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Analysts Pick Top U.S. Stocks

After the volatility of last year, U.S stock analysts have pulled high-growth stocks from their recommended lists and instead are favoring relatively conservative, under-leveraged power companies backed by hard assets.

For a list of top stock, picks turn to pages 7-8

In The News

Corporate Strategies

Latin America

Departments

MIRANT SEEKS LEAD ARRANGER FOR $750M CONSTRUCTION LOAN

Atlanta-based Mirant has been taking pitches for the lead bank slot on a possible $750 million non-recourse construction loan. The specific projects inked in for the deal could not be determined, but one banker says it is likely four greenfield developments would be covered. The IPP, which formally cut ties to its mother ship **Southern Co.** in April, has not yet made a decision on the likely lead, he adds. Repeated calls to Mirant officials were not returned by press time.

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CANADIAN STATE INVITES BIDS FOR JUMBO IPO

The Ontario government has asked banks to submit bids within the next two weeks for the lucrative lead underwriting mandate for its planned $5 billion initial public offering of state-owned utility **Hydro One**, the restructured **Ontario Hydro**, say bankers familiar with the matter. They add the lead underwriter will likely be selected by the end of January. **SuperBuild,** the Ontario agency responsible for the privatization, has retained **UBS Warburg** to advise on the process. **Terry Young**, a Hydro One spokesman, referred all calls regarding the IPO to officials at Superbuild, who did not return calls. Bankers at

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Fire Sale?

U.S. PLANT SALES SET TO RISE, BUT PRICING WILL SLUMP

The volume of U.S. generation asset sales is likely to reach an unprecedented level this year, eclipsing 1998 as the most active year to date; but without any truly cash-rich buyers, prices will probably slump.

Dan Ford, head of utility research at **Lehman Brothers** in New York, forecasts in a recent report that the slew of plants on the block should lead to some real bargains. Lehman predicts that the average price paid for plants will decline by 25-35% this year

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MOODY'S TO RESPOND TO INDUSTRY BACKLASH WITH TRADING GUIDELINES

Moody's Investors Service will later this month outline the criteria it uses to position power companies with major trading operations on either side of the junk/investment grade dividing line. The move follows the strongly negative reaction the rating agency drew from bankers and power company officials after the swift and dramatic downgrades it made last month; a move not followed by **Standard & Poor's**. "I would call it a

(continued on page 11)

TD Relocates London Chief

Julian Bott, London-based head of **TD Securities**' European commercial banking division, last week relocated to New York to take a newly-created post heading up energy for the U.S.

With the wider market slowdown in the firm's other core telecom and media banking franchises, it is looking to re-affirm its emphasis on energy, explains a TD banker in New York. "It's a message that there is an even greater focus on energy," he says. Bott, who did not return calls, has the firm's Houston, Chicago and New York operations within his bailiwick.

Bott is a well known name in U.S. energy circles, not least because of a previous stint heading TD's Houston operations. The previous New York energy chief, **Bob Gibson**, has moved over to head an energy advisory group at the firm.

Spain May Suffer California-Style Crisis, Warns Analyst

London-based analyst **Marc Watton** of **BNP Paribas** is warning investors to avoid Spanish utility bonds because he fears a California-style power crisis is imminent. "In Spain there have already been blackouts and there are no plans to build any plants." He adds prices last month spiked sharply higher as supply failed to meet demand.

Spain's interconnectors with its neighbors Portugal and France are also severely constrained and already fully utilized with existing contracts, he says. Adding to the problems, Spain is highly dependent of hydroelectric power, and could suffer in the event of a dry spell. Accordingly, Watton recommends investors avoid the big four Spanish utilities, **Endesa**, **Iberdrola**, **Union Fenosa** and **Hidroelectrica Del Cantabrico**.

Patrick Hughes, a utility analyst at **Credit Suisse First Boston** in London, disagrees. He reckons the California situation was a one-off scenario caused by poor regulation. He argues that Spanish utilities will shortly be shifting investments away from Argentina, and that this should generate cash to invest at home. But Hughes isn't recommending Spanish utility bonds for another reason. He says they trade too expensively.

Meltdown Eases UtiliCorp Bid

The declining stock market valuation of independent power producers and traders last month likely helped UtiliCorp win shareholder approval for its controversial buy-back of **Aquila**, the IPP it partially spun of last April.

Last November when UtiliCorp announced the move, many analysts complained it was repurchasing the IPP on the cheap and questioned whether it would win the necessary approval of more than half of Aquila's free-float investors (PFR, 11/12). But as stock prices plummeted across the board, the guaranteed exchange ratio of 0.6896 shares of UtiliCorp for every Aquila share started looking pretty attractive, says one New York analyst. While IPP's, such as **Dynegy** and **Mirant**, have seen their share prices fall by up to 40% since the demise of **Enron**, Aquila's stock has held up relatively well, falling from $21 to around $18 over the past two months. This is partly because UtiliCorp, like other utilities, is seen as a safe stock backed by hard assets.

Thompson Returns To PFR

Peter Thompson has re-joined *Power Finance &Risk* as a senior reporter based in San Diego, covering power trading and project finance. Thompson was executive editor of *PFR* from 1998, when the newsletter launched, until 2000. Since then he has been an executive editor of a number of other *Institutional Investor* newsletter titles.

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Players Pile In On InterGen Corporate Revolver

A new $300 million corporate revolver, led by **Deutsche Bank** on behalf of InterGen, has attracted 14 banks in wholesale syndication and been oversubscribed by $30 million. "A lot of people put a lot of faith in **Shell** and **Bechtel**," says one banker, referring to the corporate parents of the Boston-based IPP and the healthy appetite for the credit.

BNP Paribas, **Credit Lyonnais**, **Barclays Capital**, **Dexia** and **HypoVereinsbank** have each committed $25 million. Signing up for $20 million tickets are **West LB**, **Royal Bank of Canada**, **ABN AMRO**, **KBC Bank**, **Fuji Bank**, **National Australia Bank**, **Commonwealth Bank of Australia** and **Citibank**. The international flavor of the roster reflects the fact InterGen likes to deal with banks it can work with on other projects around the globe, says another banker who has worked with the company.

A second round is due to wrap up within a couple of weeks. Calls to **Mark Takahashi**, treasurer at InterGen, were not returned by press time.

InterGen Hires Citi For Q1 U.K. Project Loan

InterGen is looking to tap the sterling project finance market this quarter to fund the construction of Spalding, an 800 MW combined-cycle gas-fired power plant on England's south coast, and has hired **Citibank** to arrange and lead the transaction. A financier at Citi in London says the aim is to raise some GBP300-400 million in the syndicated loan market within the next few months. He declined to comment on the structure or likely pricing of the transaction. **Alex Doyle**, a spokesman for InerGen, did not return calls.

If InterGen successfully raises the capital and breaks ground on the project, it will be the first new significantly sized gas-fired generation project in the U.K. since the Department of Industry lifted a moratorium on developing gas-fired facilities over a year ago (PFR,11/27/00). While a number of developers have been granted permits to construct new power plants, such as **AES**, **NRG Energy** and **Entergy**, none have yet move forward with the projects because tight spark spreads have undermined the economics of the schemes.

InterGen has surmounted the spark spread problem by signing an economically attractive tolling agreement with **Centrica**, a U.K. supplier of gas and electricity, explains the Citi banker.

Windsor-based Centrica, formerly the supply arm of **British Gas**, held a 42% stake in Spalding until last fall when it withdrew its equity commitment (PFR, 8/12)." Entering a tolling agreement, rather than building the plant itself makes perfect sense for Centrica. It can lock in the extra capacity it needs to meet its growing electricity supply business, without the capital expenditure necessary to build the plant," reasons the Citi banker.

Citibank's European investment banking affiliate **Schroder Salomon Smith Barney** was retained last summer to advise on the financing of Spalding.

Covanta Looks To Put Itself Up For Sale

Covanta Energy, a Fairfield, N.J.-based independent power producer, is likely to seek an acquirer shortly following a 60% slump in its market capitalization late last month and the admission that it may not be able to honor its debt obligations. "Everything seems to point to the sale of the company as the best way out," says **Gary Schneider**, a stock analyst at **Bear Stearns** in New York.

Covanta's stock price tanked from $9.99 to $3.92 in less than half a trading session on Dec. 24 following an earlier statement that it has insufficient liquidity to repay a $146 million bank line with **Bank of America** and **Deutsche Bank**. Covanta subsequently hired **Salomon Smith Barney** to review its operations and devise a new business strategy. Calls to the banks and officials at Covanta were not returned.

Schneider says Covanta has a $200 million market capitalization, but probably has a book value well above this depressed price. "Logic suggests the value is greater than its current share price of $3.92. The takeover is a realistic scenario if it receives a bid approaching something close to its asset value.

However, another New York utility analyst argues that Covanta's takeover prospects look slim. "Some IPPs might show some interest, but there probably won't be huge demand if Covanta goes up for sale." Potential bidders are also facing financial constraints and are not looking to take risks right now, he explains.

Schneider agrees that prospective bidders will remain cautious in the current environment. The market is fraught with risk. So it's impossible to tell if potential bidders will offer an acceptable price, he notes. He declined to speculate on potential bidders.

Schneider attributes some of Covanta's financial problems to the collapse of **Enron**. "If Enron had not gone out of business, Covanta probably wouldn't be having these financial difficulties as it would have been able to access the capital markets. Enron going down has had a disastrous effect on growing companies."

French Energy Giant Lands Innogy Trader

Steve Bowring, a senior power trader at Innogy, has joined **TotalFinaElf**'s London-based power trading unit. **Etienne Amic**, head of power trading at TotalFinaElf, says Bowring will focus on trading continental European power. At Swindon, U.K.-based Innogy, Bowring traded forward contracts in the U.K. market (PFR, 1/7).

Enron Credit Head Joins CIBC

Rabin Barker-Bennett, head of credit at **Enron Credit** in London, has left the company and will soon be landing at **CIBC World Markets**. Barker-Bennett will join CIBC's debt capital markets group in London at the end of the month, according to an official familiar with the move. **Lisa Russell**, a CIBC spokeswoman, did not comment and Barker-Bennett could not be reached.

Other members of Enron Credit's team have also landed at London-based investment banks. **Nigel Price**, a structurer, confirmed he has joined **Credit Lyonnais** to trade collateralized debt obligations and credit derivatives, as has **Simon Brooks**, a flow trader. **Will Robinson**, also a credit structurer, will land at **UBS Warburg**, in a similar position shortly. Robinson could not be reached for comment, but a UBS spokeswoman confirmed his hire.

Private Equity Fund Raises Additional $200M

ArcLight Capital Partners, a Boston-based investment boutique, is in the process of raising $200 million to bolster the size of an existing $500 million power sector private equity fund, says a banker familiar with the matter.

The firm was launched last Spring when Boston-based insurance and investment giant **John Hancock Financial Services** committed an initial $500 million (PFR, 3/26). Over the past year ArcLight has been talking to a variety of banks, insurers and non-U.S. utilities about raising additional capital, says the banker.

ArcLight will tap the fund to make investments in the U.S. and European power industry. An analyst familiar with the investment vehicles says some 80-90% of the capital will likely be earmarked for generation projects and transmission and distribution companies. "The power technology market is weak so it is unlikely that the firm would invest too much in this sector now," he says. **Daniel Revers**, managing partner at ArcLight, and **John Tisdale**, counsel, did not return calls. **John DeCiccio**, cio at John Hancock, referred calls to a company spokesman, who also did not return calls.

Standard Hires Aquila Trader For Eastern Push

Standard Bank has begun eyeing the central and Eastern European power markets and has hired **John Cunningham**, senior structurer, from **Aquila Energy**, to make its first inroads in these regions.

Mary O'Carroll, head of electricity trading at Standard Bank in London, says Cunningham will focus on structured risk management for clients in the Baltic region, the Czech Republic, Slovenia and a number of other emerging European countries. Cunningham left Aquila last week and joins Standard in mid-February after a brief hiatus on gardening leave.

Entergy-Koch Lands Enron Trio

Entergy-Koch Trading in London has hired three former Enron employees over the last month, according to **Mark Calloway**, business development manager. Last week **Derek Edmiston**, a U.K. forward contract trader, joined EKT in a similar position. The former **British Energy** power trader had spent two years at Enron.

EKT has also hired Enron employees **Mark Strange**, as director of U.K. gas origination, and **Mark Elliot**, as European general counsel, says Calloway. EKT has been continuously expanding in Europe for three years. The hires reflect the ongoing effort to hire top quality personnel, he explains.

InterGen Entices Banks Into Wildflower Club

Three banks, plus lead arranger **Deutsche Bank**, have so far committed to Boston-based InterGen's Wildflower project loan, which is being run as a club deal. **Fortis** and **NordLB** have each committed $35 million, **Citibank** is adding $20 million and Deutsche Bank has earmarked $45 million, says **Martin Rees**, v.p. of project finance at InterGen. He adds the deal is for $135 million and was fully funded by Deutsche Bank at the end of December.

The 364-day non-recourse bridge loan, which refinances two peaker plants in southern California (PFR, 12/17), doesn't have a set closing date, notes one banker, because of its club nature and the fact it is fully underwritten by Deutsche Bank. Fees could not be determined by press time. Other players are still looking at the deal, but another banker says the group isn't likely to be much larger give the size of the deal. Calls to InterGen and Deutsche Bank were not returned by press time.

RWE, Hetco Snap Up Enron Traders

RWE Trading and **Hess Energy Trading Co.** are believed to have hired a number of seasoned midlevel power traders and structurers from failed energy company Enron. Hetco has hired **Martin Bloch**, a senior Continental Europe power trader, in a similar position in London, according to an official familiar with the matter. Bloch was let go in November after Enron's European operations were put into administration. **Jon O'Neill**, co-head of Hetco in London, says the company has made a number of recent hires that will enable it to start trading the U.K. and European electricity markets. He declined comment on specific hires. Bloch could not be reached for comment.

Separately, RWE is believed to have hired **Andreas Radmacher**, an originator covering the German power market at Enron, and **Peter Kreuzberg**, a structurer at Enron. Calls to RWE officials were referred to **Juergen Dennersmann**, head of coal and power trading and head of commodity sales at RWE in Essen, who declined comment. Radmacher and Kreuzberg did not respond to e-mails requesting comment.

Power traders in London note that **Williams**, **Aquila** (PFR, 1/7) and **AEP Energy Services** (PFR, 12/24) have been active recruiting Enron staff since the company's failure. Most of the hires have been mid and junior level employees since many senior managers are contractually obliged to stay at their posts working with the administrator. Officials at Enron could not be reached for comment.

Corporate Strategies

Williams Refinances Debt With Jumbo Convertible

Williams will use the proceeds from last week's $1 billion convertible bond sale to repay existing liabilities and strengthen its balance sheet. The Tulsa, Okla.-based telecommunications and energy trading concern issued $1 billion of five-year mandatory convertible notes last Tuesday to repay $300 million in short-term debt to **Fuji Bank** and to redeem $240 million in preferred stock, say analysts. The remaining funds will be used to help pay down a $1.3 billion commercial paper program, they say.

Jim Gibson, a spokesman at Williams, says the company launched a road show to market the deal on Jan. 7, launched the deal on Jan. 8 and expects it to close on Jan. 14.

In the wake of **Enron**'s collapse and tougher rating agency scrutiny, many power companies have tapped the convertible company to shore up their balance sheets. Falling stock prices have made convertibles more attractive and less dilutive than direct stock sales. **John Levin**, head of convertible securities research at **J.P. Morgan** in New York, says, "**Calpine** completed a $1.2 billion convertible debt offering just last month. The offering went over well and its stock traded smartly [on the back of the deal]."

He adds that the market is also deep enough to sustain the glut of new deals "There is a lot of capital available and deals can be done quickly." He points out that Williams sought to tap the market on Friday and priced the deal on Tuesday morning.

The Williams deal pays a 9% coupon and converts into common stock after three years. Joint lead underwriters for the sale were **Merrill Lynch** and **Salomon Smith Barney**. Senior co-managers were **J.P. Morgan**, **Banc of America**, **Credit Suisse First Boston**, **Lehman Brothers** and **Mizuho Financial**.

El Paso Cuts Debt Load

El Paso tapped the bond market late last week with a $1.1 billion 30-year senior unsecured note offering to help pay down debt maturing this year. The Houston-based power and gas giant has $16.8 billion of corporate debt, of which some $2 billion is due over the next 12 months, notes **Joseph Walker**, a fixed-income analyst at **SWS Securities** in Dallas. El Paso filed the deal with the **U.S. Securities and Exchange Commission** last Monday and the offering was due to close last Friday.

Walker says El Paso's timing of the deal largely reflects a pragmatic desire to lock in low interest rates. "Rates have been relatively low for some time, so it is advantageous for El Paso to do this deal now," he argues.

Still, at an expected yield spread of 230 basis point over comparable Treasury bonds, the pricing is still high on a historical basis, according to Walker. The wide yield spread reflects investors' perception of increased risk in the electricity sector following the collapse of **Enron**. Falling gas prices may also have created jitters, he argues. "Absent of these events, the spread would have been about 175 basis points."

The triple-B rated deal pays a coupon of 7.75% and was set to be priced, as *PFR* was going to press, at 99.17 to yield 7.822%. **Banc of America Securities** led the deal. Calls to BofA and El Paso were not returned.

Latin America

Colombian Generator Defaults

Chivor, a subsidiary of **AES Gener** and Colombia's fourth largest generator, defaulted on a $336 million internationally syndicated non-recourse project loan late last month, after failing to refinance the facility in the Colombian capital markets, according to a member of the bank syndicate.

Chivor is currently negotiating with the 15-strong syndicate for an extension to repay the bank loan, which matured last month. The loan was issued in 1997 at 200 basis points over LIBOR. It received approval from the banks in December to issue about $150-$200 million in Colombian peso-denominated bonds to help repay the bank debt, but the Colombian economic recession left bond investors unreceptive to the deal.

A financier in New York explains that the banks set up a mini-perm style loan that did not include a full amortization schedule for the principal, but would need to be refinanced at maturity. "There was a refinancing risk born by all of the banks initially."

The financier says Chivor will likely attempt another bond offering later this quarter. However, if Chivor again fails to place the deal, the bank syndicate will consider setting up a "cash trap" that would sweep up Chivor's revenues to pay down the bank debt. He says that although the banks could potentially take over the project, it would be counter productive and they would much rather try to work with the borrower.

Members of the syndicate include lead arranger **Bank of America**, and co-arrangers **Erste Bank**, **Hypo Vereinsbank**, **BNP Paribas**, **Natexis Banques Populaires**, **Dresdner Kleinwort Wasserstein**, **Royal Bank of Canada**, **J.P. Morgan** (PFR, 12/3/01).

Latin American Power Financing Calendar

*Following is a directory of upcoming projects and related financing in the Latin American power sector. To report new deals or provide updates, please call **Amanda Levin Arnold**, Reporter, at (212) 224-3292 or email: alevin@iinews.com*

Sponsor	Project	Project Type	Size (MW)	Cost ($mil)	Country	Advisor/ Financier	Status	PFR Issue
ABB	Thermo Bahia	Gas-fired	187	205	Brazil	-	IADB is considering financing a portion of the deal	6/4/01
CFE	Rio Bravo III	Gas-fired	500	250	Mexico	-	Only EDF has bid for the BOO project	6/4/01
Ceran	-	Hydroelectric	360	111	Brazil	BNDES	Will launch the loan shortly	10/8/01
Compahnia Energetica de Pernambuco	Termopernambuco	Gas-fired	520	403.5	Brazil	IADB/BBVA/BNDES	Syndication due in Feb.	12/24/01
Corporacion Venezolana de Guyana	Tocoma Dam	Hydroelectric	-	2,100	Venezuela	-	Expects to bring project on line by 2006	6/25/01
Duke Energy International	-	Gas-fired	500	270	Brazil	-	-	4/2/01
El Paso	-	Gas-fired	700	600	Brazil	-	Expects to seal financing shortly	4/2/01
El Paso	-	Gas-fired	200	200	Mexico	-	Expects to bring project on line by 2003	4/16/01
Electricité de France	-	-	4,000		Brazil	-	Looking to increase capacity by 800 MW	4/16/01
Endesa	-	Interconnector	-	244	Brazil/Argentina	IDB,BSCH, Credit Agricole	Will syndicate the loan by November	10/8/01
Iberdrola	Vera Cruz	Gas-fired	800	700	Mexico	-	IADB has offered assistance to relaunch the stalled project	6/9/01
Iberdrola, Banco de Brazil, Previ	Termo Pernambuco	Gas-fired	540	350	Brazil	IDB, BBVA	Expects to bring project on line by 2002	3/26/01
Inepar	Usina Termoelectrica de Sepetiba	Coal-fired	1,377	1,000	Brazil	-	-	3/26/01
InterGen	Carioba	Gas-fired	945	670	Brazil	-	Looking at a $470M non-recouse loan. BNDES likely to lead the deal	4/23/01
InterGen	La Rosita I & II	Gas-fired	1,060	-	Mexico	Citibank, BNP Paribas, EDC, SocGen KBC, ANZ	Considering financing both plants in Q4 as a portfolio loan	9/10/01
PSEG Global	SAESA	Distribution company	N/A	450	Chile	J.P. Morgan	Considering taking out a $300M loan to fund the acquisition	9/24/01
PSEG Global	Electroandes	Hydroelectric	183	227	Peru	J.P. Morgan	Considering taking out a $100M loan to fund the acquisition	9/27/01
Sempra Energy Resour	-	Gas-fired	600	350	Mexico	-	Considering a project-level bank loan or bonds	3/5/01
Union Fenosa	La Laguna II		450	-	Mexico	-	-	7/2/01
Union Fenosa	Tuxpan III & IV	Gas-fired	938	600	Mexico	Possibly WestLB, First Union & Citi	Expects to bring plant on line by 2003	6/4/01

Analyst U.S. Stock Picks For 2002 - Pundits Take Cover In Defensive Stocks

After the pounding the U.S. power industry-—and many of the stock analysts that cover it-–took last year, sell-side analysts are unsurprisingly taking a more cautious approach to stock picks for this year. The Californian power crisis and the collapse of **Enron***, has given new luster to the once shunned facets of stable earnings, conservative leverage and modest ambition.*

Each year PFR asks a handful of stock analysts to select their two favorite power and utility stocks for the year, give year-end price targets and predictions of their earnings per share. Below is a summary of what's in vogue on Wall Street this year.

Dumped from the recommended list go many of last year's high-growth stocks, such as ***AES*** *and* ***Evergreen Solar****. In come electricity concerns with strong balance sheets, hard assets, and proven business plans. "The best approach in the electricity sector right now is to choose stocks that will be the best investments over time and aren't high flyers," notes* ***Brian Youngberg****, senior utility analyst at* ***Edward Jones****.*

Amidst the changing outlook, however, **Duke Energy** *remains, as last year, the most popular stock. Analysts love Duke now for its stable stock price—-its stock price barely moved amidst the carnage of last year—and low risk profile. Last year analysts said its growing merchant energy business, and clever gas asset acquisitions were the biggest pull.*

Credit Lyonnais Securities' - Samir Nanga

Allegheny Energy (AYE) at $45
Public Service Enterprise Group (PEG) at $50

The common threads linking **Samir Nanga**'s two stock picks, Allegheny and PSEG, are that both utilities have long generation positions in the Pennsylvania, New Jersey and Maryland (PJM) electricity market. Both energy companies should profit from rising PJM wholesale power prices over the next year, says the New York-based utility analyst.

With power prices in the western half of the PJM market in the doldrums at around $26 per MHh, it has become uneconomical for developers to construct new gas-fired facilities, says Nanga. With no new plants due to come on line and demand for power rising, wholesale electricity prices will likely trend higher towards a $35-40 per MWh long-term equilibrium, he argues.

Allegheny's large portfolio of coal-fired generation assets gives the utility high operational leverage and should prosper as wholesale prices firm, says Nanga. Because coal-fired assets have high fixed costs and low variable expenses they will benefit considerably from rising power prices, says Nanga. He calculates that every $5 rise in power prices in the western PJM market should translate into another dime for Allegheny's per-share earnings.

Nanga is bullish on Parsippany, N.J.-based PSEG because of its 11 GW generation position in the garden state. In particular Nanga believes PSEG could profit from a new power purchase agreement it must sign with its New Jersey utility subsidiaries later this year. "At present the contract is massively out of the money, but a new PPA has to be singed this summer that could boost earning by 10%," Nanga says. He argues that other analysts have not incorporated this news into their earnings forecasts because they have not differentiated the higher power prices in eastern PJM from those in the west.

Allegheny closed at $35.35 last Monday and has a 52-week range of $55.09 - $32.99. Nanga predicts its earnings per share (EPS) will rise to $3.75 in 2002 from $3.65 last year. PSEG closed at $41 and has a 12-month range of £6.87-55.55. Nanga forecasts earning will to $4.05 per share this year from $3.70 in 2001.

Commerzebank Securities' - Andre Meade

Duke Energy (DUK) at $50
Reliant Resources(RRI) at $26

New York-based utility analyst **Andre Meade** likes these companies because they have strong balance sheets. This is becoming increasingly important in the wake of the Enron collapse and rating agencies' ensuing focus on power companies' financial strength. Meade says he expects the share price of both companies to rise some 10-15% from their current levels over the course of 2002.

For the second year running Meade picks Atlanta-based Duke as one of his two favorite stocks. While Duke's stock prices suffered last year in light of its acquisition of **Westcoast Energy**, it could be a shrewd investment going forward, says Meade. He adds, "Duke is a top trader with a strong balance sheet and should benefit from the Enron collapse because it has no credit concerns."

Like Duke, Reliant Resources is also under-leveraged compared to its power sector rivals. "Reliant Resources has the strongest balance sheet of all the small merchant energy companies," says Meade. He notes that its stock was hit last year because of its announced acquisition of **Orion Power**, but says it should recover when the deal closes early this year.

Duke closed last Tuesday at $38.48 and has a 52-week high and low of $47.74 and $32.22, respectively. Meade forecasts its EPS will rise from $2.75 in 2001 to $2.85 this year. Reliant Resources closed at $16.92 and has a 52-week high and low of $37.50 and $13.20. Meade forecasts an EPS of $2.11 this year, up from $1.63 in 2001.

Salomon Smith Barney's - Daniel Seitz

American Electric Power (AEP) at $55
DTE Energy (DTE) at $54

New York-based **Daniel Seitz** says this year could prove a tough one for the electricity sector, as fallout from the California crisis and Enron's collapse creates a period of uncertainty. But two stocks that should weather the storm and rally by over 20% over the next 12-18 months are American Electric Power and DTE Energy, she argues. AEP is well positioned to benefit from its growing trading and marketing franchise and DTE is a well-rounded company that is expanding into the gas arena, says Seitz.

AEPs strong trading business and relatively conservative business model means that it should easily survive the post-Enron meltdown, says Seitz. Its acquisition of **Houston Natural Gas** should help support its gas trading and marketing businesses. "With AEP, it's more a matter of being in a good position for the longer term," says Seitz. "It has a relatively conservative stance and we think the company could show at least 15% growth over the next year."

Regarding DTE, Seitz says that it should prosper from its expansion into the gas market.

AEP closed at $43.85 last Tuesday and has a 52-week high and low of $51.20 and $39.25. Seitz predicts its EPS will grow from $3.40 last year to $3.70 in 2002. DTE Energy closed at $40.67 and has a 52-week range of $47.13 - $33.12. She predicts its EPS will grow from $3.40 to $4.00-$4.10 in 2002.

Daniel Seitz

Edward Jones' - Brian Youngberg

Southern Co. (SO)
Duke Energy (DUK)

St. Louis, Mo., based **Brian Youngberg** declined to give 12-month price targets for his two favorite stocks, Southern and Duke, but says both should perform strongly and are relatively safe non-volatile stocks.

Youngberg likes Southern, the Altanta-based utility, because it is a relatively low risk company with a stable share price, and Duke because it is growth-oriented, has a good track record and a solid balance sheet. "Compared to their peers, Southern will have less stock price volatility on a week-to-week basis this year and Duke has a lower risk profile than most growth stocks."

He is also upbeat about the whole electricity sector. "I think we'll see more stability in electricity prices and hopefully a return to more normal weather conditions after last summer's unusually mild temperatures."

Last Tuesday, Duke closed at $38.48 and has a 52-week range of $47.74 - $32.22. Youngberg predicts its EPS will rise from $2.71 to $2.77 this year. Southern closed at $24.80 and has a 52-week high and low of $26.00 and $16.15. He predicts EPS will rise from $1.60 in 2001 to $1.70 in 2002.

Wachovia's - Thomas Hamlin

Duke Energy (DUK) at $51
Dominion Resources (D) at $70

Richmond, Va.-based **Thomas Hamlin** says he likes these companies because they are both well positioned in the merchant power arena, own high quality assets and have strong balance sheets. "I think it should be a good year in the sector. Most of the companies oversold last year and have tremendous upside potential."

Hamlin particularly admires Duke and Dominion because they are good operators and developers of power plants and they made smart acquisitions last year. "They are very disciplined acquirers and they don't overpay for companies. Last year, when gas prices collapsed Dominion bought **Louis Dreyfus Natural Gas** and doubled their gas reserves at favorable levels. Duke bought **Westcoast Energy** in Canada and executed this deal at a very attractive price."

Duke closed last Tuesday at $38.48 and has a 52-week high and low of $47.74 and $32.22, respectively. He forecasts its EPS will grow from $2.75 in 2001 to 2.95 in 2002. Dominion closed at $59.15 and has a 52-week high and low of $69.99 and $55.13. He forecasts its EPS will grow from $4.15 in 2001 to $4.90 in 2002.

Thomas Hamlin

Gerard Klauer Mattison's - Michael Worms

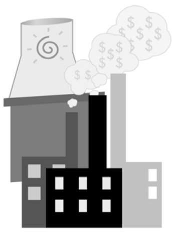
Calpine (CPN) at $40
Dominion Resources (D) at $72

New York analyst **Michael Worms** says Calpine and Dominion Resources are his two top stock recommendations because of their solid construction plans and excellent management teams.

Despite the pressure it came under in the latter part of last year, Worms likes Calpine because its stock is undervalued given its solid growth expectations going forward. Furthermore, Calpine is well positioned to take advantage of the opportunities in the energy markets, he says. Worms notes it has 17,000 MW under construction and another 10,000-20,000 MW in development.

Dominion Resources is in a good position to prosper because of its natural gas assets, which Worms says will provide an excellent opportunity for the company as gas prices firm up. It also has an attractive construction and acquisition program, he says.

Calpine closed at $15.74 and has a 52-week high and low of $58.04 and $10. Worms expects its EPS to increase from $2.05 in 2001 to $2.50 this year. Dominion closed at $59.15 and has a 52-week high and low of $69.99 and $55.13. He expects its EPS to increase from $4.20 to $5.00 in 2002.



Generation Auction & Sale Calendar

*Following is a directory of ongoing generation asset sales. The accuracy of the information, which is derived from many sources, is deemed reliable but cannot be guaranteed. To report new auctions or changes in the status of a sale, please call **Will Ainger**, managing editor, at (44-20) 7303-1735 or e-mail wainger@euromoneyplc.com.*

Seller	Plants	Location	MW	Plant Type	Advisor	Status
American Electric Power/ Central and Southwest Corp.	Northeastern units 3 & 4	Okla.	300	Coal	N/A	Reviewing sale strategies.
	Lon C. Hill	Texas	546	Gas		
	Nueces Bay	Texas	559	Gas		
	Ennis S. Joslin	Texas	249	Gas		
ADWEA	Um Al Nar	Abu Dhabi	1,100	Gas & Water Desalination	CSFB	Expected to send out RFPs in December.
Central Hudson Gas & Electric	Syracuse	N.Y.	100	CHP	Navigant	Final bids due by late Nov.
	Beaver falls	N.Y.	100	CHP		
	Niagara falls	N.Y.	52	Coal		
CMS Energy	Loy Yang	Melbourne, Australia	2,000	Coal	Not chosen	Announced intention to sell.
	Ensenada	Argentina	128	Gas-fired	J.P. Morgan	
	CT Mendoza	Argentina	520	Gas-fired	J.P. Morgan	
	El Chocon	Argentina	1,320	Hydroelectric	J.P. Morgan	
DPL	All plants	Ohio	3,500	N/A	Morgan Stanley	
Edison Mission	Fiddler's Ferry	U.K.	1,440	Coal	Goldman Sachs	Examining possible sale.
	Ferrybridge	U.K.	1,900	Coal		
Enel	Eurogen	Italy	7,008	Various	-	Having sold Elettrogen it will sell one of two other generation portfolios shortly.
	Interpower	Italy	2,611	Various	-	
Enron	Bahia Las Minas	Panama	355		PwC (administrator)	Intention to sell.
	Pueto Quetzal	Guatemala	110			
	PQPLLC	Guatemala	124			
	Margarita II	Nicaragua	70.5			
	EcoElectrica	Puerto Rico	507			
	Puerto Plata	Dominican Republic	185			
	Cuiaba	Brazil	480			
	Nowa Sarzyna	Poland	116			
	Sarlux	Italy	551			
	Trakya	Turkey	478			
	Chengdu Cogen	China	284			
	Northern Marianas	Guam	80			
	Bantagas	Philippines	110			
	Dabhol	India	2,184			
	Subic Bay	Philippines	116			
	Teesside	U.K.	1875			
	Wilton	U.K.	154			
IVO Energy	Brigg	U.K.	240	Gas	BNP Paribas	Preparing information memo.
	South Humber	U.K.	1,240	Gas		
	Grangemouth***	U.K.	130	Gas		
	Edenderry	Ireland	120	Peat		
Independent Energy	Various	U.K.	130	N/A	KPMG	KPMG is handling the asset sale after Independent Energy went into receivership.
MARCOR Remediation (A broker acting for an undisclosed seller)	-	Calif.	5.7	Wood	-	-
Niagara Mohawk Power	Nine Mile Point 1	N.Y.	1,614	Nuclear	N/A	Awaiting bids.
	Nine Mile Point 2	N.Y.	1,140	Nuclear	N/A	
North Atlantic Energy	Seabrook*	N.H.	408	Nuclear	N/A	Must be sold by Dec. 2003.
Oman (Ministry of Housing, Electricity & Water)	Rusail	Oman	730	Gas	-	-
	Ghubratt	Oman	507	CHP		
	Wad Al-Jazzi	Oman	350	Gas		
Ontario Power Generation	Lennox	Ontario	2,140	Oil, gas	Merrill Lynch & Scotia Capital-	Expects to sell Lennox and Lakeview shortly.
	Lakeview	Ontario	1,140	Coal		
	Atikokan	Ontario	215	Coal		
	Thunder Bay	Ontario	310	Coal		
	Mississagi River	Ontario	490	Hydro		
Pacific Gas & Electric	68 Plants	Calif.	3,800	Hydro	Morgan Stanley	Awaiting PUC approval. Expect sale to close shortly.

Generation Auction & Sale Auction (cont'd)

Seller	Plants	Location	MW	Plant Type	Advisor	Status
Powergen	Powergen CHP Ltd.	U.K.	600	CHP	Dresdner	Hopes to sell business by year-end.
Public Service Co. of New Hampshire (Northeast Utilities)	Merrimack	N.H.	475.8	Coal	J.P. Morgan	Subject to approval for rate settlement by PUC and state legislature.
	Newington	N.H.	415	Oil/gas		
	Schiller	N.H.	146.6	Oil/gas		
	Lost Nation	N.H.	19.1	Diesel		
	Merrimack	N.H.	42.2	Diesel		
	Schiller	N.H.	18	Diesel		
	White Lake	N.H.	23	Diesel		
Public Service Co. of New Hampshire (Northeast Utilities)	Amoskeag	N.H.	17.5	Hydro		Subject to approval for rate settlement by PUC and state legislature.
	Ayers Island	N.H.	9.1	Hydro		
	Canaan	Vt.	1.1	Hydro		
	Eastman Falls	N.H.	6.5	Hydro		
	Garvins Falls	N.H.	12.1	Hydro		
	Gorham	N.H.	2.1	Hydro		
	Hoolsett	N.H.	1.95	Hydro		
	Jackman	N.H.	3.55	Hydro		
	Smith	N.H.	14.2	Hydro		
ScottishPower	Hazelwood	Victoria, Australia	1,600	Coal	CSFB	Final bids due this summer.
TXU	Lake Creek	Texas	323	Gas	Merrill Lynch	Reviewing sales strategy.
	Tradinghouse	Texas	1,340			
	River Crest	Texas	110			
	Mountain Creek	Texas	893			
	Parkdale	Texas	327			
	North Main	Texas	123			
	Monticello	Texas	1,900	Coal	Merrill Lynch	Is looking to sell an undisclosed number of its coal assets.
	Martin Lake	Texas	2,250			
	Big Brown	Texas	1,150			
	Sandow	Texas	545			
Wisconsin Energy	Bridgeport	Conn.	1,100 (combined)	-	-	Has put up for sale following collaspe of NRG deal.
	New Haven	Conn.	1,100 (combined)			

* North Atlantic Energy owns 34.8% of Seabrook
*** Fortum owns 75% of Grangemouth. Mitsubishi owns the remainder.

Financing Record (JANUARY 3 - JANUARY 10)

Bonds

Date	Maturity	Issuer	Amount	Price	Type of Security	Coupon (%)	Moody's	S&P	Book Manager(s)
01/04/02	03/30/07	Nederlandse Waterschapsbank	303	96.92	Fxd/Straight Bd	2.5	Aaa	AAA	UBS Warburg
01/09/02	01/15/05	Duke Energy	250	100	FRNs	Floats	A1	A+	UBS Warburg/Wachovia
01/09/02	01/15/12	Duke Energy	750	99.728	Notes	6.25	A1	A+	UBS Warburg/Wachovia
01/9/02	02/9/05	Williams	1,000	100	Convertible	9	-	-	Merrill/SSB
01/10/02	01/10/32	El Paso	1,100	99.17	Senior Notes	7.75	-	-	BofA

M&A

Date Announced	Date Effective	Target Name	Target Country	Acquiror	Acquiror Country	Value ($mil)
01/03/02	-	Electra Italia	Italy	BKW FMB Energie	Switzerland	-
01/04/02	-	Jiao Zuo Dan He Power Gen	China	-	Hong Kong	-
01/04/02	-	Jiao Zuo Dan He Power Gen	China	Sunfast	China	-
01/07/02	-	CEZ Elektrarna Pocerady	Czech Republic	Investor Group	Spain	-
01/08/02	-	Aguas de Portugal	Portugal	Electricidade de Portugal	Portugal	89.28
01/08/02	-	Aguas de Portugal	Portugal	Electricidade de Portugal	Portugal	-
01/08/02	01/08/02	Rede Electrica Nacional	Portugal	Caixa Geral de Depositos	Portugal	-
01/09/02	-	Daegu City Gas (Daesung)	South Korea	Daesung Industrial	South Korea	2.789

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

MIRANT SEEKS

(continued from page 1)

The deal could be a tough sell, according to some market players, given Mirant's two notch downgrade to junk status last month, and the fact the company was so active last year. "There is a glut of Mirant paper and people are nervous because of **Enron**," says one banker.

The track record of Mirant in the project finance market last year also does little to inspire confidence. The IPP pulled a planned $1.5 billion construction loan, led by **Credit Suisse First Boston**, last summer because of a lackluster response to the pricing it was trying to achieve (PFR, 6/18), and instead expanded a corporate credit facility to $2 billion. A second project loan, arranged and underwritten by **KBC Bank,** has also yet to be fully syndicated more than six months after its launch (PFR, 6/18). A KBC official says the intention is to re-launch the Perryville deal, but was unable to give a timeline.

However, one syndicator was more bullish on the prospects for Mirant. "It's doable for a company like Mirant," he says, adding the downgrade move didn't make great sense to him given the fact Mirant has solid assets backing its business.

The **Moody's Investors Service** downgrade announcement, which also placed the company on review for further downgrade, notes, "Mirant would need to fund up to an additional $200 million construction from cash over the coming months if it could not arrange construction financing." If it isn't able to arrange the funding, the agency adds the company could slow down construction on announced plants.

—Peter Thompson

MOODY'S TO RESPOND

(continued from page 1)

reiteration. Some people would call it new," says **Susan Abbott**, managing director at Moody's in New York, who is writing a paper outlining the methodology for release this week.

After the downgrades of **Calpine** and **Mirant**, among others, the agency held a conference call on Dec. 20 to explain the moves. One banker who was on the call notes sentiment against the downgrades was running high. "I've never heard a call like it. Wall Street analysts were yelling by the end," he says. Abbott concedes the agency didn't give enough of a signal ahead of the moves. "I believe the negativity exists because of the rapidity of the move," she says.

The paper will set out the financial matrix used when Moody's looks at power companies with significant trading operations, Abbott notes. The three key hurdles these companies need to maintain an investment-grade Baa rating are:

- Net cash flow to debt outstanding of 7-15%;
- Cash flow to fixed obligations coverage of three times, or better; and,
- Leverage of 45-65%.

These hurdles are not new, but are criteria the agency hasn't made public before, explains Abbott. She adds the agency will not be drawing a sharp line between what counts as significant and non-significant in terms of trading, because players tend to generate either 20-25% of their cash flow from trading or very little.

One banker, who wasn't aware of the criteria, was skeptical about whether the numbers would quell industry disquiet. He says one problem with specific hurdles is that aside from trading, many of the companies have vastly different businesses. For instance, a generation portfolio weighted heavily toward U.S. gas-fired plants obviously doesn't have the cash flow diversity of one with a mix of plants and overseas exposure, and a rating has to reflect that, he argues.

The other issue the agency will be looking to get across is the impact of 'confidence sensitivity' on trading, a factor that has been growing in importance for the last year, not just since the demise of **Enron**, Abbott notes. The paper will use Calpine, **Duke Energy**, **Dynegy**, Mirant and **Williams** to illustrate the methodology.

Pete Rigby, director, utilities, energy and project finance at S&P, declined comment on Moody's criteria and its recent rating downgrades. *—P.T.*

U.S. PLANT

(continued from page 1)

from 2001's $530 per KW average for non-nuclear assets.

A raft of IPPs, including **El Paso**, **Dynegy**, **Mirant**, **Williams**, **NRG Energy**, **Edison Mission Energy** and **CMS Energy**, are looking to sell generation capacity to shore up their balance sheets and improve their credit ratings in the wake of Enron's collapse. Mirant, for example, is looking to unload a couple of oil-fired plants, Canal and Kendall in Massachusetts, which have a combined capacity of 1,200 MW. Officials at these companies either declined to comment on what they plan to sell or did not return calls.

Gordon Howald, a utility analyst at **Credit Lyonnais** in New York, agrees that pricing will start to fall. As asset sales increase there will be a lot of fire sales, he predicts.

European utilities looking to enter the U.S. will be the biggest beneficiary of falling prices, argues **John Slocum**, director at **Navigant Consulting**, an M&A advisory boutique in Boston. "It might be a good opportunity for them to pick up some assets because prices will be lower." He argues that **RWE**, **Endesa** and **Tractebel** are likely buyers.

Lehman analysts predict that U.S. utilities with strong balance sheets such as **Exelon**, **Duke Energy** and **Constellation Energy** will also begin prowling for assets.

However, not all commentators are predicting a collapse in generation prices. **Edward Tirello**, managing director and senior power strategist at **Berenson Minella** in New York says, "There won't be any fire sales, except for Enron. The prices will probably be fair because these companies do not have dire financial situations."

Michael Worms, a utility analyst at **Gerard Klauer Mattison** in New York, says that with all of these assets going up for sale at the same time, it is unlikely that the sellers will be able to unload them quickly. But he says that for the right price, they'll all eventually be sold. *—A.L.A.*

CANADIAN STATE

(continued from page 1)

UBS Warburg could not be reached by press time.

Hydro One has more than one million customers in its unregulated services businesses and regulated transmission and distribution businesses. The government, which owns Hydro One, plans to sell the entire entity and use the proceeds from the IPO to pay down debt incurred by its predecessor, Ontario Hydro.

—Amanda Levin Arnold

Calendar

Euromoney Seminars will hold its fourth annual *Syndicated Loans Conference* at the **London Marriot Hotel** on March 21-22. Speakers include **Chris Vermont**, head of project and structure finance at **ANZ Investment Bank** and **Tim Ritchie**, global head of syndication at **Barclays Capital**. For further information call: 44-(0)20-7779-8603

Quote Of The Week

"Choose stocks that will be the best investments over time and aren't high flyers."—**Brian Youngberg**, *senior utility analyst at* ***Edward Jones*** *in St. Louis, Mo., advising stock investors on how best to negotiate the power sector this year (see stock picks, page 7).*

One Year Ago In Power Finance & Risk

Williams, the Tulsa, Okla.-based telecommunications and energy trading shop, was looking to establish a natural gas, electricity, crude and refined trading and marketing presence in London in the second quarter, according to **Tim Loposer**, managing director, who was heading up the effort. [Williams' European power desk currently trades the German market, and plans to being trading Scandinavia's Nordpool by March. It is also taking a close look at entering the U.K., French, and possibly Dutch markets in the near future, says an official at the firm.]