of this petition is VELCO's proposed issuance of \$15,000,000 principal amount of First Mortgage Bonds (Series M) and the mortgage of VELCO's property as security for the bonds. Petition at ¶ 2; VELCO exh. GFS-3.

3. The principal purpose of the financing is to issue new bonds in order to provide long-term financing for capital projects that are now supported by short-term debt. Petition at paragraph 4; Spring pf. at 2, 4; VELCO exh. GFS-3; Smith pf. at 3-4.

4. The financing was arranged through FleetBoston Robertson Stephens, Inc., one of the nation's largest banks, with assets of more than \$181 billion and substantial expertise in the private placement business since 1978. The Bank, or its predecessors, has maintained a relationship with VELCO since 1958, and has executed several private placements for VELCO, the most recent in 1998. Smith pf. at 1-2; VELCO exh. JSS-1.

5. The issue of Series M Bonds will be by direct placement. FleetBoston Robertson Stephens, Inc. has arranged to place the entire \$15,000,000 of the proposed Series M Bonds with Canada Life Company of Toronto, Canada, at an interest rate of 8.00%. Spring pf. at 2.

6. Because of the relatively small size of the issue, the lack of legal investment status, and VELCO's unusual capital structure, the issue would be unlikely to enjoy a widespread public market. In addition, transaction costs for a public offering are very high for a small issue, and, because VELCO bonds have never previously been registered with the Securities and Exchange Commission, a public offering would involve additional delay and expense. Smith pf. at 4-5.

7. Twenty-nine institutions were solicited for the formal auction process. Initially, twelve institutions expressed a level of interest in the transaction. Formal bids were received from four institutions, with additional interest from three other institutions. Canada Life Assurance presented the lowest price bid, an offer to circle the transaction at a spread of 185 basis points over the five-year US Treasury Note, which resulted in an all-in coupon of 8.0 percent. FleetBoston Robertson Stephens, Inc. recommended that VELCO accept Canada Life's bid. Smith pf. at 6-7.

8. The Bonds will bear interest at the rate of 8.0 percent. Principal payments will be based upon a twenty-year amortization schedule, with a balloon payment in five years, at the maturity date in September 2005. Petition, paragraph 3.

9. When the balloon payment comes due, VELCO's credit profile should be enhanced, and VELCO should be able to finance the balloon with either long-term or short-term funds. Smith pf. at 6.

10. The closing is scheduled to be held on or about September 22, 2000. Spring pf. at 2.

11. Prior to the financing, VELCO's total capitalization is \$33,439,847, of which 81.42 percent is debt and 18.58 percent is equity and retained earnings. Following the issuance of bonds, total capitalization will be \$48,439,847, of which debt will be 87.17 percent. Equity and retained earnings will be 12.83 percent of capital, maintaining the 9:1 debt to equity ratio required by VELCO's indenture. Spring pf. at 3; VELCO exh. GFS-1.

12. The estimated fees and expenses in connection with the proposed sale of the Series M Bonds total \$250,000. These expenses, which are 1.7 percent of the principal amount of this proposed bond sale, are necessary in the issue of the securities, and are reasonable. Spring pf. at 4-5; VELCO exh. GFS-4.

13. The proposed financing is a reasonable and prudent response to VELCO's capital requirements. Spring pf. at 3; Smith pf. at 4, 7.

14. The Vermont Department of Public Service has determined that the proposed financing is consistent with the Vermont Twenty-Year Electric Plan provided that any distribution and transmission activities financed by the proceeds from the proposed financing will meet the requirements of the Vermont Electric Plan, but it notes that its determination does not imply approval of the capital structure resulting from any financing or approval of the use of the funds raised by the financing for purposes other than those described in the petition, testimony and exhibits. DPS Determination Under 30 V.S.A. § 202(f), dated August 25, 2000.

III. CONCLUSION

On the basis of the evidence of record, I recommend that the Board grant VELCO's petition for the issuance of long-term debt in the amount of \$15,000,000. I also recommend that this matter be decided without hearing, and that the Board adopt the conditions contained in the DPS's § 202(f) Determination. I find that VELCO's proposed issuance of long-term debt as

described above will be consistent with the Vermont Twenty-Year Electric Plan and is also consistent with the general good of the State of Vermont.

The parties have waived their right to review and comment upon the Proposal for Decision in accordance with the provisions of 3 V.S.A. § 811.

Dated at Montpelier, Vermont, this 31st day of August, 2000.

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 of Fact and Conclusion of the Hearing Officer in this case are adopted.
2. Consent is hereby given pursuant to 30 V.S.A. §108(a) to the issue and sale by Vermont Electric Power Company, Inc. of \$15,000,000 principal amount of Series M First Mortgage Bonds as described in the Findings of Fact, and consent is given to the mortgaging and pledging by VELCO of its properties, including real and personal property and after-acquired property, to secure said bonds.
3. The issuance by VELCO of its long term-debt in an amount not to exceed \$15,000,000 for the purposes set forth in the Findings of Fact is consistent with the general good of the State of Vermont.
4. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that VELCO may implement with the proceeds from the issuance of this long-term debt other than those specifically described in the testimony and exhibits filed by the petitioner.

DATED at Montpelier, Vermont, this 31st day of August, 2000.

s/Michael H. Dworkin)	PUBLIC SERVICE BOARD OF VERMONT
)	
s/David C. Coen)	
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OFFICE OF THE CLERK

Filed: August 31, 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.