

Publication date: 01-Mar-2004
Reprinted from RatingsDirect

Bonneville Power Administration, Oregon Northwest Infrastructure Financing Corp.; Utility, Wholesale Electric

Credit Analysts: Swami Venkataraman, CFA, San Francisco (1) 415-371-5071; Leo Carrillo, San Francisco (1) 415-371-5077

Credit Profile

US\$108. mil TRAns fac lse rev bnds
(Bonneville Pwr Admin) ser 2004 due
02/18/2034
AA-(SPUR)
Sale date: 02-MAR-2004

OUTLOOK:
STABLE

Rationale

Outlook

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to the Northwest Infrastructure Financing Corp.'s (NIFC) \$108 million transmission facilities lease revenue bonds, series 2004. The rating reflects the Bonneville Power Administration's unconditional obligation to make lease rental payments under a 30-year lease agreement that is co-terminus with the term of the bonds. These payments, about \$6.3 million per year, have priority over Bonneville's debt service obligations on more than \$7 billion in federal debt, and will rank pari-passu with certain other nonfederal debt service obligations at Bonneville, all of which are currently rated 'AA-'.

NIFC was incorporated as a means to finance the expansion of Bonneville's transmission system in the Northwest U.S. that avoids the impact of federal funding constraints. The bonds will be used to fund the construction of a new 64-mile-long 500-kilovolt (kV) transmission line connecting Bonneville's existing Schultz Substation near Ellensburg, Wash., to a new substation at Wautoma, Wash. ("the project"). The project will consist solely of fixtures, primarily transmission lines, and towers, associated with the Schultz-Wautoma transmission line. Bonneville will own the two substations, all real property rights, easements, and rights of way for the project, mainly because the project passes through federal lands.

Bonneville is one of four regional federal power marketing agencies within the U.S. Department of Energy (DOE), marketing power from 30 federally owned hydroelectric projects with a combined generating capacity of 8,000 average megawatts (aMW) under critical water conditions, and the Columbia Generating Station, an operating nuclear generating station with a capacity of 1,100 megawatts. Bonneville sells power to more than 100 public utility customers in the Pacific Northwest, investor-owned utilities and directly to certain industrial customers, accounting for about 45% of power sold in the Northwest U.S. Bonneville also constructed, operates, and maintains a high-voltage transmission system comprising approximately 75% of the bulk transmission capacity in the Pacific Northwest. NIFC is a special purpose Delaware corporation organized solely for acquiring the project, issuing the bonds, and leasing the facilities to Bonneville.

Construction and operating risk are minimal. All permits and licenses necessary for constructing the project have been obtained and all land and required rights-of-way acquired. Bonneville, which is responsible for constructing the project on behalf of NIFC, has completed the design and hired Maslonka Associates, an experienced builder of transmission lines, to construct the project on a fixed-price basis. More than 90% of the materials

for the construction of the transmission line and the two substation terminals have already been procured. Construction is scheduled to start in spring 2004, to be completed by winter 2005, and energized by spring 2006. Operating risk is minimal, as Bonneville operates more than 15,000 miles of transmission lines in the Northwest and lease rentals are not dependent upon power flows on the line.

Bonneville's obligation to make all payments and to maintain the project in accordance with the lease agreement is absolute and unconditional, regardless of whether the project has been completed or is operating or operable. Bonneville will also be responsible for all operations and maintenance expenditures for the project, including any impositions upon the project, such as taxes and assessments, whether foreseeable or unforeseeable. Bonneville has the option at any point under the lease agreement to purchase the project from NIFC by making a suitable payment that would ensure full defeasance of the bonds. The value of the purchase option at the end of the lease agreement is a nominal \$1. The lease is not a depreciation lease, and Bonneville will be the tax owner of the project.

The bond indenture and cash flows are straightforward, with Bonneville making periodic payments directly to the bond trustee. There is no debt service reserve, and additional bonds may be issued pari-passu with the rated bonds at NIFC's discretion to complete or repair the project, extend or improve the project, or to refund outstanding bonds, with the rentals payable by Bonneville suitably adjusted to provide for the payment of debt service on these bonds.

The bonds are secured by NIFC's interest in the lease agreement, the project, and money held in funds established under the indenture. Standard & Poor's has obtained an enforceability opinion on the lease agreement between Bonneville and NIFC, and an opinion that the lease agreement and bond indentures are enforceable against NIFC. The bond indenture opinion also confirms that bondholders have a properly created security pledge with respect to the project.

NIFC is a subsidiary of The NIFC Trust, a Massachusetts charitable lead trust formed by J.H. Management Corp., a Massachusetts corporation that funds the trust to purchase NIFC stock, and J.H. Holdings Corp., a sibling corporation to J.H. Management, which serves as the trustee for the NIFC trust. All of the J.H. Holdings Corp. and J.H. Management Corp. stock is held by the 1960 Trust, an independent charitable organization operated for the benefit of Harvard University. J.H. Management and J.H. Holdings have created and managed several special purpose entities (SPEs) in a wide variety of transactions and structures that adequately meets Standard & Poor's SPE criteria. This allows Standard & Poor's to disregard the risks of the NIFC being drawn into a bankruptcy of J.H. Management in its assessment of the creditworthiness of the bonds and rate the bonds at the same level as other nonfederal obligations at Bonneville.

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Outlook

The stable outlook reflects the outlook on Bonneville's rating.

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