

Summary:

Eugene, Oregon Eugene Water and Electric Board; Retail Electric

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Summary:

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Credit Profile

Eugene, Oregon

Eugene Wtr & Elec Brd, Oregon

Eugene (Eugene Wtr & Elec Brd) elec sys rev rfdg bnds dtd 06/10/2003 due 08/01/2004-2023

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Eugene (Wtr & Elec Brd) elec util sys

Long Term Rating AA-/Stable Affirmed

Eugene (Eugene Wtr & Elec Brd) elec util sys

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has affirmed its 'AA-' long-term rating and 'AA-' underlying rating (SPUR) on the City of Eugene, Ore.'s, Ore.'s electric system revenue bonds outstanding (\$230 million), issued for Eugene Water and Electric Board (EWEB or the board). The outlook is stable.

The rating reflects what we consider the following credit strengths:

- A strengthened liquidity position, with \$98 million, or 175 days' cash;
- Continued conservatism in EWEB's forecast assumptions and risk management practices designed to reduce both revenue volatility and uncertainty, including contracts with top customers that are structured to reduce the board's operating risks;
- EWEB's demonstrated commitment to raise rates including pass-through of all Bonneville Power Administration's (Bonneville or BPA) wholesale cost increases, and with increases planned of 2-5% annually through 2014 to keep pace with rising operating costs,
- A competitive rates position for the region; and
- An internal debt service coverage policy of 2x, combined with strong debt service coverage (DSC) of 4.7x in fiscal 2008, and an estimated fixed cost coverage level exceeding 1.5x since 2007.

We believe the following offset these strengths somewhat:

- Escalating debt service payments, which, along with upcoming bonding plans, will pressure DSC ratios;
- A very large capital plan totaling \$250 million during fiscals 2010-2014 that will add to EWEB's debt burden; and
- The system's almost complete dependence on hydrological sources for its power, and volatile hydrological and market conditions that might hinder the board's ability to build and maintain reserves.

EWEB has a business profile score of '4' on Standard & Poor's scale from '1' to '10', where '1' is the highest. The

score reflects operational risk associated with close to 100% concentration in hydroelectric resources. It also reflects competitive rates, attractive markets, a strong management team, and a conservative business strategy.

EWEB is a vertically integrated municipal electric system that provides retail electric service to more than 87,000 customers in and around Eugene. The system consists of generation, transmission, substation, and distribution facilities. The utility operates as an enterprise fund of the city but has an independently elected board that has complete authority to set rates, which is uncommon for municipal utilities, and we believe streamlines the rate-making process.

Outlook

The stable outlook reflects our expectation that EWEB will respond effectively to cost pressures and increases in scheduled annual debt service to maintain sound coverage levels consistent with the rating. The outlook additionally reflects the board's stable customer base.

Related Research

USPF Criteria: "Electric Utility Ratings," June 15, 2007

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