

Road, Brattleboro, Vermont 05301, an indirect subsidiary of National Grid USA, National Grid Transco Plc and Northeast Utilities, which are registered holding companies under the Act, has filed a declaration with the Commission under section 12(c) of the Act and rules 42, 46 and 54 under the Act.

Vermont, a Vermont corporation, operated a nuclear powered electric generating plant in Vernon, Vermont ("Plant") from 1972 to July 2002, when the Plant was sold to Entergy Nuclear Vermont Yankee LLC ("ENVY"). Eight sponsoring utilities ("Sponsors") own the entire common capital stock of Vermont. The Sponsors have each entered into power contracts with Vermont dated February 1, 1968, as amended, February 1, 1984, and September 21, 2001 (collectively, "Power Contracts") that entitle and obligate them to pay the operating costs of Vermont and to repurchase from Vermont the output of the Plant according to certain entitlement percentages.<sup>1</sup>

Vermont, having sold substantially all its assets and anticipating a decreased level of business operations in the future, proposes to issue dividends out of capital and repurchase stock as the final step in the restructuring mandated for these utilities designed to disengage them from nuclear generation. Vermont proposes to declare and pay one or more dividends out of capital in the aggregate amount of up to \$43,000,000 in order to reduce its equity capital to a level more commensurate with its activities. Vermont intends to declare and pay these aggregate dividends in one or more steps with all dividends to be declared and paid by December 31, 2003. In addition, Vermont proposes to offer to repurchase and to repurchase, again out of available cash, the shares of its common stock held by New England Power Company, Connecticut Light and Power Company, Public Service Company of New Hampshire and Western Massachusetts Electric

Company (collectively, "Non-Vermont Sponsors") at their then stated value, estimated at the time the declaration was filed to be \$23.03 per share at the time of repurchase. Vermont intends to carry out the repurchase transaction in one or more steps over the next year, with all repurchases to be completed by December 31, 2003. Vermont Yankee will maintain minimum equity until it ultimately prepares to liquidate and wrap up its affairs after March 21, 2012.

Vermont was organized in 1966 for the purpose of constructing and operating the Plant and selling its electrical output to the Sponsors. With the trend toward restructuring of the utility industry in the 1990s, the Sponsors and Vermont began a search for a purchaser of the Plant in 1997, which culminated in a purchase and sale agreement with ENVY, dated August 15, 2001 ("Purchase Agreement"). The closing under the Purchase Agreement also involved Vermont entering into a power purchase agreement, dated September 6, 2001, with ENVY, which required Vermont to purchase from ENVY for resale at wholesale the output of the Plant through March 21, 2012. Under the Power Contracts each Sponsor agreed to repurchase at cost from Vermont its entitlement percentage of that output and to pay its aliquot share of Vermont's other operating expenses, including any liabilities under the Purchase Agreement. The Power Contracts have been approved as wholesale tariffs by the Federal Energy Regulatory Commission ("FERC").

As of July 31, 2002, Vermont's current capital (including Other Paid-In Capital, Capital Stock Expense, and Retained Earnings) consisted of \$55,911,468 of equity, evidenced by 369,149 shares of common stock, \$100 par value per share, which are held by the eight Sponsors in the proportions described at footnote 1. As a single purpose utility corporation, Vermont's economic life has been, and will continue to be, primarily keyed to the operating licensed life (March 21, 2012) of the Plant.

Balance sheet adjustments must be made so that all assets are appropriately characterized consistent with rate recovery. The unamortized balance of all assets of Vermont is being amortized as regulatory assets as authorized by FERC over the original operating licensed life of the Plant. The recoveries of all investments and assets have been approved by FERC and should be recovered in cost of service rates by March 21, 2012. In the event additional costs of service (operating and/or expense) requirements are needed at

any future period, the Power Contracts impose a non-cancelable obligation on the Sponsors to pay these costs of service expenses.

The record states that Vermont's common equity as of September 30, 2002, was \$57,249,189. This equity capital was appropriate so long as Vermont owned and operated substantial generating assets. However, after the closing of the Purchase Agreement, Vermont has become a pass-through entity for the purchase and resale at wholesale of the output of the Plant. Because less capital funds will be required to amortize any of the remaining regulatory assets or to fund any of those remaining end of life obligations, Vermont believes that appropriate steps should be taken to reduce Vermont's outstanding equity contemporaneously with its write-down of its assets.

To accomplish the reduction of equity, Vermont proposes a process with two components: (1) Vermont will declare and pay one or more dividends, payable out of capital, up to an aggregate of \$116.48 per share (or up to an aggregate of \$43,000,000 for all dividends); and (2) Vermont will offer to repurchase and will repurchase (in one or more steps) the shares of its common stock held by its Non-Vermont Sponsors at their then stated value of \$23.03 per share. The repurchase price would also be paid out of capital and would reduce the stated capital of Vermont to approximately \$4,500,000 (assuming that all shares are repurchased from the Non-Vermont Sponsors and that the maximum aggregate dividends proposed are paid). Vermont intends to maintain approximately this level of equity capital throughout the remainder of its life and then would return any remaining equity to its stockholders upon dissolution.

Vermont believes that the amount of equity capital needed to carry on its business will be less than was historically required because of the decreased role it will play during the balance of the term of its Power Contracts with its Sponsors. Vermont does not intend to engage in any business other than that of a purchaser and reseller at wholesale of the power produced by the Plant. Vermont will be involved with the payment of certain retained liabilities and the collection of certain potential claims under the Purchase Agreement. The two Vermont Sponsors, Central Vermont Public Service Corporation and Green Mountain Power Corporation, have agreed to remain as stockholders of Vermont during this period, either directly or through their respective

<sup>1</sup> The Sponsors, the percentage of stock each holds in Vermont, and their entitlement percentages are as follows: Central Vermont Public Service Corporation, 33.23% of stock, 35% entitlement; Green Mountain Power Corporation, 18.99% of stock, 20% entitlement; New England Power Company, a subsidiary of National Grid USA and National Grid Transco Plc, 23.90% of stock; 22.5% entitlement; Connecticut Light and Power Company, a subsidiary of Northeast Utilities, 10.09% of stock, 9.5% entitlement; Central Maine Power Company, a subsidiary of Energy East Corporation, 4.25% of stock, 4% entitlement; Public Service Company of New Hampshire, a subsidiary of Northeast Utilities, 4.25% of stock, 4% entitlement; Western Massachusetts Electric Company, a subsidiary of Northeast Utilities, 2.65% of stock, 2.5% entitlement; Cambridge Electric Light Company, 2.66% of stock, 2.5% entitlement.