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FPL Readies U.S. Construction Revolver

FPL Energy is considering tapping the project finance market in the first quarter with a construction revolver.

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Aquila Grabs Enron Traders

Aquila's European trading arm has hired 10 traders from Enron over the last few weeks. The most senior recruit is **Mike Hellerman**, who now heads up Aquila's Continental trading desk.

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Review Of Sellside Recommendations

PFR invited sellside equity analysts to pick their top performing stocks for the year last January. To find out how they did, turn to page 3.

In The News

2001 Year In Review

COGENTRIX SEEN SEEKING MERGER PARTNER

Cogentrix Energy, a privately-held Charlotte, N.C.-based independent power producer (IPP), is looking for a merger partner or to be acquired, say Wall Street bankers familiar with its plans, and, according to one deal-maker, has hired **Goldman Sachs** to find a suitor. Neither **Tom Schwartz**, cfo, **Jef Freeman**, spokesman, nor Goldman officials returned calls.

Market watchers speculate that Cogentrix is considering foregoing its independence because the recent downturn in sentiment in the power sector is making it increasingly difficult for IPPs to finance ambitious generation expansion plans. Plant developers such as Cogentrix have traditionally financed new projects through a combination of balance sheet capital, corporate loans and project level debt. However, since the collapse of **Enron**, the rating agencies have become increasingly negative on highly-leveraged IPPs and have downgraded a number of the biggest plant developers to junk status. Commercial banks

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TRADING GIANT SCRAMBLES FOR CONTRACTS AS GERMAN PRICES SPIKE TENFOLD

EDF Trading, one of the largest power traders in Europe, was seen scrambling to buy short-dated German power contracts late last month as peaking prices sky-rocketed to almost record levels. Traders at two London-based shops that do business with EDFT, say the firm was aggressively taking long positions in Germany as prices spiked more than tenfold from $45 per MWh to $600 MWh. Calls to **Steven Lewis**, head of trading at EDFT in London, and spokespeople for the firm in Paris were not returned.

It is unclear why EDFT, the London-based joint energy-trading venture between **Electricité de France** and **Louis Dreyfus**, decided to go long at such a time. But if it was covering short positions sold at the usual $45-50 level, it could have been stung with a loss

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<u>**Year In Review**</u>

IPP SECTOR UNRAVELS ON ENRON COLLAPSE

The U.S. electric industry, for so long the safest place to park your money, proved anything but a gilt-edged safe haven last year. The sector witnessed two of the biggest bankruptcies in U.S. corporate history—**Enron** and **Pacific Gas & Electric**—and countless other power providers saw their stock prices in tatters by year-end.

The year began with independent power producers and energy traders surfing a wave of optimism. With California embroiled in a power crisis, the price of wholesale electricity climbing to over $100 MWh across the U.S., and many parts of the country deemed dangerously short of generation, the future for IPPs looked rosy indeed. Many developers, such as **Calpine**, **Mirant** and **NRG Energy**, embarked on ambitious expansion plans to meet the growing demand for power.

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Aquila Snags 10 European Traders From Enron

Over the past few weeks the European trading arm of Aquila has snapped up 10 traders from bankrupt energy giant Enron. **Rusty Smith**, head of trading in London, says the chance to hire some many experienced gas and power traders in one fell swoop was an opportunity too good to pass up. “There were some incredibly talented people at Enron. It’s not often that you get so many good people on the market at one time.”

The most senior recruit is **Mike Hellermann**. He joined Aquila last week and will be responsible for heading up the company’s continental trading desk. Most of the other hires were either junior traders or schedulers. Smith says the hiring spree will allow Aquila to ramp up its client-focused wholesale business. The recruits will be primarily focused on structuring risk management products for Aquila’s pool of energy and corporate clients, he adds.

Over the past two years Aquila has built up a 60-strong energy desk in London, including 30 traders. It most recently hired **Liz Parminter**, a power trader at **RWE Trading** (PFR, 10/29). She joined Aquila at the beginning of the year.

Citi, SG Prep Retail Launch Of NEG Loan

Lead arrangers **Citibank** and **Société Générale** will hold a bank meeting in New York on Tuesday to launch retail syndication of a $1.7 billion non-recourse loan for project sponsor **PG&E National Energy Group** (NEG). A banker involved in the transaction says Citi and SG are looking to place some $625 million during retail syndication, having already found commitments for $1.075 billion.

Wholesale syndication closed the week before Christmas with eight banks signing up to the deal. Arrangers **J.P. Morgan**, **ABN AMRO**, and **Royal Bank of Scotland** signed $150 million tickets, and Canada’s **Export Development Corp.** committed $100 million. Co-arranger **Credit Lyonnais** signed on for $75 million and **TD Securities**, **DZ Bank** and **Barclays Capital** pledged $50 million.

NEG will use the proceeds of the project loan to refinance the 360 MW Millennium project in Massachusetts and develop a 1,080 MW plant at Athens, N.Y., a 170 MW plant in Covert, Mich., and a 1,092 MW plant in Harquahala, Ariz. (PFR, 8/13).

The loan represents the first time NEG has accessed the project finance market with a jumbo loan since the beginning of the Golden State energy crisis and the Chapter 11 bankruptcy of its sister company **Pacific Gas & Electric**.

FPL Energy Preps U.S. Construction Revolver

FPL Energy, the unregulated generation arm of Juno-Beach, Fla.-based **FPL Group**, is considering tapping the non-recourse debt market in the first quarter with a construction revolver to fund the development of a number of projects across the U.S., says a spokeswoman at the parent company.

The spokeswoman says proceeds from the deal will be used to fund at least three or four projects already in development. She declined to name the projects, or reveal the likely size of the transaction, but one banker in New York says FPL Energy is looking to raise some $2.5 billion.

FPL has yet to select banks to lead the deal, but likely contenders will be those banks that committed capital to two FPL corporate loans arranged last September (PFR, 9/10) **Citibank** and **Bank of America** led a $2 billion term loan for FPL’s funding arm **FPL Capital** and **J.P. Morgan** and **First Union** arranged a $1 billion two-tranche loan for sister utility **Florida Power & Light**.

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U.K. Utility Loses Trader

Steve Bowring, a senior power trader at **Innogy**, has left the Swindon, U.K.-based utility, say officials familiar with the matter. Bowring., who traded medium and long-dated U.K. forward power contracts, left Innogy last month. An official at Innogy declined to comment on why he left or whether Bowring has joined rival trading house.

Citi Readies Lease Financing For Rhode Island Project

Lead arranger Citibank plans to launch syndication later this month of a $425 million lease-back transaction on behalf of **FPL Energy**, the wholesale power arm of Florida energy concern **FPL Group**. A banker familiar with the deal says Juno Beach-based FPL Energy will use the off-balance sheet financing to fund the construction of the 535 MW gas-fired Rhode Island State Energy Partners project in Johnston, R.I. A banker at Citi declined to comment on the transaction and spokespeople at FPL did not return calls.

The banker says the loan has a 6.5-year tenor will be split into three tranches, a quasi-corporate A loan, covering some 85% of the funding, a roughly 12% B loan secured against the project, and a small equity tranche. The banker was unsure of the pricing, but adds that the A tranche of such lease-back deals typically pay some 125-130 basis points over LIBOR.

Enron Unloads Nordic Trading Biz

Enron has sold its 60-member Nordic weather and power trading unit as part of the bankrupt company's efforts to liquidate assets, said **Thor Lien**, managing director of **Enron Nordic Energy** in Oslo. He declined to name the buyer, disclose the acquisition price or give further details except to say the sale will be announced shortly. Enron Nordic Energy was put on the block early last month as the parent company collapsed (PFR, 12/3). Although **Enron Europe** was put into administration the Nordic trading unit it did not officially close down, although it is said to have seen scant deal flow because of parent-level developments.

2001 Year In Review

U.S. Stock Pick Results

Sector Downturn Clobbers Analysts' Predictions

Each year PFR asks stock analysts to predict their top two stock picks for the next 12 months. Below is a summary of how U.S. analysts performed last year.

Utility analysts polled last January to give their two top stock picks for the year achieved miserable returns for 2001 as the power sector tanked in the wake of the California crisis, the U.S. economic downturn and more recently the collapse of **Enron**. While none of the six analysts suffered the ignominy of selecting Enron, two of the analysts picked Calpine, one of the year's poorest performers. Not one of the eight stocks highlighted managed to end the year above water and on average each selection finished 2001 some 30.5% below each analyst's predicted 12-month goal.

Brian Youngberg, a senior utility analyst at **Edward Jones** in St. Louis, Mo., says, "The electric utility sector as a whole was down 15% in 2001. With everything that occurred this year, utility stocks were not immune to all of these unexpected events."

Andre Meade, a power analyst at **Commerzbank** in New York, says, "The California crisis and the fall of Enron were huge events in the sector this year. Some stocks should rebound, others won't recover at all, but they all took a hit in December."

Youngberg says that some companies, such as **Progress Energy**, saw their stocks decline because of recently completed mergers. **Carolina Power & Light** and **Florida Progress** merged to form Progress Energy. "In many of these instances, the market was a bit skeptical. It is taking more of a 'show me the benefits' type of attitude than in the past. The market just needs to digest them."

Meade says that one of its stock picks, Duke, remains "a top company with a strong balance sheet. But its stock suffered this year from its acquisition of **Westcoast Energy**, which hasn't closed yet." Despite the loss, Meade remains bullish on the Charlotte, N.C. power concern. "It could be a shrewd investment because of its gas basins in Canada."

Analysts' 2001 Stock Picks

Firm	Analyst	Stock Pick	Price ($) 1/4/01	12-M Price Target	Price ($) 1/2/02
CIBC	Hugh Holman	Evergreen Solar	6.56	17.50	3.20
CIBC	Hugh Holman	Calpine	38.50	45.50	16.84
Commerzbank	Andre Meade	Duke Energy	42	50	39.24
CSFB	Neil Stein	Calpine	38.50	70	16.84
CSFB	Neil Stein	AES	49.93	61	16.40
First Union	Thomas Hamlin	Duke Energy	42	51	39.24
First Union	Thomas Hamlin	Dominion	65.56	75	60.75
Edward Jones	Zach Wagner	Progress Energy	48.44	53	45.02
Edward Jones	Zach Wagner	UtiliCorp	29.38	32.70	25.40
UBS Warburg	Barry Abramson	Duke Energy	42	50	39.24
UBS Warburg	Barry Abramson	PPL Corp.	43.31	54	34.76

Year In Review **North America**

M&A

Companies Return Stateside After Costly Forays Abroad

A dominant theme in the power sector last year was the retrenchment of many U.S. power providers back to the safety of their domestic market after significant and often costly forays abroad. **Edward Tirello**, managing director and senior power strategist at **Berenson Minella** in New York, says, "While 2000 saw a focus on transatlantic activity, this fell off dramatically last year. Companies are selling abroad and concentrating more on the U.S."

One such company was **Reliant Resources**. Last fall, shortly after acquiring U.S. independent power provider **Orion Power** for nearly $3 billion (PFR, 9/30), Reliant decided to sell Reliant Energy Power Generation Benelux, its 3,476 MW portfolio of European generation assets in the Netherlands. A banker familiar with the Houston-based company says Reliant is selling the business and refocusing on its domestic market because it believes U.S. investors are not fully reflecting its international assets' value in its stock market capitalization.

Another U.S. power provider looking to scale back its activity in Europe was **Edison Mission Energy** (PFR, 11/12). Following the losses sustained by its sister company **Southern California Edison** in California last winter, it put the bulk of its U.K. generation portfolio up for sale. Last October Edison Mission agreed to sell its Fiddlers Ferry and Ferrybridge power plants in the U.K. to **American Electric Power** for GBP650 million, well below the GBP1.3 billion ($1.906 billion) it paid for them two years earlier.

U.S. companies also began looking to unwind their Latin American investments. Tirello says, "The regulatory climate in the Latin American market is half dying and Brazil is no longer a bargain. So what we've seen this year is a lot of companies selling there and moving back to the U.S." **CMS Energy** is one such seller (PFR, 12/24). It put much of its Latin American portfolio on the block including **Grupo Companhia Paulista de Energia Eletrica** in Brazil, a utility with 146,000 customers, and **Sistema Electrico de Nueva Esparta** in Venezuela with 90,000 customers.

M&A activity overall remained relatively muted last year compared to the previous year. Some $31 billion of mergers took place in the U.S. power sector last year down some 44% on 2000, according to **Thompson Financial Securities Data**. Part of the decline reflects the impact of the California power crisis last winter. The ensuing spike in gas and power prices made acquisitions prohibitively expensive, say bankers.

Still a number of big-ticket deals were completed in 2001, including **Potomac Electric Power**'s purchase of **Conectiv** for $2.2 billion in February (PFR, 9/27), and **Northwest Natural Gas** buying **Portland General Electric** in October for $2 billion (PFR, 10/21).

Berenson Minella's Tirello says the Portland/Northwest Natural merger was unusual because it involved a gas company buying an electric company. He says, "This merger was a little different and stands out from the rest. We usually see an electric company snapping up a gas company, not the other way around. But it made sense to merge as the two sectors overlap." **NorthWestern**'s $1.1 billion acquisition of **Montana Power** was also unusual in that is was a small player acquiring a bigger rival.

But for every successful deal there was also a failed merger. Amidst a slew of aborted deals, the most notable and significant failure was **Dynegy** walking away from its $8.4 billion buyout of **Enron** last November. Following the collapse of merger talks, Enron's credit rating was cut to junk status and within a week the embattled energy trader had filed for Chapter 11 bankruptcy protection.

Other high profile failures included the termination last March of the $7.5 billion merger between **Consolidated Edison** and **Northeast Utilities** (PFR, 4/15). **Sierra Pacific Resources**' $3.1 billion planned purchase of **Portland General Electric** and **FPL Group**'s $9 billion acquisition of **Entergy** (PFR, 4/15) also both bit the dust last year. All three deals were stymied in part by regulatory obstacles.

Ten Largest U.S. Power Deals Of 2001

Date Announced	Date Effective	Target Name	Acquiror Name	Deal Value ($mil)	Target Advisors	Acquiror Advisors
02/20/01	04/02/01	Mirant Corp(Southern Co)	Shareholders	9,656	Goldman Sachs	Morgan Stanley
09/17/01		American Water Works	RWE	7,972.78	Goldman Sachs	Merrill Lynch, Morgan Stanley
02/12/01		Conectiv	Potomac Electric Power	5,364.30	Credit Suisse First Boston	Merrill Lynch
09/27/01		Orion Power	Reliant Resources	4,975.25	Goldman Sachs	Merrill Lynch
11/02/01		American Electric Power-Trans	Investor Group	3,187.45	J.P. Morgan	
10/05/01		Portland General Electric	Northwest Natural Gas Co	2,849	Credit Suisse First Boston	Merrill Lynch
02/23/01		Sthrn California Edison Co	California	2,760	Goldman Sachs	Blackstone
11/28/01	11/29/01	Northern Natural Gas	Dynegy Inc	2,473	J.P. Morgan Salomon Smith Barney	Lehman Brothers
02/20/01		RGS Energy	Energy East	2,393.93	Morgan Stanley	UBS Warburg
11/30/01		FirstEnergy-Coal Power Plants	NRG Energy	1,500	Morgan Stanley	Banc of America

Source: **Thompson Financial**

Year In Review **North America**

Project Finance

Jumbo Portfolio Deals Take Center Stage

Gargantuan portfolio loans and jumbo construction revolvers became the financing vehicles of choice for plant developers and project financiers last year. While no single transaction matched the size of **Calpine**'s $2.5 billion construction revolver, launched at the back-end of 2000 by **Bank of Nova Scotia** and **Credit Suisse First Boston** (PFR, 10/23/00), a raft of $1 billion-plus portfolio loans and construction revolvers reached the market last year.

Patrick Kunkel, head of project finance at **Erste Bank** in New York, says construction revolvers and portfolio loans proved so popular because they gave "sponsors more flexibility and made financing cheaper." The revolvers give developers the option to add new projects to an existing financing pool and to take out projects in the capital markets once they are constructed. They also cut developers' costs as they need only tap the loan market once for a handful of projects. Portfolio financing also proved attractive to bank lenders as they mitigate project risk by diversifying sources of repayment, says Kunkel.

The bulk of financing activity occurred in the first three quarters of the year before the Sept. 11 terrorist attacks and the collapse of **Enron** caused deal flow to dry up. The largest non-recourse power transaction of the year was **Panda Energy** and **TECO Power Services**' $2.2 billion construction revolver and equity bridge loan (PFR, 7/19). The **Citibank** and **Société Générale**-arranged transaction was used to finance the construction of two 2,200 MW plants in Arizona and Arkansas. Syndication was wrapped up in early July with some 40 banks committing funds to the transaction.

Another landmark transaction was **NRG Energy**'s $2 billion construction and acquisition revolver launched in February. Proceeds of the **Credit Suisse First Boston**-arranged loan were used to fund generation acquisitions from **LS Power**, **Sierra Pacific** and to develop new projects (PFR, 2/5).

Five Largest Project Loans

Deal	Sponsor	Lead Banks	Size ($ bn)	Launch Date
TECO/Panda	TECO / Panda Energy	Citibank, Société Générale	2.2	July
NRG	NRG Energy	Credit Suisse First Boston	2	Feb.
NEG	NEG	Citibank, Société Générale and J.P. Morgan	1.7	Aug.
ANP	American National Power	Citibank, ING Barings, Société Générale, ABN AMRO, Deutsche Bank	1.375	March
Sithe Boston	Sithe Energy	BNP Paribas & Credit Suisse First Boston	1.25	Dec. 2000

Source: **Power Finance & Risk**

Banks Sweeten Jumbo Deals To Bolster Support

While there was a glut of activity in the power project finance market last year, many of the larger portfolio deals proved hard to syndicate and had to be flexed to garner sufficient support. **Thomas Murray**, a director at **Credit Suisse First Boston**, notes three of the year's largest project loans, for **American National Power**, **NRG Energy** and **TECO Power Services/Panda Energy**, had to have their pricing and structure sweetened during syndication. **Mirant** also scrapped plants for a $1.5 billion construction revolver, one leg of a $3.5 billion financing package arranged by CSFB (PFR, 6/18). The deal was pulled because Mirant was unable to meet the pricing demands of the market, according to bankers familiar with the transaction.

While each of the deals was beset by its own specific issues, an industry-wide factor weighing on all of the deals was concern that the California power crisis could spread elsewhere in the U.S. This discouraged many lenders from taking on more exposure to the power sector and made it difficult to syndicate jumbo-sized deals, say bankers.

Lead arrangers **Citibank** and **Société Générale** had to sweeten pricing on Panda Energy and TECO's $2.2 billion construction revolver to 200 basis points over LIBOR from an initial 137.5 basis point spread to entice retail banks (PFR, 5/14). One banker says the deal had to be flexed in part because TECO was a new issuer and Panda had not issued debt on this scale before.

In the case of ANP, lead arrangers Société Générale, Citibank, **ABN AMRO, ING Barings** and **Deutsche Bank** sweetened pricing and fees by some 25 basis points and also lured co-arrangers by reducing underwriting risk. Originally the lead banks asked co-arrangers to underwrite $100 million and

Year In Review **North America**

commit $65 million. After restructuring co-arrangers merely had to commit $65 million (PFR, 5/14).

Even for non-recourse loans perceived as well structured and linked to attractive projects, pricing and fees were generally sweeter than in 2000, say bankers. A number of negative factors, including a glut of new deals, the California crisis, the Sept. 11 attacks, and most recently the demise of **Enron**, all prompted the trend. Prices rose by one-eighth of one percent in the wake of Sept. 11, say bankers.

Patrick Kunkel, head of project finance at **Erste Bank**, says the sheer volume of new deals over the past few years means banks are reaching their capacity for power industry debt and are becoming increasingly selective in their approach to new deals. "There are exposure issues to the industry as a whole and to certain sponsors, such as **AES** and **Calpine**," he says.

> "Banks had room to add power generation assets in 1999-2000 and are now more selective in taking on projects that don't exactly meet their credit criteria."

Kunkel adds that merchant deals, which would have performed better in 2000, struggled in syndication last year. "Banks had room to add power generation assets in 1999-2000 and are now more selective in taking on projects that don't exactly meet their credit criteria."

Eric McCartney, head of project finance at **KBC Bank**, says that higher pricing also reflects the lack of liquidity in the market. The shrinking base of retail participants willing to buy take-and-hold positions is making it harder for banks to successfully syndicate project loans. "Deals are getting larger and hold positions for banks are getting bigger," he says.

New Entrants

European Players Ramp Up Coverage, But Retail Pool Shrinks

A raft of European banks began building New York power project finance desks this year to take advantage of the growth in U.S. deal flow and compensate for muted activity in Europe. Project financiers say the influx of European lenders is helping to compensate for the lack of buying activity from Japanese banks, but they complain that the shift has left the market with fewer retail participants willing to buy and hold project debt. Most of the new European entrants are looking to participate at senior syndication levels and sell much of their commitments down, in the hope of higher fees per dollar invested (PFR, 11/26). **Patrick Kunkel**, head of project finance at **Erste Bank**, notes that the new European entrants want agent or co-agent status.

Thomas Murray, a director in syndicated finance at **Credit Suisse First Boston**, says that a handful of Italian banks, such as **IntesaBCI**, **San Paolo** and **Banca Nazionale del Lavoro** (BNL), have begun committing funds to the U.S. project finance market this year. In May, IntesaBCI hired **Michael Pepe**, deputy head of project finance at **Crédit Lyonnais**, to launch and head its project finance group for the Americas. Pepe told *PFR* the Italian bank was looking to transform itself from a pure commercial bank into a top-tier lender that offers a range of structured finance products (PFR, 5/28).

Meanwhile, **Guy Cirincione**, head of portfolio management in **Credit Suisse First Boston**'s project finance group in New York, joined **Dexia Crédit Local** as senior v.p. and head of project finance for the Americas. Dexia was looking to build a 15-strong team to bolster its coverage of the U.S. market (PFR, 5/21).

A number of U.K. and Irish banks also ramped up their U.S. project finance coverage this year. **Lloyds TSB** decided to move **Kevin Lindsay** across the pond from its London headquarters to help its New York office deal with an increased workload and growing U.S. power portfolio, according to **Paul Briamonte**, director of project finance in New York (PFR, 9/24). **Royal Bank of Scotland** hired **David Nadelman** from **KBC Bank** (PFR, 5/14) and **Wendy Astell** from **Dresdner Kleinwort Wassterstein** (PFR, 9/3) to improve its coverage.

Meanwhile, **Bank of Ireland** (PFR, 9/3) and **Abbey National** (PFR, 4/30) also announced they were considering setting up dedicated desks in New York to cover project finance.

Offsetting these developments was sparser activity from Japan. CSFB's Murray explains that the drop in activity was partly due to a number of Japanese mergers including the creation of **Mizuho** from the merger of **Dai-Ichi Kangyo Bank**, **Fuji Bank**, and the **Industrial Bank of Japan**. The merger of **Sumitomo Bank** and **Sakura Bank** to form **Sumitomo-Mitsui Banking Corp** also sapped demand. "This has pulled capacity from the market" says Murray. He also mentions that there has been less activity from **Sanwa Bank**.

Year In Review **North America**

Power Tech

Soft Equity Markets Hit Energy Tech Sector

The nascent energy technology sector struggled last year, as investors turned their back on the broader technology industry and weak equity markets made it nigh on impossible for tech companies to make initial public offerings or replenish their often fast-diminishing funding bases with secondary stock sales. However, some market watchers believe the worst may be over.

David Smith, a power technology analyst at **Salomon Smith Barney** in New York, says, "We have seen some signs recently of a bounce back, but the IPO market continues to remain difficult. In the meantime, we are seeing more of a shift towards private equity funding."

Smith explains that many power technology companies are currently "net cash burners" and in most cases, they will not reach profitability until 2004 or 2006. "The companies that have been well financed are the ones that have held up well. The difficulty has been for the ones that will not be cash positive for awhile."

One notable casualty of the moribund IPO market was London-based **ZeTek Power**. The fuel cell provider had originally planned to raise $300 million through a stock-market floatation early in the year, but shelved the deal because of poor market conditions. Instead, it decided to tap the private market with a $30 million private equity placement last fall. But this financing route also failed, when a number of backers pulled out of the deal in October. Unable to raise new funds ZeTek was forced into bankruptcy in December (PFR, 12/17).

Smith says the power tech sector started the year on an upbeat note as the California energy crisis led investors to look at companies providing alternative sources of power. However, after an initial rally, many of these stocks fell sharply as blackouts in California failed to materialize. The economic recession hit and the Sept. 11 terrorist attacks further dampened demand, says Smith.

Despite the broad malaise, some individual alternative energy companies managed to tap the private equity market at the back end of the year. **Acumentrics**, a fuel cell and flywheel technology manufacturer in Westwood, Mass., managed to raise $25 million (PFR, 11/5) and **KWI**, a trading technology firm in Houston, raised $14 million (PFR, 10/29). Others private placements included a $25 million sale by **PowerCell** of Burlington, Mass. (PFR, 8/27), and a $20 million offering from Middleton, Wis.-based **Softswitching Technologies** (PFR, 8/13).

Companies that tapped the public market this year had limited success. Latham, N.Y.- based **Plug Power**, for example, was forced to drastically scale back the size of its follow-on offering on July 19 from $132 million to $60.9 million because of weak demand (PFR, 8/6). It sold 3,975,000 shares and a major shareholder sold 25,000 shares to trim back its private stake in the three-year old power technology company. The sale included a private placement of $10 million in stock to existing shareholders

Smith says that despite the tough year, a few energy technology companies had strong years including Plug Power, **Hydrogenics** and **FuelCell Energy**. Plug Power had an exemplary year because it decreased its net cash spending by 35% to $12.2 million for the third quarter and has cash-on-hand that will last into 2004. Hydrogenics completed a banner deal with **General Motors** to supply the automotive giant with engineering support and related services at a fuel cell research facility in Honeyoye Falls, N.Y. Under the contract, GM acquired a 24% stake in the company. Additionally, FuelCell signed an agreement with **Caterpillar** in November whereby the latter would distribute FuelCell's products through some of its dealers in the U.S.

Year In Review **Latin America**

M&A

Failed Auctions Highlight Tough Year For Latam

Latin America witnessed a dearth of acquisition activity and state privatizations last year as investors pulled back from the region due to increased economic volatility, currency devaluation fears, Brazil's ongoing power rationing crisis and a host of regulatory issues.

James Scruby, head of corporate finance for Latin America at **Dresdner Kleinwort Wasserstein** in London, says, "There was increased caution. We've seen a number of transactions that were not possible to complete this year because of investors waiting for the uncertainty in these regions to be resolved."

Two of the most notable failures were the postponed state auctions of Brazilian utilities **Cia Paranaense de Energia** (Copel) and **Cia Energetica de Sao Paulo** (CESP). The auction of CESP was postponed indefinitely in May because of Brazil's energy crisis (PFR, 5/27). Meanwhile, the Copel auction was postponed in November as bidders stepped back from the plate, concerned over electricity rationing and financial market volatility following the Sept. 11 terrorist attacks (PFR, 11/4). While the auction garnered considerable interest initially, no concrete bids materialized. **Endesa**, **AES**, **Eletricidade de Portugal**, **Duke Energy International**, **RWE**, **Electricite de France**, **Companhia Energetica de Minas Gerais**, **Enel**, **NRG Energy** and **Hydro-Quebec** pulled out of the auction during the early bidding process. Then, at the eleventh hour, the remaining bidders, **Tractebel**, **Votorantim Companhia Vale do Rio Doce** and **GP Investimento**, withdrew their interest.

Gabriel Salas, an analyst at **Bear Stearns**, predicts the auctions may be rescheduled for next year as 2002 is an election year in Brazil. "If Copel isn't privatized in the first quarter of 2002, then it is highly unlikely that the auction will occur at all in this year."

Scruby speculates that, "Next year there will be a major reshuffling of assets as some companies that have significant businesses in Latin America decide to alter their portfolios or pull out altogether." However, he predicts that merger & acquisition activity will likely pick up because of the **Enron** collapse. This will trigger a number of transactions as the bankrupt energy trader looks to liquidate its assets in the region. **CMS Energy** is also looking to unload its Latin American portfolio.

Still, a number of acquisitions did occur last year, including **EDF International's** $786 million purchase of **Edelnor**, **PSEG Global**'s $428 million purchase of **Sociedad Austral de Electricidad** in September (PFR, 9/27) and its purchase of **Electroandes** in December for $227 million (PFR, 8/26).

Latin America Suffers Dearth of Deals

The Latin American project finance market suffered a tough year with only a handful of project loans being arranged. As political and economic volatility engulfed Argentina and Brazil became mired in a power shortage most lenders shied away from the sector and instead focused their efforts on the bountiful and less risky North American power finance market.

"Towards the end of the year, most New York-based project finance groups concentrated their efforts on domestic projects," explains **Pablo Garcia**, a senior associate at **Banco Santander Central Hispano** in New York. "With so much demand in the U.S. and so much uncertainty in Latin America, many utilities also focused on the U.S."

Market watchers say the year was characterized by a slowdown in the market during the summer months, a stall after the terrorist attacks on Sept. 11 and few transactions completed by year-end.

Mexico was the primary focus on lending activity. **Union Fenosa**'s $600 million financing for the construction of Tuxpan III and IV, a 938 MW project in Vera Cruz, and **InterGen**'s $533 million project loan for the development of La Rosita I and II (1,075 MW) were two of the standout Mexican deals of last year. **Deutsche Bank**, BSCH and **Bank of Tokyo Mitsubishi** led the Union Fenosa deal (PFR, 5/21) and **Citibank**, **BNP Paribas** and the **Export Development Corp.** of Canada are arranging the InterGen deal. The La Rosita loan is expected to close this quarter, says an InterGen spokesman.

A Latin American project financier explains that securing financing to build projects in Latin America proved hard work as lenders became more risk averse. "Asking banks to take risks has been impossible because of the power rationing and regulatory issues in Brazil and the economic crisis in Argentina. Banks have become much more cautious."

Still, the inertia is creating a glut of projects in the pipeline. **Gabriel Salas**, an analyst at **Bear Stearns** in New York, notes, "Latin America is in a period where it needs to add more generation capacity and investment will be necessary. There needs to be incentives given to the companies that will build them."

Year In Review **Europe**

Banks Launch Trading Push

Perhaps the most significant trend in the European power trading market last year was the influx of investment and commercial banks. Until last year **Morgan Stanley** and, to a lesser extent, **Société Générale** were the only banks with dedicated European power trading operations. By December **Goldman Sachs**, **Deutsche Bank**, **Westdeutsche Lansdesbank**, **Standard Bank** and **Credit Suisse First Boston** had all committed resources to the sector.

The influx of banks was lead by Goldman. Late in 2000 the bulge-backed firm hired a number of power sector bankers including **Douglas McLeish,** from **Axia Energy Europe**—subsequently renamed **Entergy-Koch Trading**—in London, **Douglas Borden** and **Stefan Van Reit** (PFR, 12/4).

Until last year most banks shied away from trading power in the belief that they could not compete with power companies' historical and technical understanding of the market without buying generation assets, say traders. However this view has changed as the market has evolved. "As the European power markets have become more liquid, so banks have come to believe they can adequately protect themselves without owning underlying assets," says one banker.

"While the **Enron** collapse showed the risks of going asset-light, it also highlighted the need to use sophisticated hedging tools. Banks hope to make money by selling these products to energy companies and other companies," says a power trader. The replacement of the electricity pool in the U.K. with a bilateral trading system—the New Electricity Trading Arrangements—also prompted banks to enter the market, adds the trader. "Trading with counter-parties is what they understand."

Incumbent energy trading shops welcomed the influx of new players into the market despite the constant poaching of their best traders and structurers. One senior energy trader reasons that banks' long experience trading financial contracts and structuring risk management solutions should bring added liquidity to Europe's power markets and reduce volatility levels.

Southern Europe Proves M&A Hotspot

With the unofficial tag of being the most potentially lucrative power markets in Western Europe, it was of little surprise that Italy and Spain proved the battlegrounds for some of the most heated takeover deals of last year.

While not the largest European deal of 2001, **Electricité de France** and **Fiat**'s unsolicited roughly $5 billion acquisition of **Montedison**, the controlling company for Milan-based utility **Edison**, was certainly the most intriguing (PFR, 7/20). "EdF and Fiat's purchase of Montedison has to be the standout deal of last year," notes one London-based investment banker.

The takeover of Italy's second largest power utility by state-owned EdF caused political outrage in Italy, prompting the Italian government to enact legislation barring EdF from controlling more than 2% of Montedison's voting rights, and leading the European Union to hastily review its competition rules for the electricity industry. But perhaps more significant than the political repercussions, the deal also proved that hostile takeovers can succeed in the once sleepy power sector, says the banker. "No one thought EdF could defeat **Mediobanca** [a large stakeholder in Montedison] on its own turf. It shows how the landscape is changing," he argues.

EdF launched the takeover in May through the purchase of 20% of Montedison's shares in the open market. When the Italian authorities initially blocked the move, EdF formed a consortium, dubbed Italenergia, with Fiat and a number of Italian banks to strengthen its hand. After sweetening its initial price, the takeover won shareholder approval in June and was formally approved by the E.U. in late August.

While many analysts predicted that Spain would witness further consolidation last year following a merger agreement between Spain's two biggest utilities **Endesa** and **Iberdrola** the previous year, the opposite occurred. Instead of consolidating from four into two or three dominant players, the utility pool increased to five with the entrance of Italian utility **Enel**. It purchased Viesgo, a portfolio of generation and distribution assets in Spain from Endesa.

Endesa put Viesgo on the auction block in March following the failure of its EUR13 billion ($12.6 billion) merger with **Iberdrola**. The Spanish utilities called off talks abruptly in February after the Spanish government said the combined entity could not exceed Endesa's 42% share of Spain's generation market and had to lower its combined distribution share to 48% from 60%.

Without the financial muscle afforded by the merger, Endesa decided it needed to sell assets at home in order to finance expansion overseas. Thus it put Viesgo up for sale.

At the same time as the Endesa was carrying out its auction, Enel was also in the process of divesting generation capacity at home as part of the deregulation of the Italian market. The first of three companies it put on the block was Elettrogen, a 5 GW portfolio of power plants. Unsurprisingly a de facto asset swap occurred between the two sellers. Enel proved the highest bidder for Viesgo and Endesa out-trumped rivals for Elettrogen.

The largest deal of the year, however, involved neither Italy nor Spain, but the U.K and Germany. In April **E.on** announced a pre-conditional GBP9.6 billion ($13.5 billion) offer for the U.K.'s **Powergen**. While the deal reflects a pickup in cross-border consolidation in Europe, E.on's primary motive was to establish a foothold in the U.S. through Powergen's U.S. subsidiary **Louisville Gas and Electric**.

Year In Review: **Middle East**

Middle East Market Comes To Life

After years of anticipation, the Middle Eastern power project finance market burst into life last year with a raft of deals hitting the market, as state-run electric utilities began privatizing generation facilities or awarded build-own-operate plant mandates to international developers. Even the Sept.11 tragedy, which initially prompted fears of a broader Middle Eastern crisis, couldn't stop two more deals reaching syndication before year-end.

Geoff Knox, head of Middle Eastern project finance at **ANZ Investment Bank** in London, says the market reached a peak of activity in 2001 that won't be repeated this year. **Andy Brown**, a financier at **Westdeutsche Landesbank** in London agrees. "It's been pretty phenomenal. The question going forward is whether we've reached the end of the road."

In total, eight international non-recourse loans reached syndication by early December, representing some $4 billion of funding. The largest deal was the $1.3 billion Al Shuweihat loan arranged in September for sponsors **International Power** and **CMS Energy** (PFR, 10/14). They developers will use the proceeds to build a 1,500 MW power and desalination plant in Abu Dhabi. While this emirate hosted the largest deal, Oman witnessed the most funding activity with loans for three projects, Al Kamil, Barka and Salalah, being signed last year.

With minimal project financing activity in Western Europe, banks increasingly turned to the Middle East to provide themselves with suitable investment opportunities (PFR, 7/9). A pickup in demand among lenders, reflecting their growing comfort in the region, in turn allowed sponsors to structure and price deals aggressively. Knox says one the dominant themes of the year was the extension in loan tenors. Until 2001 deals typically had 12-15 year tenors, but borrowers are now stretching out the repayment schedule to 15-20 years (see table).

Over a dozen banks led deals last year, but three of the most active primary arrangers were **Barclays Capital**, ANZ and **Société Générale**. ANZ led the syndication of the $415 million Barka loan alongside regional lender **Arab Banking Corp.** (PFR, 7/29). It is also a lead arranger of the Ghazlan II deal in Saudi Arabia. Barclays co-led the funding for two **Electricité de France** projects in Egypt, along with SocGen and **Crédit Lyonnais** (PFR,6/17). Barclays was also one of seven lead arrangers of the Al Shuweihat deal. SocGen also led the Al Kamil loan in Oman (PFR, 8/27).

Completed Middle East Project Loans

SPONSOR	PLANT	SIZE	COUNTRY	COST	TENOR	SYNDICATION	BANKS
EdF	**Port Said/Suez Gulf**	1356	Egypt	750	17	March-May	SG, Barclays, CL
AES	**Barka**	425	Oman	415	16	March-July	ANZ/ABC
International Power	**Al Kamil**	280	Oman	99	14	April-Sept	SG, Bank Muscat
PSEG Global/Shell	**Salalah**	200	Oman	230	15	July	WestLB/BNP
Saudi Electric Co.	**Ghazlan II**	2,400	Saudi Arabia	500	8	April	ANZ/GIB/NCB
International Power/ CMS	**Al Shuweihat**	1,500	Abu Dhabi	1,300	20	Nov-?	Barclays
AES	**Ras Lafan**	700	Qatar	545	18	Dec-?	10 Banks
QEWC	**Ras Abu Fontas**	1,100	Qatar	160	17	July	Club Deal

Source: **Power Finance & Risk**

Financing Record (DECEMBER 20 -JANUARY 2)

Debt

Date	Maturity	Issuer	Amount	Price	Type of Security	Coupon (%)	Moody's	S&P	Book Manager(s)
12/20/01	04/20/16	RWE Finance	180.1	103.512	Fxd/Straight Bd	6.25	Aa3	AA-	DEUTSCHE BANK DrKW/MERRILL
12/29/01	02/25/08	Hokkaido Electric Power	76.3	100	Bonds	1.13	NA	NA	TOKYO-MITSUBISHI

M&A

Date Announced	Date Effective	Target Name	Target Country	Acquiror	Acquiror Country	Value ($mil)
12/20/01	12/20/01	European Energy Consult	Germany	P&T Technology	Germany	0.016
12/20/01		TXU Corp-Power Plants(2)	U.S.	Exelon	U.S.	443
12/28/01	12/28/01	Enron Wind-Wind Facilities	U.S.	American Electric Power	U.S.	175
12/28/01		TDE(Union Electrica Fenosa)	Bolivia	REDESA(ENDESA)	Spain	119.165

Source: **Thomson Financial Securities Data Company**. For more information, call **Rich Peterson** at (973) 645-9701.

2001: The Year In Quotes

Fanciful, prophetic or just plain funny, here's a thumbnail sketch of 2001 in the words of analysts, bankers and power company executives:

"*Putting the genie back in the bottle would be a big mistake.*"—**Herbert Hart**, *an analyst at* ***Redwood Securities*** *in San Francisco, arguing against re-regulation of the California power market as a solution to the Golden State's power crisis (PFR, 1/22).*

"*[I] realized it was time to get out of pop music when I ended up making videos for* Classics Nouveau, a 1980s band made up of four *Uncle Fester* look-alikes."—**Nicholas Abson**, *ceo of* ***ZeTek Power***, *outlining his reasons for quitting the music video business to start a renewable power company (PFR, 2/12). ZeTek subsequently went into bankruptcy (PFR, 12/27).*

"*It is in more countries than* Coca-Cola."—**Jane Sadowsky**, *managing director of global power at* ***Salomon Smith Barney*** *in New York, enthusing about the global reach of* ***AES*** *(PFR, 2/26).*

"*They literally are rocket scientists.*"—**Jim LoGerfo**, *energy technology analyst at* ***Banc of America Securities***, *describing the brain power lined up behind* ***Ramgen Power Systems***, *a developer of jet-powered turbines (PFR, 4/30).*

"*Investors are more willing to put up with brashness when the stock is soaring.*"—**Robert Franson**, *an analyst at* ***Bear Stearns*** *in New York, offering an explanation for why* ***Enron*** *CEO* ***Jeffrey Skilling*** *abruptly left the company (PFR, 8/20).*

"*To say Enron's broadband business has not gone as well as planned is probably the understatement of the year.*"—**Mark Easterbrook**, *an analyst at* ***RBC Dain Rauscher Wessels*** *in Dallas (PFR, 9/10).*

"*Banks right now look at California as a Third World country when it comes to power.*"—**John Kwak**, *cfo of* ***KMS Energy***, *explaining why the power company opted to forgo bank financing for a Golden State project (PFR, 9/17).*

"*We are beyond flirting. Now its petting.*"—**Joachim Manns**, *project director at* ***Concord Partners*** *in Hamburg, characterizing discussions to form a project development joint venture (PFR, 10/1).*

"*It's a case of too little, too late.*"—**Joseph Cooper**, *a* ***Thompson Financial/First Call*** *analyst, describing sellside analysts' coverage of* ***Enron*** *as the company collapsed (PFR, 12/3).*

"*The belch heard around the world.*"—**Pat Wood**, *chairman of the* ***Federal Energy Regulatory Commission***, *commenting on* ***Enron****'s demise (PFR, 12/10).*

TRADING GIANT

(continued from page 1)

of over $10 million, says one trader. Another trader adds that unless it was covering a short position for itself or perhaps for a client, buying power at such high prices would have been an odd move.

Prices in Germany spiked before Christmas following the arrival of a sudden cold snap. As prices rose trading houses long the market squeezed prices higher. "The German power market has become increasingly volatile. It wouldn't surprise me if they hit a $1,000 at some point this winter," says one trader. Because the German market is dominated by just two players, **E.on** and **RWE**, prices can be squeezed much higher, the trader adds. "There's less chance of this in the U.K. where no firms can be said to hold sway." *—W.A.*

IPP SECTOR

(continued from page 1)

But a deepening recession, which sapped demand for power, and the demise of Enron, the country's largest power trader, turned the market on its head. As power prices plummeted to $25 per MWh, analysts began saying there were too may plants being built. Then, amidst increased scrutiny from investors and rating agencies, many of the country's most prominent power providers not only scaled back their development plans, but put existing assets on the block to shore up their highly-leveraged balanced sheets. *—W.A.*

For a full roundup of the year's events across the Americas, Europe and the Middle East, turn to pages 3-11.

• RENAME ENRON FIELD CONTEST•

Elise Lee

As Enron teetered on the verge of bankruptcy, *PFR* invited readers on Dec. 3 to select an appropriate new name for Enron Field, home to baseball franchise the **Houston Astros**.

The winning entry came from **Elise Lee**, an administrative assistant at **Berenson Minella** in New York. She came up with the Dickensian title "The Artful Dodgers Stadium." Lee wins a bottle of champagne and two tickets to see her local team, the **New York Yankees**.

COGENTRIX SEEN

(continued from page 1)

also have become increasingly jittery about financing IPPs' ambitious plant expansion plans with their own capital.

Cogentrix is particularly vulnerable to this downturn in sentiment for two reasons. Firstly, as a privately held company it cannot utilize the public equity markets to fund growth, and is thus more reliant on the bank debt and bond markets than many IPPs. Secondly, Cogentrix has one of the most ambitious development schedules of all the IPPs, and thus needs to be able to access a significant amount of capital to fund its goals.

Market watchers were reluctant to put a price tag on Cogentrix, noting that as a private company without a stock market capitalization, its is difficult to value. According to the company's Web site, Cogentrix has, in whole or in part, equity interests in 28 power plants in 14 U.S. states with a total generating capability of 7,800 MW. It had annual revenues of $560 million in the 12 months to September, 2000.

Samir Nanga, energy analyst at **Credit Lyonnais Securities** in New York, says a likely buyer or merger partner would be a utility looking to add more generation capacity. Such players could include **Duke Energy** and **UtiliCorp**, he says. These companies' valuations have held up relatively strongly in recent months. Nanga adds that rival IPPs are unlikely bidders as their stock prices have been so beaten up that equity financing would be unattractive. Furthermore they are unwilling to take on more debt in the current market environment.

—Will Ainger

Calendar

- **Risk & Energy Power Risk Management** is holding its annual *Weather Risk 2002* conference in New York on Jan. 23-24. Speakers include **Michael Leybov**, senior v.p. at **Lehman Brothers** and **Scott Putnam**, co-business leader at **Hess Energy Trading**. For more information call 44-7484-9898.

- **Infocast** will present its *Transmission Summit 2002* conference at **The Hamilton Crowne Plaza Hotel** in Washington on Jan. 29-31. For further information call 818-888-4444.

Quote of the Week

"*It's not often that you get so many good people on the market at one time.*"—**Rusty Smith**, *head of trading at* ***Aquila*** *in London, explaining why the energy-trading shop has hired a handful of* ***Enron*** *employees over the past few weeks (see story, page 2).*