power finance & risk

The exclusive source for power financing and trading news

www.iipower.com

A PUBLICATION OF INSTITUTIONAL INVESTOR, INC.

JANUARY 13, 2003
VOL. VI, NO. 2

Web Exclusives

Allegheny Energy's bid to extend $1.3 billion in bank lines and add a new secured $470 million facility is facing resistance from bondholders who believe the new loans could dilute their security.

Columbus, Ohio-based **AEP** will seek to raise $1.3 billion in unsecured notes to refinance 10 tranches of debt involving first-mortgage bonds and unsecured notes that mature over the course of this year.

For the full stories go to *PFR*'s Web site (www.iipower.com)

Up The Creek

BANKS TAKE CONTROL OF U.K. PLANTS AS ENTERGY BOWS OUT

Entergy has walked out on its last remaining U.K. generation asset, Damhead Creek, and handed control of the 800 MW power plant to the junior bank group that financed its construction. The dramatic move likely heralds the first of many such power plant takeovers by banks over the next year as embattled generators look to wash their hands of loss-making U.K. power plants, predict market watchers. The collapse in wholesale power prices and slender spark spreads are prompting generators to exit the U.K. market, they explain. "We could see a tidal wave of IPP failures, first in the U.K. and then the U.S.," forecasts **Michael Hogan**, former executive managing director for Europe and the Middle East at **InterGen**. **Gareth Brett**, head of Entergy's European operations, did not return calls.

(continued on page 8)

RELIANT SOUNDS OUT BANK MARKET ON $5.7B DEBT RESTRUCTURING

Reliant Resources' has begun sounding out its creditors on how to restructure some $5.7 billion in corporate level and synthetic lease-backed debt, a refinancing widely regarded as the pivotal debt deal of the first quarter, given its size. One lender who has been approached about the deal says a tenor of three to five years and pricing in the range of 350-450 basis points over LIBOR is being floated for a $2.9 billion bridge loan expiring mid-February.

On top of pricing and tenor the other key plank to the deal is getting the huge bank group—which one financier puts well north of 30 players—to agree on how to divvy up collateral between the lease and corporate lenders, who are the two main lending syndicates. **Sandy Fruhman**, spokeswoman in Houston, declined to comment, but says Reliant will likely provide an update on its refinancing efforts in its Jan. 30 earnings conference call.

(continued on page 8)

DUBLIN UTILITY READIES SPANISH IPP FINANCING

Dublin-based **Electricity Supply Board** and its lead arranger **Royal Bank of Scotland** are looking to close a roughly EUR700 million project-level loan by early next month that will finance the construction of an 800 MW gas-fired power plant in northern Spain. The deal paves the way for the development of Amorebieta, Spain's first independent power plant, says one financier. Sealing the project loan deal will be a significant achievement given the host of other Spanish IPP projects that have stalled over tolling or financing difficulties, note London bankers. **Tony Lowe**, a banker at RBoS, declined to comment and calls to **Kevin MacDermott**, an ESB spokesman, were not returned.

RBoS has yet to decide on a syndication strategy, but is leaning toward bringing in a six- to eight-strong junior underwriting team before closing the deal, say one financier at a rival bank that has been approached about taking a sub-underwriting role. "It could

(continued on page 8)

Check www.iipower.com during the week for breaking news and updates.

Brazilian Utility Plots Debt Repayment Strategy

Companhia Energética de São Paulo (CESP) is putting together a refinancing plan for $750 million of debt that matures in May 2003.

Vicente Okazaki, company cfo, notes that CESP would prefer to tap the local capital markets in Brazil and issue new bonds to refinance the existing debt. But if the markets aren't open to a new issue, he says the Sao Paulo State government and the federal government will likely agree to repay CESP's debt.

A Latin American utility analyst in New York says CESP is in a tough situation financially, as it has $3.2 billion in total debt and only $20 million in cash on its balance sheet. "CESP has a big mismatch between its debt load and available cash so the company could easily go under if it can't [refinance] its debt."

The analyst says the likelihood is that the government will come to the rescue because Sao Paulo State has a 40% stake in the company. That said, the analyst notes that even if the local authority does agree to help CESP, renegotiations will still be difficult as the government is also experiencing a financial drain and doesn't have a good credit history. "The government might want to help CESP repay its debt, but there is a great deal of uncertainty as to whether it will be able to do so," he notes.

CESP's bonds are trading in the U.S. at about 2,800 basis points over comparable Treasuries, according to the analyst. This indicates the market expects CESP to go through some tough times as it struggles to renegotiate its debt coming due in the near-term.

PSEG Homes In On $250M Golden State Financing

PSEG Global is firming up plans to raise $250 million to finance peaker plants in California and is looking at both the bank debt and the private placement market to execute the deal.

The debt covers three generation facilities that have contracts with the **California Department of Water Resources** (PFR, 12/23). Calls to finance officials at the unit of Parsippany, N.J.-based **PSEG Energy Holdings** were not returned, but market officials say the company is looking for a deal with around 70% leverage and a term covering the whole of the DWR contracts, which run to 2011 and 2012.

The company is focus is on bagging pricing in the LIBOR plus 150 basis point range. A number of financiers say that such tight pricing is probably unrealistic, but note the bigger question over the deal is whether it can find lenders or buyers willing to take Goldern State exposure. Although the CDWR contracts have been re-worked, there will likely still be skittishness among banks, and in particular credit committees.

"The reason is the political risk in California. Whenever anything is settled, it always seems the attorney general or someone decides to challenge things," says one banker. "Where can they get the deal done is the question. Forget about pricing," adds another financier.

The plants comprise 90 MW peakers at Hanford Energy Park and Henrietta Energy Park, which are both operational, and the 160 MW Tracy Energy Station, which is targeted to start operation in the second quarter.

power finance & risk

EDITORIAL
TOM LAMONT Editor
STEVE MURRAY Deputy Editor
VICTOR KREMER Executive Editor [London] (44 20) 7303-1748
WILL AINGER Managing Editor [London] (44 20) 7303-1735
PETER THOMPSON Senior Reporter [San Diego] (760) 635 3308
AMANDA LEVIN Reporter [New York] (212) 224 3292
ARADHNA DAYAL Hong Kong Bureau Chief (852) 2912-8009
STANLEY WILSON Washington Bureau Chief (202) 393-0728
ROCHELLE BRETON Editorial Assistant
JANA BRENNING, KIERON BLACK Sketch Artists

PRODUCTION
DANY PEÑA Director
LYNETTE STOCK, DEBORAH ZAKEN Managers
MICHELLE TOM, ILIJA MILADINOV, MELISSA ENSMINGER Associates
JENNY LO Senior Web Production Designer
TIMOTHY O'SHAUGHNESSY Web Production Associate
MARIA JODICE Advertising Production Manager (212) 224-3267

PUBLISHING
GUY CROSSLEY Group Publisher
ELAYNE GLICK Director of Marketing & Circulation (212) 224-3069
STACEY FINK Marketing Manager (212) 224-3099

ADVERTISING
NAZNEEN KANGA Publisher (212) 224-3005, nkanga@iinews.com
PAT BERTUCCI, MAGGIE DIAZ, KEVIN DOWNEY, KRISTIN HERBERT, TAMARA WARD Associate Pulishers
USHA BHATE Marketing Director
JENNIFER FIGUEROA Media Kits (212) 224-389

INDIVIDUAL SUBSCRIPTIONS
JOE MATTIELLO Director of Sales (212) 224-3457
WILLIAM POWELL Senior Account Executive (212) 224-3012
THOMAS GANNAGE-STEWART (London) (44-20) 7779-8998
ADI HELLER (Hong Kong) (852) 28426929, Account Executives

GROUP SUBSCRIPTIONS/ELECTRONIC LICENSES
DAN LALOR Director (212) 224-3045

REPRINTS
AJANI MALIK Reprint Manager [New York] (212) 224-3205
ELIZABETH ONISIFOROU Sales [London] (44-20) 7779-8591

CUSTOMER AND SUBSCRIBER SERVICES
New York (212) 224-3800, London (44-20) 7778491
CHRISTINE RAMIREZ Director

CHRISTOPHER BROWN Chief Executive Officer

Subscriptions: To subscribe, call New York at (212) 224-3012, London at (44-20) 7770-8998 or fax (212) 224-3491. One Year-US$2,495 (in Canada add $30 postage, others outside U.S. add $75).

Power Finance & Risk is a general circulation newsweekly. No statement in this issue is to be construed as a recommendation to buy or sell securities or to provide investment advice.

Circulation Offices: 225 Park Avenue South, New York, NY 10003. Tel: (212) 224-3800. Fax: (212) 224-3491.

For further information, please contact us at: customerservice@iinews.com

S&P Ponders Coral Downgrade

Houston-based **Coral Energy** has a question mark hanging over its AAA rating after **Standard & Poor's** last week put the **Shell** affiliate on creditwatch. The impact of a downgrade would be most likely felt in Coral's trading operations, rather than in the U.S. project finance market where the company is a high profile name through its involvement in power-plant tolling agreements, say bankers. One financier notes that guarantees on those tolls are signed up at the Shell level, whose AAA rating isn't under review.

John Thieroff, credit analyst at S&P, says the agency has become less comfortable with the inferred support from the parent because merchant trading has become a more significant part of Coral's business. In that part of the business there are no explicit guarantees from Shell. "[We're] no longer comfortable that they don't provide explicit support for the trading," he says, adding that the move to that view has been a gradual one rather than being triggered by any single event. S&P will be meeting with Coral management over the next few weeks, and without changes in the guarantee structure it will likely downgrade the company, he says. **Jimmy Fox**, spokesman at Coral, says the move reflects changes in the North American energy trading sector and there has been no change in the risk profile of Coral, or in the support from Shell.

One banker says **Moody's Investors Service** has always pegged Coral below its parent's Aaa rating because it gives less weight to inferred support in its methodology.

Electrabel Readies Italian Financing

An Electrabel-led consortium expects to close non-recourse financing for its roughly $1.2 billion acquisition and repowering of the 2.6 GW **Interpower** portfolio of Italian power plants by the end of the month, says a banker working on the deal. He says the lead arrangers, **Barclays Capital**, **BNP Paribas**, **Credit Agricole Indosuez** and **IntesaBci,** planned to round out a broad-based senior syndication team late last week, which would enable the group to provide project-level bank debt as soon as the acquisition closes. **Françoise Vanthemsche**, a spokeswoman at Electrabel in Brussels, declined comment.

The bulk of the bank financing is earmarked toward providing 50% of the EUR874 million acquisition cost of Interpower from **Enel**. The remainder will provide a further 50% of the roughly EUR300 million four-year repowering cost of the four plants in the genco, says the banker. Interpower comprise three thermal stations fired by coal, gas and oil and one hydroelectric facility.

The Electrabel consortium also comprises Rome utility **Acea** and **Energia Italia**, a joint venture between a number of regional banks and energy concerns, including **Energia**, **Amga Genova**, **Hera**, **Banca Nazionale del Lavoro** and **Monte dei Paschi di Siena**.

Banks Wrap Dutch Syndication

Mandated lead arrangers **BNP Paribas** and **Société Générale** were set to wrap up retail syndication of **InterGen**'s EUR625 million ($622 million) Rijnmond project financing last Friday, as *PFR* went to press, with the addition of seven or eight banks. "It has proved slower than expected, what with the extended holiday break and a pretty tough market," notes one official involved in the deal. "But getting any deal done has got to be considered something of an achievement." He declined to reveal the retail participants.

Wholesale syndication closed in November with an eight-strong lineup comprising arrangers **Bayerische Landesbank**, **Credit Lyonnais**, **Fortis Bank**, **Halifax Bank of Scotland**, **NIB Capital**, **Norddeutsche Landesbank**, and **Westdeutsche Landesbank**, and co-arranger **Bank of Ireland**.

Calpine Pulls Mothballing Proposal

Calpine has withdrawn a request to banks for approval to mothball the construction of five partially built plants, a plan that would have saved the IPP $700-800 million in upcoming development costs, according to bankers contacted by the company. Its decision was announced in a brief e-mail to lenders that gave no explanation for the U-turn. However, financiers suggest the San Jose, Calif., company nixed the idea once it realized it wouldn't be able to meet a self-imposed Jan. 10 deadline for bank approval once a number of creditors sought additional information before making a decision. **Katharine Potter**, a spokeswoman at Calpine, says the company does not publicly discuss its negotiations with its creditors.

Calpine's original proposal was to ice the completion of five plant projects that are funded primarily via its $3.5 billion brace of non-recourse construction revolvers. Such a move would have released Calpine from having to inject a further $700-800 million of equity capital into the projects (PFR, 1/6).

Creditors' requests for information centered on getting a precise cost for mothballing the plants. While Calpine played down the cost, and didn't provide any specific figures, some bankers put the figure in the $20-30 million range per plant. Another lender notes that the timetable for amending the construction revolvers was simply too tight, given that Calpine hadn't discussed the matter with its lenders before seeking the change. "There are a lot of people who lend to Calpine and want to help, but there was also a group who had genuine questions," says one financier.

Calpine did not address in its e-mail whether the mothballing plan will be re-launched. One banker suggests that when the company does more homework on the cost of mothballing it may come to the conclusion that the move wouldn't save that much more. Another adds Calpine intends to press ahead with the changes at a later date.

Funds Bid Up IPP Bank Lines On Improved Collateral Security

The U.S. IPP sector, down in the dumps for most of last year over bankruptcy fears, is being bid up in the secondary bank market by funds taking a bullish stance on the security tied to IPP's debt lines. Energy names have been received with open arms by investors returning from vacation, notes one bank-loan buysider. He adds **AES** and **Calpine**'s debt has rallied sharply as investors have become more comfortable with their refurbished credit facilities and collateral packages.

Since New Year pieces of AES's revolver, "A" term loan, and "C" tranche have traded at 91-92, 95 1/2 – 96 1/2, and 93-94, respectively, some one to two basis points stronger than before the holidays, according to *PFR* sister publication *Loan Market Week*.

Jon Kyle Cartwright, a fixed-income analyst with **Raymond James**, says, "AES bank debt has been ticking up primarily because vulture funds are playing the capital spreads." He explains that the funds have been buying the bank debt and simultaneously shorting AES equity and bonds in the belief that if AES's problems worsen, AES bank debt will hold up.

"The collateral package provides enough value for secured lenders to realize 100% recovery," adds **Scott Taylor**, **Standard & Poor's** analyst, in a recent report. Calls to AES officials were not returned.

Calpine also has ticked up into the 90 range, from the high-80s. "Calpine is out of the clear from a bankruptcy perspective," says Cartwright of the rally. In addition, he notes that an announcement from **Dynegy** last week that it would surpass earnings estimates has set a good overall tone for the sector.

Allegheny Looks To Tap Equity Mart

Allegheny Energy is looking to raise $400-600 million in equity capital either through a private placement later this year or via the public stock market next year to bolster liquidity and fend off the threat of bankruptcy, says a New York analyst who follows the energy company.

Christopher Ellinghaus, equity analyst at **Williams Capital**, says it is not an ideal time for Allegheny to make an equity offering given its depressed stock price, but explains it's a bitter pill Allegheny will have to swallow given its weak balance sheet. Over the past 12 months Allegheny's stock price has slumped from a 52-week high of $43.86 to a low of $2.95 late last year. It stood at $8.70 mid last week.

Ellinghaus says Allegheny also hopes to raise approximately $1.1 billion through the sale of three peakers it purchased from **Enron** in May 2001. They are a 550 MW facility in Gleason, Tenn., a 508 MW plant in Wheatlan, Ind., and the 656 MW Lincoln Energy Center in Chicago.

Guy Fletcher, a spokesman at Allegheny in Hagerstown, Md., declined comment on the equity offering and asset sales, beyond noting it is considering the sale of certain assets to improve its balance sheet and financial performance.

PFR reported last October that Allegheny was actively looking to divest 1,500 MW of coal- and natural gas-fired generation capacity (PFR, 10/14). **Mike Morrell**, president of **Allegheny Energy Supply**, said it had retained **J.P. Morgan** to advise on the generation sale.

According to Ellinghaus, Allegheny could reduce its debt-to-capitalization ratio from nearly 70% to a more manageable 52%-54% by the end of next year if it successfully completes both the asset sale and the equity offering.

In a related matter, the company is nearing the completion of $2 billion in bank lines that would give it adequate liquidity for the next two years, says Ellinghaus. The financing announcement should come by mid-January, he says.

Latin America

Don't Cry For Me

AES Plans To Write Off Argentine Portfolio

AES is reportedly set to write off the entire value of its Argentine investment portfolio, in light of the turmoil plaguing the country's energy markets and broader economy. Market watchers say the assets include AES' 60% stakes in three distribution companies, **Eden,** and **Edes** and **Edelap**, and 3,441 MW of generating capacity. The utilities cover some 700,000 customers. Repeated calls to **Kenneth Woodcock**, an AES spokesman in Arlington, Va., were not returned.

AES' Argentine Plant Portfolio

Asset	Fuel	MW	AES Interest (%)
Termoandes	Gas	643	99
San Nicolas	Coal/Oil/Gas	650	69
Cabra Corral	Hydro	102	98
El Tunal	Hydro	10	98
Sarmiento	Gas	33	98
Ullum	Hydro	45	98
Quebrada	Hydro	45	100
Alicura	Hydro	1,000	100
Central Dique	Turbo Gas	68	51
Parana	Gas	845	67

Source: **AES Web Site**

A New York analyst that has spoken to the company about its plans says AES doesn't believe the situation in Argentina is going to improve any time soon and has opted to write off its investments because there are no potential buyers. Commenting on AES' strategy, he says, "The assets aren't valued [highly] and they are a drag on earnings. The best thing for [AES] to do is to take them off the balance sheet and cut its losses."

AES' revenue from its South American investments totaled $684 million or 32% of its investment income last year.

Corporate Strategies

N. Carolina Muni Refinances Debt

The **North Carolina Eastern Municipal Power Agency** (NCEMPA) plans to use the proceeds from a $300 million offering of fixed-rate revenue bonds, which were due to be sold late last week, to refinance nearly $300 million of revenue bonds that mature between 2005-2017.

Al Conyers, cfo, says, "We're coming into the market because with this deal we'll be saving a total of $17 million. The coupons will be lower than the 6.25% and 6.5% rates on the bonds we are refinancing." According to Conyers, the bond sale is scheduled to occur on Jan. 10 and the deal is expected to close on Jan. 23.

Salomon Smith Barney is the lead manager on the deal and **Goldman Sachs** is a co-senior manager. Co-managers include **Morgan Stanley**, **UBS**, **Legg Mason Wood Walker**, **Morgan Keegan** and **Wachovia**. Conyers says the agency selected Salomon to lead the deal based on its experience underwriting previous offerings for NCEMPA. Conyers was unable to provide any pricing or yield details, as the bonds had yet to come to market as *PFR* went to press.

Fitch Ratings in New York, has rated the bonds BBB+ . This reflects NCEMPA's high wholesale power purchasing costs and a significant outstanding debt load of $3.1 billion, says **Lina Santoro**, utility analyst. She also attributes the low investment grade rating to the utility's small customer base and a general weakening of the North Carolina economy.

The NCEMPA provides power to 32 distribution systems in eastern North Carolina, comprising some 243,000 residential and commercial customers.

N.M. Utility Bolsters Bank Bench

Albuquerque, N.M.-based utility **Public Service Company of New Mexico** has inked an expanded credit line to increase liquidity and also get more banks involved in its financing. "We wanted more banks involved so we have a deeper bench," says **Bob Hagan**, spokesman at parent **PNM Resources**.

The new line, led by **Banc of America Securities**, is for $195 million and has 11 lenders. It replaces an existing $150 million facility with eight financial institutions. The company uses short-term borrowings under the revolving credit agreement to fund working capital and for other general corporate purposes. Details on the pricing of the facilities could not be ascertained by press time.

The company is also pitching the expansion as a signal to investors and the rating agencies that it has access to liquidity, despite the wider market problems, says Hagan. PNM is rated BBB- by **Standard & Poor's** and has held that status since October 2001.

Weekly Recap

The Weekly Recap is a summary of publicly reported power news stories. The information has been obtained from sources believed to be reliable, but PFR does not guarantee its completeness or accuracy.

Asia

• China will soon open its public utility sector to foreign investment to try to improve competition and services in the state-run businesses. The government will take steps this year to accelerate the commercialization of the sector, according to Construction Minister **Wang Guangtao**. "Water supply, gas and heating, sewage and waste treatment, and public transport will all be involved," he noted (*Reuters*, 1/7).

Europe & Middle East

• **Powergen** is considering closing two power stations as a result of low wholesale prices in the U.K. The plants, Drakelow and High Burnham, were bought as part of the acquisition of **TXU Europe**'s retail supply business. A third plant acquired through the deal, Ironbridge, will remain open (*Financial Times*, 1/7).

• **E.on** has hired **Goldman Sachs** to sell **Viterra Energy Services**, a business that reads heat, power, gas and water meters on behalf of landlords and utilities in over 28 countries. The sale could earn the German utility some EUR1 billion ($1.04 billion), say analysts (*Reuters*, 1/7).

Latin America

• The Mexican government published a decree cutting electric power rates and diesel fuel prices for agricultural producers to help them become more competitive in international markets, President **Vicente Fox** said in a statement. The decree will set a single rate for power to pump water for agriculture at $0.03 per KWh, Fox said (*BNamericas*, 1/7).

U.S. & Canada

• **Ralph Eads**, a key figure in the build up of **El Paso Corp.**'s energy-trading business, has resigned from the company. El Paso announced in November it would be winding down its trading operation. Eads, who joined the firm in 1999 from investment bank **Donaldson Lufkin & Jenrette**, where he was the lead banker on the El Paso account, was once seen as an heir-apparent to Chairman **William Wise** (*Wall Street Journal*, 1/5).

• The California regulatory commission that blamed the state's energy crisis on **Enron** and other power companies can be expected to chart a course more favorable to the state's utilities after two new appointments. The appointment by Gov. **Gray Davis** of **Michael Peevey**, former energy executive, as president of the **California Public Utilities Commission** and of a member of his staff to fill another vacancy could signal less aggressive investigations and a more favorable view of deregulation (*Houston Chronicle*, 1/5).

• **Calpine** has unveiled a five-year deal to provide geothermal power to **Pacific Gas and Electric Co.** The San Jose, Calif.-based IPP also is in talks with potential customers to sign long-term deals to provide as much as 5,000 MW. Under the terms of the deal, which went into effect on Jan. 1, Calpine is contracted to deliver 110 MW of on-peak power from renewable sources and 55 MW of off-peak power to Pacific Gas and Electric. The contract is expected to generate annual revenue of about $40 million for Calpine (*Reuters*, 1/7).

• Republican **John McCain** and Democrat **Joseph Lieberman** introduced Senate legislation that would slash emissions spewed by U.S. utilities and industrial plants that are linked to global warming. The bipartisan legislation comes amid data showing 2002 was the second-warmest year on record (*Reuters*, 1/7).

• **Allegheny Energy** is asking shareholders to approve the removal of a preemptive rights plan, which gives shareholders the right to pre-empt any issue of stock to another person by purchasing the stock on the same terms and conditions as offered to non-shareholders. The company said it has been approached by several well-known firms interested in making equity investments (*Dow Jones*, 1/8).

• A settlement resolving a **Federal Energy Regulatory Commission** investigation into whether a former **Enron** executive tried to hide the company's ownership interest in three wind power farms should be wrapped by next week. Enron, **Southern California Edison** and FERC lawyers have reached an agreement in principle to settle the case, FERC Judge **Peter Young** said in an order (*Reuters*, 1/8).

• **Progress Energy** is scaling back its marketing and trading operations and as part of the move **Joe Hirl**, senior v.p. of marketing and trading, has resigned. The company is cutting about 50 jobs from the power plant, marketing, and office support areas of its unregulated Progress Ventures unit (*Reuters*, 1/8).

• A report by the **California Independent Systems Operator** indicates energy traders other than **Enron** may have used questionable strategies to earn profits during California's power crisis and that the practices may be continuing. The reports states that 21 firms may have engaged in a trading practice known as Death Star, an Enron strategy that earns a profit without selling power. The strategies are part of a grand jury investigation by the U.S. Attorney's Office in San Francisco into an alleged conspiracy to manipulate the California power market (*Houston Chronicle*, 1/6).

• An administrative law judge who is overseeing allegations that **Enron** manipulated California's electricity market in 2000-2001 says a Justice Department investigation has delayed the case, and called for six more months to issue a ruling. Three federal agencies are cooperating in a broad investigation into whether Enron and other companies spurred power shortages and blackouts that swept California (*Reuters*, 1/7).

• **El Paso Corp**. is looking for an investor to buy into its ANR Pipeline unit and has spoken to **AIG Highstar Capital** about taking a stake, according to a source familiar with the negotiations. El Paso wants to sell a minority interest in the natural gas pipeline while continuing to operate the system, he added. The overall value of ANR is $2.2-2.3 billion (*Dow Jones*, 1/10).

• The Virginia government will lose its power to protect electricity consumers if Gov. **Mark Warner** and state legislators continue with deregulation plans, said the **State Corporation Commission** in a report. The SCC said Virginia's future could reflect California's turmoil, including blackouts and higher electricity prices if the **Federal Energy Regulatory Commission** implements its rules on wholesale power markets (*The Roanoke Times*, 1/8).

• California's 33 Democratic House lawmakers have asked the **Federal Energy Regulatory Commission** to reconsider an agency judge's finding that the state is owed only $1.8 billion in overcharge refunds from the state's power crisis (*Reuters*, 1/9).

• California Democratic Senators **Dianne Feinstein** and **Barbara Boxer** have introduced legislation that would bar Mexican power plants from using the state's natural gas supplies unless the plants meet its strict air pollution standards. The legislation applies to natural gas-fired generators within 50 miles of the California-Mexico border (*Reuters*, 1/9).

• **Westar Energy**, the largest power utility in Kansas, is selling some of its investment in **ONEOK** back to the company. "All of the proceeds realized from selling the ONEOK stock will be used to reduce Westar Energy's debt. This is a significant step toward achieving our financial goals," said Westar President and CEO **Jim Haines Jr**. Westar owns a 44.7% interest in ONEOK, a natural gas company with headquarters in Tulsa, Okla. It could not be determined how much of a stake Westar will hold in ONEOK when the transaction is completed (*Reuters*, 1/10).

DUBLIN UTILITY

(continued from page 1)

underwrite the deal alone, but that's a risky strategy in today's tough market," says the financier. He adds the RBoS was pitching EUR100 million sub-underwriting tickets.

RBoS beat competition from two other short-listed firms **BNP Paribas** and **ABN AMRO** early last year to arrange the financing (PFR, 4/14). The Amorebieta project near Bilbao has entered a 15-year tolling agreement with **Shell Espana**. ESB, the Republic of Ireland's state-owned electric utility, hopes to bring the project on line by late next year, say bankers. *—W.A.*

RELIANT SOUNDS

(continued from page 1)

Whether the Houston player will be able to get the deal signed before the Feb. 19 expiry of the bridge, which funded its acquisition of **Orion Power** (PFR, 12/9), isn't clear. However, the current depressed market for power assets mean pushing for a bankruptcy filing isn't an attractive option. "There is no interest in selling assets out of a bankruptcy," says one lender. Nevertheless the size of the bank group makes it difficult to gauge sentiment and also unwieldy to get agreement. "There are a host of hurdles to get over in such a short period," reflects one financier. "I'm sure it will go to the last minute." Calls to officials at **Citibank**, which is the lead on the synthetic lease, and **Barclays Capital**, one of the leads on Orion loan, were not returned.

Some observers have focused on how rich the likely pricing will be, particularly in the wake of deals such as **CenterPoint Energy**'s secured $1.3 billion loan (PFR, 11/11), which priced at LIBOR plus 975 basis points—with a 3% LIBOR floor. The 350-450 basis point over LIBOR range will probably fly simply because there is a recognition that the lenders don't want to cripple the company. "Past a certain point are we hurting the company, or helping the company?" asks one banker.

Although the lease financing isn't maturing, it has to be included in the refinancing because of clauses that allow lenders to call for repayment: money that Reliant doesn't have at the moment, says a financier. The lease lenders, who have been sued to fund a number of generation facilities, don't want to give up that call for minimal collateral and the corporate lenders won't lend to the company without securing the facility, so this is where the hard bargaining is taking place. "There is only so much collateral in there," quips one lender.

The other debt pieces in the mix are a $800 million one-year term loan and a $800 million three-year revolver, which Reliant expects to refinance at the same terms as the replacement for the Orion acquisition loan, according to Reliant's last 10Q. *—Peter Thompson*

BANKS TAKE

(continued from page 1)

Entergy relinquished ownership of Damhead—a three-year old state-of-the-art combined-cycle gas-fired plant in Kent, south England—on Dec. 31 and handed the keys to a 13-strong bank syndicate that provided subordinate project-level financing. The syndicate is led by **Royal Bank of Scotland** and includes **Abbey National Treasury Services**, **Barclays Capital**, **Halifax Bank of Scotland**, **Mizuho Financial** and **Société Générale**. These banks have injected a "nominal" amount of equity to take ownership, but have not restructured the junior debt or a larger senior loan—involving them and 10 other banks—that funded the plant.

The banks have established a limited liability company to run the plant, **Damhead Energy Ltd.**, and also put in place an independent board of directors to run the business. The board comprises three directors: **Andrew Speak**, **Clifford Stanley** and **Stephen Crisp**, according to a regulatory filing in London. Stanley, a U.K. power industry veteran who previously ran Saltend, a power plant sold by Entergy to **AEP** last year, is acting as plant manager. Calls to Stanley were not returned. The other board members could not be reached by press time.

The construction of Damhead was funded in December 1988 through a GBP500 million project loan. This consisted of two tranches, a 17-year GBP464 million senior piece and a GBP36 million 12-year subordinated piece. Entergy provided roughly GBP40 million in equity capital.

Entergy decided to leave the plant on New Years Eve so that it could make a tax-deductable write off for 2002 on its investment, say bankers. They add that Entergy management first threatened to walk last fall after it became infuriated with its lenders' unwillingness to restructure the debt to facilitate an easier sale (PFR,12/2). *—Will Ainger*

Quote Of The Week

"We could see a tidal wave of IPP failures."—**Michael Hogan**, *former executive managing director for Europe and the Middle East at* ***InterGen***, *commenting on the impact of overcapacity and weak wholesale power prices (see story, page 1).*

One Year Ago In Power Finance & Risk

Mirant was taking pitches for the lead arranger slot on a $750 million non-recourse loan. The facility was earmarked to cover four U.S. greenfield developments [As the Atlanta-based IPP scaled back its development plans, **Bank Of America** was hired to run a $310 million two plant deal (PFR, 5/13). However, after nixing development of one of the plants, Mirant also called a halt to the loan (PFR, 9/9).]