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WEST VIRGINIA WRAPS ECB DEAL

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--Cathy Cunningham

Allegheny Energy subsidiary **Monongahela Power**'s (Mon Power) environmental control bond transaction priced tighter than expected last week, said **Joseph Fichera**, CEO of **Saber Partners**. **Mon Power Environmental Funding** (MP) and **Potomac Edison Environmental Funding** (PE) issued $345 million and $115 million in notes, respectively. MP's $86 million and PE's $28 million in class A-1 four-year notes were priced at swaps minus 1; MP's $76 million and PE's $26 million in class A-2 10-year notes were priced at swaps plus 3; MP's $153 million and PE's $51 million in class A-3 16-year notes were priced at swaps plus 12 and MP's $29 million and PE's $10 million in class A-4 20-year notes were priced at swaps plus 14.

Deal participants expected the 10-year notes to price around swaps plus 7-8 and the 16-year notes around swaps plus 15, said Fichera, based on secondary market indicative spread information. "It priced as low as it did because it is the safest bond in the market," said Fichera. "There are two key factors in this deal – the government guaranteed true-up mechanism and the state pledge, which both eliminate credit risk for all practical purposes," he said.

W. Va.'s 2005 legislation allows utilities to finance upfront financing costs through environmental control bond issuance (*TS*, 3/26). Credit risk is eliminated as the notes are backed by a government guarantee for the right to collect environmental control charges from Mon Power's W.Va. electric service customers. These charges are collected daily, and the liability of all customers. "You will only see this joint and several liability with this type of bond, or with a Federal Home Loan Bank bond," said Fichera.

Once the bonds are issued, the State financing order, including the true-up mechanism and other obligations of W.Va and its Public Service Commission, are irrevocable, ensuring timely payment of the bonds. In addition, the related environmental control charges to the customers can be increased to guarantee payment of bonds, the charges are non-bypassable and unavoidable, and there is no cap on the amount of the charge for any customer.

While ECB transactions are appealing from a credit risk standpoint, they are few and far between due to the lack of states supporting the type of issue as West Virginia did. Wisconsin has also passed legislation, and Illinois and Massachusetts are said to be currently considering it. The rarity of environmental control bonds may boost their appeal, said Fichera. "This kind of transaction has scarcity value," he said. "There are billions of bonds out there, but these ones have long maturities and are sold to 'buy and hold' investors so there is not a lot of trading." **Bear Stearns**, **First Albany Capital**, **Loop Capital Markets** and **Scotia Capital** were lead underwriters on the transaction. **Saber Partners** was financial advisor to the Public Service Commission of West Virginia.