

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 4538

Petition of Vermont Electric	Y	Hearing at
Cooperative, Inc. for consent to	Y	Burlington, Vermont
issue long-term secured indebted-	Y	April 7, 1981
ness in the principal amount of	Y	
\$9,900,000	Y	Order Entered: 4/15/81

PRESENT: Rosalyn Hunneman
Samuel S. Bloomberg
Board Members

APPEARANCES: William B. Piper, Esq.
Downs, Rachlin & Martin
For Petitioner

Gerald R. Tarrant, General Counsel
Department of Public Service
For Director of Public Advocacy

INTRODUCTION

This proceeding concerns a petition filed by Vermont Electric Cooperative, Inc. ("VEC") pursuant to 30 V.S.A. §108.

On March 30, 1979, the Public Service Board ("Board") issued an order in Docket No. 4363 consenting to the issuance of up to \$20,000,000 of long-term secured indebtedness to the United States of America acting through the Administrator of the Rural Electrification Administration ("REA") for a term of 35 years, at 5% interest. On March 11, 1981, VEC moved for a supplemental order in Docket No. 4363 consenting to the financing which is the subject of this docket. VEC sought the agreement of the Vermont Attorney General and the Director for Public Advocacy that such a supplemental order be issued without additional hearing. On March 26, 1981, the Director for Public Advocacy wrote to the Board requesting that a hearing be held and suggesting that a new docket be assigned. Thereafter a new docket was assigned and a hearing date set.

Notice of hearing was sent to interested parties and the hearing was held on April 7, 1981, in the Contois Auditorium, City Hall, Burlington, Vermont.

The matter is ready for decision.

FINDINGS

1. At the hearing, Jerry L. Bucholz, Controller of VEC, testified with respect to the terms of the financing; and William Gallagher, VEC's manager, testified concerning the NEPOOL planned generating units which VEC intends to invest in with the proposed loan proceeds.

2. Mr. Bucholz testified that VEC was unable to close the loan which was the subject of Docket No. 4363 despite its best efforts to do so, and therefore the financing which is the subject of this docket is necessary.

3. The basic loan terms provide that VEC will issue long-term secured indebtedness in the amount of \$9,900,000 under the REA guaranteed loan program. The source of funds in the REA guaranteed loan program is the Federal Financing Bank ("FFB").

4. FFB is a lending institution created by the United States Treasury in 1973 pursuant to the Federal Financing Bank Act 12 U.S.C.A. §2281 et seq. to coordinate borrowings by federal agencies. FFB will borrow money from the United States Treasury and lend it to VEC. REA will guarantee and administer the FFB loan.

5. REA's guarantee will be secured by a mortgage from VEC covering all of VEC's property.

6. The specific terms of the loan are as follows:

- a. The loan is in the amount of \$9,900,000 for a term of 34 years with a 7 year principal deferment. The interest is payable at the FFB interest rate.

- b. VEC must provide REA with a schedule of estimated advances and may draw down the loan consistent with this schedule only after VEC has been billed for the project costs to be covered by the advance.
- c. The FFB note permits VEC to select the maturity date for repaying each advance. At the time of the advance, VEC may select (1) a short-term maturity date of from two years to seven years after the date of the advance or (2) a long-term maturity date of thirty-four years after the end of the calendar year in which the advance was made. If VEC selects a short-term maturity date, it may select (a) additional short terms of at least two years, as long as the selected additional maturity dates are not later than seven years after the date of the initial advance, or (b) a long-term maturity date of thirty-four years after the end of the calendar year in which the advance was made. Maturing short-term advances must be converted to long-term (or repaid) if more than five years have passed since the date of the original advance.
- d. Interest does not begin to accrue on an advance until an advance is made. The interest rate applicable to each advance or extension of maturity date on the FFB note is determined at the time of the advance or extension in accordance with the terms of the note. These rates change depending on the current interest rate for United States Treasury Bills. If the long-term FFB interest rate does not appear to be attractive, VEC can elect to pay the short-term interest rates for periods of not less than two years and then exercise its option again. This may be done periodically until the seventh year after the advance. At this time VEC must either repay the advance or accept the then current long-term interest rate. This flexibility allows VEC to take advantage of the lowest possible FFB interest rates in connection with this financing.

7. The proceeds of the loan will be used to finance joint ownership interests of VEC in certain NEPOOL planned nuclear generating units. The units involved are Seabrook Units 1 and 2, Pilgrim Unit 2 and Millstone Unit 3. Both Mr. Gallagher and Mr. Bucholz testified that in their opinions those units would be built and operating licenses will be issued on or close to schedule. They also testified that they estimated that the annual long-term composite interest rate of the funds to be borrowed through the FFB-REA guaranteed loan program and funds previously borrowed for

for similar purposes would be approximately 9.5%. They further testified that VEC would realize savings of approximately \$4.5 million by using the FFB-REA loan funds to purchase additional interests in the NEPOOL units when compared to purchasing equivalent capacity from Central Vermont Public Service Corporation and Green Mountain Power Corporation. Finally, they testified that in their opinions the loan and proposed use of proceeds were prudent for VEC.

8. Generation loans by REA borrowers must now be made through the FFB-REA guaranteed loan program.

9. Mr. Bucholz explained the sequence of events that lead to this loan. By the terms of the loan commitment as extended VEC must execute and return the note by May 5, 1981, when the FFB loan commitment expires.

10. As a condition for its approval, REA does not require that the Board approve the specific uses to which the loan funds will be put.

11. Based upon the foregoing findings and the evidence of record in this proceeding, the Board finds that the financing that is the subject of this Docket will be consistent with the general good of the State of Vermont.

ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

The Board hereby consents to the issuance of secured indebtedness to the Federal Financing Bank in the principal amount of \$9,900,000 pursuant to an agreement between the Federal Financing

Bank and the Administrator of the Rural Electrification Administration dated August 14, 1974, as amended, with interest payable from the date of each advance on the unpaid principal balance at the Federal Financing Bank interest rate.

Dated at Montpelier, Vermont this 15 day of April, 1981.

_____))
/s/ Rosalyn Hunneman)) PUBLIC SERVICE
_____))) BOARD
/s/ Samuel S. Bloomberg)) OF VERMONT
_____))

OFFICE OF THE CLERK

FILED: 4/15/81

ATTEST: /s/ Susan M. Hudson
CLERK OF THE BOARD



State of Vermont
PUBLIC SERVICE BOARD

POOR ORIGINAL

I, SUSAN M. HUDSON, Clerk of the Public Service Board of the State of Vermont, having by law the custody of the seal and all the records, books, documents and papers of, and appertaining to said Board, hereby certify that the pages hereto attached are a true copy of

FINDINGS AND ORDER ENTERED ON APRIL 15, 1981 IN PSB DOCKET NO. 4538
IN RE: PETITION OF VERMONT ELECTRIC COOPERATIVE, INC. FOR CONSENT TO
ISSUE LONG-TERM SECURED INDEBTEDNESS IN THE PRINCIPAL AMOUNT OF
\$9,900,000,

as fully and completely as the same appear by the original files and records of said Board.

Given under my hand, and the seal of said Board

at MONTPELIER

in the County of WASHINGTON

on this 20th day of APRIL

A. D., 1981.

Susan M. Hudson - CLERK



PSB NO. 4538

COPY OF

FINDINGS & ORDER
ENTERED: 4/15/81

In re: Petition of VEC, Inc.
for consent to issue long-
term secured indebtedness
in the principal amount of
\$9,900,000

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STATE OF VERMONT

Public Service Board
