

Energy Current: Allegheny Energy tests out 'ratepayer green bonds'

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By Mark Lindsay

The nation's first environmental control bonds have been launched and completed by Allegheny Energy Inc. The bond issuance raised more than \$459 million to fund the construction and installation of SO2 scrubbers at Allegheny's Fort Martin power station.

The deal, completed on April 11, consisted of two "ratepayer green bond" issues, including a \$344.5 million senior secured issue to benefit Monongahela Power Co., and a \$114.8 million issue to benefit Potomac Edison Co. Both companies are units of Allegheny Energy Inc.

Saber Partners, a Wall Street financial advisory boutique, served as chief adviser to the West Virginia Public Service Commission on the first-of-its-kind green bond issue. Saber Partners CEO Joseph Fichera said West Virginia lawmakers passed a law in May 2005 that opened the door for these government-supported bond issues that offer a "regulatory guarantee," as opposed to the state's general obligation guarantee.

The bonds, while issued by a finance subsidiary of the utility, are guaranteed by the state through the law, which imposes a surcharge on the utility's customers. Neither the credit of the utility issuing the bond, nor that of the state, is affected by this type of bond issue.

"The basic question for environmental compliance is, 'Where are you going to get the money?' And it ultimately goes back to the customers, one way or the

other," Fichera said. "This is a more efficient way of financing. It lowers the cost by borrowing directly from the ratepayers rather than going through the balance sheet of the company, the credit of the company."

The bond issues are rated AAA, lowering the cost to utilities. The Allegheny Energy bond issue saved the utility an estimated \$130 million on the funding over traditional methods, Saber Partners said.

Allegheny Energy spokesman David Neurohr said the company partnered with the PSC several years ago as it emerged from some serious financial difficulties.

"So we kind of worked in partnership with the state of West Virginia to find the most attractive mechanism in order to fund the environmental controls at the facility," Neurohr said.

Allegheny Energy also has a scrubber project under way at its Hatfield's Ferry plant, but the company financed that project on its own, Neurohr said.

With this government-supported deal to finance the scrubber project, Allegheny Energy will be able to burn more high-sulfur, West Virginia coal, which will help the state's overall economy, Fichera said.

Currently, only Wisconsin has passed similar legislation, and Saber Partners is the chief adviser to the Wisconsin Public Service Commission as well.

Fichera believes the successful completion of the West Virginia bond issue

will encourage similar deals in the not-too-distant future.

"I think there's a tremendous focus on the environment right now and people are looking in numerous states — Massachusetts, Illinois, California, Pennsylvania — where there are coal-fired plants [and wondering] about what to do about [the emissions]," Fichera said. "I think as people start to think about this, as the utilities start to see more pressures on them and the need for capital, they don't want to (inflate) their balance sheets by just complying with regulations on the environment ... [t]hey want to have debt capacity and other things to do, other more profitable [investments], other than just environmental compliance. So I think they'll have an interest in this as well."

This type of bond issue would not appeal to a utility that does not want to give up anything in the way of earnings. With this transaction, shareholders take on the cost because they are not allowed to earn a return on the asset. The company's balance sheet, however, is protected, Fichera said.

Allegheny Energy is not willing to proclaim this as the start of a trend, but Neurohr said that it at least shows there are alternatives to traditional financing. "People maybe understand now that there are some creative ways to do these types of projects that A, get them off the ground and moving very, very quickly and B, provide the lowest cost to the end payer which is our customers," Neurohr said. *i*