

STATE OF VERMONT  
PUBLIC SERVICE BOARD

Docket No. 7520

Petition of Vermont Public Power Supply Authority    )  
for approval of long-term financing for the acquisition    )  
of membership units of Vermont Transco, LLC for        )  
the benefit of Vermont Electric Cooperative, Inc.        )

Order entered: 6/26/2009

**I. INTRODUCTION**

On April 13, 2009, the Vermont Public Power Supply Authority ("VPPSA") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") for approval pursuant to 30 V.S.A. § 108(a) for long-term debt financing of the purchase of membership units in Vermont Transco LLC ("Transco") on behalf of Vermont Electric Cooperative, Inc. ("VEC") in the amount of \$4.7 million (the "Loan"). The Petition was supported by the prefiled testimony of Crystal Currier, Controller for VPPSA, and by accompanying exhibits. In this Order I recommend approval of the Petition without hearing.

**II. PROCEDURAL HISTORY**

In December 2008, VEC took advantage of the opportunity to acquire Transco units by having VPPSA purchase its allocated share of the equity issuance in order to benefit VEC ratepayers. VPPSA owns the Transco membership units on VEC's behalf and uses the positive cash flow provided by the quarterly distributions to pay related debt service plus VPPSA's administrative fee, with the remainder paid to VEC. VPPSA received prior Board approval for the short-term financing of the purchase of Transco membership units in Docket No. 7487 on December 26, 2008. At that time, VPPSA borrowed \$4.2 million from Merchants Bank at a taxable interest rate of 6.75% for a term of 180 days, and contributed \$519,000 in existing cash, for the purpose of purchasing the Transco membership units. VPPSA has now secured a commitment for long-term financing from TD Bank to refinance the short-term indebtedness and

reimburse its cash reserves, and requests Board approval of the proposed refinancing pursuant to 30 V.S.A. § 108(a).

On June 1, 2009, the Department of Public Service ("DPS") submitted a letter to the Board stating that it believes that the Petition is consistent with the general good of the state, and recommending approval of the Petition without a hearing.

On June 2, 2009, the DPS filed a letter with attached Determination Under 30 V.S.A. § 202(f) to 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).

On June 2, 2009, in Docket No. 7488, VEC filed a letter with the Board notifying the Board that VEC's long-term credit rating with Standard & Poor's Rating Service ("S&P") was upgraded from "BBB-" to "BBB," enabling VEC to access "favorable financing arrangements." This notification prompted the Board to issue a letter to VPPSA on June 18, 2009, inquiring whether or not the proposed financing was still justified and whether or not VEC's ratepayers would receive greater benefit through the outright ownership of the Transco membership units. VPPSA responded by letter on June 22, 2009, representing that it had received responses to the Board's questions from Michael Bursell, Chief Financial Officer for VEC.

I have reviewed the Petition and the supporting documents. I conclude that approval of VPPSA's Petition pursuant to 30 V.S.A. § 108(a) is appropriate and that such approval may occur without hearing. Based upon the evidence of record and the exhibits presented in this docket, and the DPS's letters of June 1 and 2, 2009, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

### III. FINDINGS

1. VPPSA has thirteen members who are all Vermont distribution utilities.<sup>1</sup> Petition at 1.
2. On October 15, 2008, in Docket No. 7310, the Board authorized Transco to issue approximately \$93 million of additional Class A and Class B membership units to Vermont distribution utilities. Petition at 1.
3. VEC utilized an opportunity to have VPPSA acquire its allocated share of Transco equity for the benefit of VEC ratepayers as permitted by the Transco Operating Agreement and a written agreement between VPPSA and VEC. Petition at 1.
4. VEC is not a member of VPPSA but is eligible to be a member under 30 V.S.A. Chapter 84. In discussions with VPPSA in 2008, VEC noted it was not likely it would purchase Transco equity on its own due to financial constraints. The VPPSA Board of Directors agreed to investigate whether it could assist a non-member public power utility with the purchase. With the cooperation of Transco, the Operating Agreement was amended to allow VPPSA to acquire Transco units both for its members and for VEC. Currier pf. at 3-4.
5. VPPSA's agreement with VEC provides for VPPSA to acquire and own Transco units on behalf of VEC and to pay VEC a quarterly fee equal to the sum of the distributions received from Transco, less VPPSA's direct debt-servicing costs and an administrative fee. In the event that any quarterly distribution is not sufficient to pay VPPSA's debt service and administrative fee, the deficient amounts shall accumulate until paid in full before additional payments are made to VEC. VEC can purchase the units in the future at a price to be negotiated at that time. Currier pf. at 4.
6. On December 26, 2008, in Docket No. 7487, the Board approved VPPSA's request for a 180-day short-term loan from Merchants Bank in the amount of \$4.2 million to purchase the Transco membership units on behalf of VEC. VPPSA also contributed \$519,000 from its

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1. Village of Enosburg Falls Water & Light Department; Town of Hardwick Electric Department; Village of Hyde Park Electric Department; Village of Jacksonville Electric Company; Village of Johnson Water & Light Department; Village of Ludlow Electric Light Department; Village of Lyndonville Electric Department; Village of Morrisville Water & Light Department; Village of Northfield Electric Department; Village of Orleans Electric Department; Town of Readsboro Electric Light Department; and Swanton Village, Inc. Electric Department.

existing cash reserves to complete the purchase for a total amount of \$4.7 million. VPPSA subsequently acquired the units and currently owns them for the benefit of VEC. Carrier pf. at 3, 5; Petition at 2.

7. VPPSA has negotiated a commitment for long-term financing with TD Bank in the amount of \$4.7 million. Under the terms of the proposed financing, VPPSA will: (1) repay the balance outstanding on the short-term note with Merchants Bank; (2) replenish VPPSA's cash reserve used to facilitate the purchase; and (3) reimburse VPPSA for the payment of finance charges related to the purchase. The Loan will have a term of five years with interest payments due monthly based upon a variable rate equal to the One Month London Interbank Offered Rate ("LIBOR") plus 325 basis points. VPPSA anticipates that it will enter into an interest-rate swap to obtain an effective fixed rate based on a spread of 325 basis points over TD Bank's spot swap rate as of the date of the closing. Principal payments will be due quarterly based on a 20-year amortization. Carrier pf. at 5; exh VPPSA-Currier-3.

8. VEC's ratings agencies, S&P and Fitch Ratings, consider the transaction with VPPSA to be favorable because it lessens the amount of debt VEC will be taking onto its balance sheet. The ratings agencies recommended that VEC not take on a significant debt burden just to buy stock in Transco. Instead, it is beneficial for VEC to preserve its credit availability to fund its capital plan over the next ten years and to also pursue favorable power supply opportunities. Although VEC ratepayers may receive a greater benefit through outright ownership of the membership units, that ownership would have to be funded 100% with debt resulting in a negative credit rating thus adversely affecting VEC's negotiated credit limits with its power supply partners. Under the agreement between VPPSA and VEC, VEC can negotiate for the transfer of the Transco shares at a later date which coincides with the time frame when VEC's capital improvements should be concluded. VPPSA letter dated June 19, 2009, at 1-2.

#### **IV. DISCUSSION & CONCLUSION**

Based upon the foregoing and the evidence in the record, I find that VPPSA's Petition as described above will be consistent with the general good of the State. I therefore recommend that the Board approve the Petition and authorize the requested long-term financing of the

purchase of Transco membership units on behalf of VEC in the amount of \$4.7 million, according to the financing terms as described above.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. § 811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont this 26<sup>th</sup> day of June, 2009.

s/Jay E. Dudley  
Jay E. Dudley  
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, conclusion and recommendation of the Hearing Officer are adopted.
2. The request for long-term debt to finance the purchase of membership units in Vermont Transco LLC ("Transco") on behalf of Vermont Electric Cooperative, Inc. ("VEC") in the amount of \$4.7 million, as set forth in the Vermont Public Power Supply Authority's ("VPPSA") Petition in this docket, and as described in the Findings is consistent with the general good of the State of Vermont.
3. Pursuant to 30 V.S.A. § 108(a), consent is hereby given to VPPSA to borrow from TD Bank an amount not to exceed \$4.7 million for a term of 5 years, according to the terms and rate consistent with the Findings above.
4. This Order does not constitute approval of VPPSA's capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of long-term debt contemplated in the Petition in this docket. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Vermont Public Service Board ("Board"), from reviewing or challenging such expenditures or VPPSA's resulting capital structure.
5. VPPSA 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. VPPSA shall provide the Board and the DPS with a complete set of final loan closing documents within 10 days of the loan closing.

Dated at Montpelier, Vermont, this 26<sup>th</sup> day of June, 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: June 26, 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@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.*