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***PUBLIC SERVICE COMMISSION OF WEST VIRGINIA (PSC)  
PROJECTS \$130 MILLION IN SAVINGS FOR RATEPAYERS THROUGH INNOVATIVE  
BOND SALE***

*PSC oversees bond offering to fund environmental equipment at the lowest possible cost for ratepayers; action will create jobs, promote use of West Virginia-mined coal, and strengthen the state's economy.*

*PSC sets a nationwide precedent in utilizing a cost-effective solution to finance environmental compliance costs while implementing "best practices" for consumers.*

Charleston, West Va., (April 11, 2007) The **Public Service Commission of West Virginia (PSC)** estimates that ratepayers will save about \$130 million in the financing of the construction of environmental control equipment at Monongahela Power's Fort Martin Generating Plant – an achievement that was made possible through the PSC's financing order that today resulted in the successful sale of \$459.3 million in bonds for funding the equipment at record low interest rates.

The PSC, through its financial advisor, **Saber Partners**, oversaw the bond offering process in cooperation and collaboration with **Allegheny Energy**, the parent of the two utilities **Monongahela Power** and **Potomac Edison** that serve West Virginia customers. The PSC ensured that a \$459.3 million bond sale by the two units of Allegheny Energy for construction of the equipment resulted in the lowest possible costs for ratepayers. The construction of the equipment at the Fort Martin coal-burning power plant will facilitate jobs, increase the use of West Virginia-mined coal, strengthen the State's economy and reduce pollution. The bond offering was launched on April 3 and closed today.

The bond offering was based on authority granted the PSC in March 2005 by the West Virginia legislature. The legislature authorized the PSC to approve **Environmental Control Bonds**. The bond issue - the first to be sold in the nation - is divided into a \$344.5 million issue for Monongahela Power Co., and a \$114.8 million issue for Potomac Edison Co. Based on the legislation and PSC financing order, the bonds received top AAA credit ratings from three nationally recognized rating services. The bonds were sold to investors in the US and Europe by underwriters lead by **First Albany Corp** at credit based interest rates lower than all similar bond issues sold by utilities in other states.

**Jon W. McKinney**, Chairman of the PSC, said, "The PSC of West Virginia is proud to announce substantial savings to ratepayers of more than \$130 million compared with the costs of traditional utility financing. This unparalleled savings achievement was made possible through regulations that also guarantee consumers' best interests are represented in the process of obtaining the financing. As a result of the PSC's financing order and the initiative and cooperation of Allegheny Energy, jobs will be created, demand will increase for West Virginia-mined coal, and our economy will reap strong benefits. In addition, the PSC has set a nationwide precedent in using its authority to administer a cost-effective solution for environmental compliance costs."

The environmental control equipment reduces mercury emissions, smog and acid rain – a pressing objective for the PSC in supporting a healthier environment for the citizens of West Virginia. Allegheny Energy estimates the environmental control equipment will reduce sulfur dioxide emission sat the Fort Martin Plant by 90,000 tons each year.

New York-based **Saber Partners, LLC** served as advisor to the PSC on this transaction.

**SABER PARTNERS, LLC COMPLETES NATION'S  
FIRST ENVIRONMENTAL CONTROL BOND ISSUE**

*Nation's first issue of "Ratepayer Green Bonds" is a cost-effective solution to the national predicament of financing environmental compliance costs.*

*U.S. and European investors purchase bonds at record low interest rates.*

*Utility companies across the U.S. expect to spend billions on reducing environmental pollution and meeting new regulatory standards.*

New York, N.Y., (April 12, 2007) - **Saber Partners, LLC**, a leading Wall Street financial advisory boutique, has successfully served as the chief advisor to the **Public Service Commission of West Virginia** (PSC) in completing the nation's first **Environmental Control Bond** issue backed directly by electric utility customers, which was launched on April 3rd and closed yesterday. The bonds lowered the cost of funding environmental control equipment by approximately \$130 million when compared with traditional utility financing methods. More bond issues are likely to follow in other states as governments enact stricter environmental regulations.

This new type of "ratepayer green bond" is a "market-based" financing technique that can significantly reduce the cost to customers when coal-burning utilities comply with strict environmental standards affecting the climate. The proceeds will finance the costs of reducing mercury emissions, smog, acid rain and other air pollutants. The bonds are the result of a special statute passed by the West Virginia state legislature and implemented through a financing order issued by the state's PSC. The bonds are groundbreaking because, while they are issued by the electric utilities, they use the powerful regulatory authority of the state to guarantee repayment of bonds through a surcharge to the utilities' customers. The offering is also innovative because neither the credit of the electric utilities, nor the credit of the state, is affected by the financing. The bonds provide investors with a safe and secure investment and lower the costs of financing environmental compliance substantially and significantly.

The taxable deal, which totaled US\$459.3 million, consisted of two "ratepayer green bond" issues for two units of **Allegheny Power (NYSE:AYE)** that provide service in West Virginia. The issues are rated triple-A, the highest credit category available – by the top three U.S. bond ratings agencies – and were sold to investors in the U.S. and Europe at record low rates. The proceeds will be used to finance necessary environmental equipment at Allegheny's West Virginia Ft. Martin coal-burning power plant. The equipment reduces mercury emissions, smog and acid rain – a pressing objective for West Virginia and the nation. Allegheny and the PSC, working through Saber Partners, worked together in an unprecedented level of collaboration and cooperation to bring the "ratepayer green bonds" to market.

**Jon W. McKinney**, Chairman of the PSC of West Virginia, said, "I am delighted to have worked with Saber Partners and its CEO, **Joseph Fichera**, the chief advisor to the PSC, on this innovative bond financing. Our ability to secure the lowest possible costs for the bonds and complete the transaction in record time reflects the firm's expertise, integrity and commitment to their client and to the people of West Virginia."

Joseph Fichera, CEO of Saber Partners, said, "We are honored to have this opportunity to assist West Virginia in leading the nation by implementing an innovative way to get low cost funds for important projects affecting the climate. The bonds solve part of the escalating costs utilities and their regulators face in meeting government environmental standards, without overly burdening electricity customers."

“Because coal is an important part of America’s energy future, finding low-cost ways to raise funds to make coal more environmentally friendly is a national imperative. Regulators, governmental officials, electricity customers and investors all share in the environmental and economic benefits of this deal. The environment is enhanced, jobs are created and protected, and investors get a safe and secure long-term investment.”

- The deal helps to achieve public health and environmental benefits to satisfy regulations from the state and the Environmental Protection Agency. The goal is to reduce mercury and other emissions that create smog and acid rain.
- The bonds lower the cost of funding the emissions control equipment by over \$130 million when compared with traditional utility financing methods.
- The financing will also lead to the creation of jobs to build the equipment and will promote the use of West Virginia-mined coal in power generation. The state is one of the leading producers of this essential commodity for coal-fired plants.
- The transaction will serve as a model of cooperation between the public and private sectors to protect customers’ interests and the environment.

The deal was divided into a \$344.5 million senior secured issue to benefit **Monongahela Power Co.** and a \$114.8 million issue to benefit **The Potomac Edison Co.** Each deal carried four sinking fund tranches of four, 10, 16 and 20-year average life maturities. Members of the underwriting team include **First Albany Corp., Bear Stearns, Loop Capital Markets** and **Scotia Capital**. Credit spreads on the bonds (the amount investors charge above U.S. Treasury securities in order to purchase the bonds) were the lowest ever of any similar top-rated security sold by utilities.

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#### **About The Public Service Commission of West Virginia**

Among other activities, the Public Service Commission of West Virginia supervises and regulates the rates, services, operations and most other activities of all public utilities within the state. The PSC’s mission is to support and promote a regulatory environment that balances the interests of all parties to ensure that reasonably priced and reliable utility services are available to all customers, and to increase business investment, job creation/retention and the state’s overall economic competitiveness.

#### **About Saber Partners, LLC**

Since the firm's creation in September 2000, Saber Partners has set itself apart as an innovator in the realm of banking and finance. The firm is known for taking bold action and achieving significant results on behalf of a roster of clients that includes the West Virginia, Wisconsin and Florida Public Service Commissions, ExxonMobil Corporation, the Office of the Governor of the State of California during the height of the California energy crisis, the Public Utility Commission of Texas, and an agent of the State of Vermont, as well as for other corporations interested in financings, mergers or acquisitions.

#### **About Allegheny Energy**

Allegheny Energy is the parent of Allegheny Power, Monongahela Power Co. and The Potomac Edison Co. The utilities generate, transmit and distribute electric power.

News Article Attached

April 3, 2007

Published in  
Bloomberg News /  
BusinessWire

## West Virginia Utilities Borrow for Pollution Costs

By Michael Quint

**April 3 (Bloomberg)** — Two units of Allegheny Energy Inc. sold \$459 million of triple-A rated bonds backed by a surcharge on customers' bills in the first ever offering of ratepayer-backed bonds to pay for pollution control equipment.

Potomac Edison Co. and Monongahela Power Co.'s 500,000 electric customers in West Virginia will save money on the sale because the interest cost for the new bonds was more than 2 percentage points below their parent's 7.62 percent cost of capital, according to data compiled by Bloomberg.

Yields on the new bonds were the lowest relative to Treasuries among any of the \$40 billion of ratepayer-backed bonds sold by utilities since 1997. Bonds due in 10 years sold at 5.23 percent, 56 basis points more than comparable Treasury notes. A basis point is 0.01 percentage point.

"We got the record low spreads by educating investors about the credit quality of these bonds, which is closer to U.S. agencies than the asset-backed bonds they have been compared to in the past," said Joseph Fichera, chief executive officer of New York-based Saber Partners LLC, the financial adviser to the West Virginia Public Service Commission for the sale.

Ratepayer-backed bonds are authorized by utility regulators in 19 states, though only West Virginia and Wisconsin allow them for financing pollution control equipment. U.S. electricity generators may spend almost \$50 billion by 2025 for equipment to reduce sulfur and other emissions, according Dan Riedinger, a spokesman for the Edison Electric Institute, which represents publicly traded utilities.

### More Flexibility

By selling debt backed by charges on customers' bills, the units of Greensburg, Pennsylvania-based Allegheny Energy benefit because they get money needed for new scrubbers at a coal-fired power plant, and the bonds aren't counted as liabilities on their balance sheets, leaving more flexibility for future borrowing.

The 10-year notes were priced to yield 19 basis point more U.S. agency securities, down from a 23 basis-point spread for ratepayer bonds sold by a unit of Columbus, Ohio-based American Electric Power Co. last October.

The bonds sold through First Albany Capital and Loop Capital. In addition to the 10-year bonds, the sale included a four-year issue at 4.98 percent, 16-year securities at 5.46 percent and 20-years at 5.52 percent.

The new bonds carry the highest triple-A ratings and are safe enough that the Securities and Exchange Commission allowed the preliminary prospectus to say that supports for the bonds "effectively eliminate, for all practical purposes and circumstances, any credit risk to the payment of the bonds."

### **Bond Backing**

West Virginia law and rulings by utility regulators require the companies to add a charge to every customer's monthly bill, now estimated at about \$5 for the average household, and keep it high enough to pay the bonds' principal and interest when due. The state doesn't guarantee the payments, though it has pledged not to modify the law allowing the charge to consumers, according to the utilities' regulator.

All the utilities' customers, including the state and local governments are obliged to pay the extra charge, and "share in the liabilities of all other electric service customers" the prospectus says. That means if customers default or leave the area, those remaining must pay more.

Saber, whose name is printed on the front page of the preliminary prospectus above the underwriters, had a more prominent role in the bond sale than is usual for financial advisers, Fichera said. The West Virginia regulators wanted an adviser to help make sure they got the best deal possible for customers.

### **Never Downgraded**

The triple-A ratings assigned to all utility ratepayer bonds have never been reduced, even when the parent utility whose name is on the bonds went bankrupt. That's a better record than top-rated corporate bonds, where about 54 percent of AAA- rated issues are still AAA five years later, according to a Standard & Poor's report for 1981-2006. For top-rated asset- backed bonds, about 98 percent still have the top rating five years later, according to S&P.

The Potomac Edison and Monongahela Power bonds, with maturities in four, 10, 16 and 20 years, financed a new wet- scrubber at a coal-fired Fort Martin, West Virginia power plant.

By reducing sulfur emissions, the utilities will be able to use locally mined, high sulfur coal for 100 percent of the plant's needs. About 25 percent of the plant's coal supply now comes from the Powder River area in Wyoming.

### **Term Sheet**

The term sheet describing the bonds included the yield premium, or spread, over Treasury notes, as is standard in the corporate bond market, not just the spread over swap rates, as is normal for asset-backed securities such as credit-card debt.

The swap rate, the fixed rate that would be exchanged for a floating rate equal to London wholesale bank deposits, is currently 54 basis points greater than the 10-year Treasury note.

The bonds are the first backed by ratepayer charges to qualify for NASD's corporate-bond trade reporting system, TRACE, allowing investors to monitor trading after the sale. Asset-backed securities, the category assigned to earlier issues of ratepayer-backed bonds, aren't reported to TRACE.

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— Editor: Williams.

— Story illustration: To see a yield curve of bonds sold by BBB-rated utilities see {FMC 39}. For news on utility bonds, see {TNI UTI BON}. For Allegheny Energy's weighted-average cost of capital, see {AYE WACC}.

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