



Transmission Business Line

Non-Federal Financing of Transmission Projects – March 2004

Critical paths on the Northwest transmission grid are congested and the system is near or at capacity. As demand increases, the Bonneville Power Administration's system may no longer be able to meet national regional reliability standards.

In 2001, BPA began an aggressive program to build a number of key infrastructure projects to shore up the Northwest transmission system. Beginning in 2002, BPA sought a \$2 billion increase in its ability to borrow from the U.S. Treasury to finance these projects. Congress granted BPA \$700 million in 2003 and encouraged BPA to seek additional financing for these projects through non-federal sources. This approach allows BPA to get more lines built at a relatively low cost to the ratepayers without relying on limited capital resources from the U.S. Treasury, which otherwise would be exhausted in 2008.

Seeking Non-Federal Funding

For the last two years, BPA has actively explored various methods of non-federal participation for its reliability-driven projects.

BPA reached an agreement with Northwest Infrastructure Financing Corporation (NIFC) to finance the construction of BPA's Schultz-Wautoma project through a lease-purchase agreement. NIFC is a special purpose corporation managed by J.H. Management, a privately owned business in Boston, Mass. J.H. Management provides structured financing vehicles for a variety of major financial institutions and business corporations including Exxon, Credit Suisse and Bethlehem Steel, among others.

In developing this agreement, BPA evaluated 14 financial proposals from Northwest and national financial entities. J.H. Management offered the most secure and cost-effective solution for the agency.

Leasing Agreement

NIFC priced approximately \$120 million in taxable bonds on March 9 to finance and own the project. The lease purchase applies only to fixtures such as towers and lines. Other parts of the project (substation, roads, rights-of-way) will be BPA-owned and financed using traditional U.S. Treasury borrowing.

BPA-lease revenues will back the bonds and BPA will lease the assets for 30 years from NIFC. At the end of the lease, after the bonds are repaid, BPA will have the option to buy the asset at minimal cost, which will provide BPA with full ownership.

Financial Costs

The cost of the leasing agreement is about 29 basis points (about 3/10 of one percent) above BPA's cost of borrowing from the U.S. Treasury. The 30-year bonds carry an interest rate of 5.47 percent. BPA will continue to seek non-federal financing opportunities to ensure U.S. Treasury borrowing remains available for BPA's critical transmission projects.

Schultz-Wautoma Transmission Line Project

The 63-mile Schultz-Wautoma 500-kilovolt line runs from the Hanford Reservation to Ellensburg, Wash. BPA began construction of the Wautoma Substation in April 2003. Construction of the line will start in spring 2004, with completion scheduled for November 2005. The total cost of the project, including substations, is \$175 million.

For More Information

For more information, please visit TBL's Web site at www.transmission.bpa.gov or call toll free 1-888-276-7790.



