

# power finance & risk

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## Analysts Pick Top Euro-Zone Stocks

Spain's utilities garnered two votes, but otherwise, no single stock or region emerged as equity analysts' favored punt for the next 11 months.

*For a list of top stock picks, turn to page 7*

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## ENRON SHORTLISTS FIVE BIDDERS FOR BRAZILIAN UTILITY

Enron Global Services has shortlisted Endesa, AES, Duke Energy International, Tractebel and RWE, to purchase its largest Latin American asset, Elektro Eletricidade e Servicos, according to bankers familiar with the sale. Elektro, Brazil's sixth largest electricity distributor, is seen by many commentators as the jewel in Enron's Latin American crown and could fetch some \$1.5 billion for the embattled energy trader, says an M&A banker involved in the discussions.

*(continued on page 11)*

## Bye-Bayou?

## CALPINE, CLECO EYE CHEAPER FINANCING, NEW LEADS FOR ACADIA DEAL

Acadia Power Partners, a joint venture between Calpine and Cleco, may revisit who will lead non-recourse financing for a 1,160 MW plant it is building in Southwest Louisiana, in an attempt to get cheaper financing. The original mandate for the \$564 million venture was awarded to Société Générale and Fortis Bank last May, but the project ran

*(continued on page 12)*

## UBS' BID FOR ENRON TRADING UNIT BAFFLES VETERANS

UBS Warburg's attempt to acquire Enron's wholesale power and gas trading operation had veterans of the Swiss bank's commodities trading business scratching their heads at the firm's apparent strategic U-turn last week. UBS shut most of its profitable commodity trading operation in 1998. The bid to acquire Enron's trading unit was awaiting bankruptcy court approval as PFR was going to press Friday. A UBS spokesman in Zurich declined comment, pending the court's decision.

*(continued on page 12)*

## SEMPRA ICES WEATHER FORAY AS CHIEF EXITS

Stamford, Conn.-based Sempra Energy Trading has put its fledgling weather derivatives trading operation on hold following the departure of Paul Henry, v.p, less than a year after arriving from Dynegy Marketing and Trade to launch the unit. Doug Kline, spokesman at Sempra Energy, declined comment on the reasons for the departure. Henry has not been replaced and the company is out of the weather market at the moment while it evaluates the business, Kline says. He was unable to say when that evaluation will be finished. Henry could not be reached for comment.

*(continued on page 12)*

Check [www.iipower.com](http://www.iipower.com) during the week for breaking news and updates.

## Banks Set To Close Qatar Deal

The 10 lead arrangers of the \$572 million AES-sponsored Ras Lafan project loan hope to complete retail syndication this week. "A number of banks have signed up already. We're just waiting for a few late stragglers," explains a financier at one of the leads. She declined to comment on how many banks are likely to join the syndicate. Late last year another financier said the syndicate was looking to sell down \$300 million through 15 tickets (PFR,12/2).

## TECO Adds Equity To Get Bank Juice Flowing

TECO Power Services is close to inking a deal to pump an additional \$200 million of equity capital by mid-year into two generation projects it's developing with Panda Energy as part of an agreement with banks to resume lending to the plants.

The banks iced project funding for the El Dorado and Gila River plants in December because Enron's bankruptcy invalidated the guarantees it had made for National Energy Production Corp., the construction contractor. That lack of a guarantor threw the projects into technical default, or as one banker says "default with a small 'd.'"

To re-start the \$2.2 billion non-recourse loan, which is led by Citibank and Société Générale, TECO has also agreed to become the guarantor of certain of NEPCO's obligations, including covering any project cost overruns. The \$200 million is an accelerated payment that would have been made further into the project. Mark Kane, director of investor relations at TECO in Tampa, Fla., says TECO is making the equity move, rather than its development partner, because

Panda made most of its equity infusion upfront.

El Dorado and Gila River are gas-fired power projects in Arizona and Arkansas, respectively (PFR, 12/24). TECO also hired NEPCO to build McAdams, a 599 MW CCGT plant in Mississippi and Dell, a 599 MW plant in Arkansas. Financing for those plants will be determined when the agreement covering the first two plants is finalized.

## Latam Fears Overplayed

Argentina's devaluation may have caused panic among utility sector investors exposed to the region, but analysts say the reaction has been exaggerated and that the crisis is unlikely to impact companies' earnings significantly. The power companies with the most assets in Argentina, including Endesa, AES, PSEG Global and Duke Energy International, all have minimal exposures compared to their overall financial strength, they add.

Rodrigo Sousa, a utility analyst at BSCH Bolsa in Barcelona, points out that Endesa has investments totaling EUR1.2 billion (\$1.06 billion) in Argentina, but these only account for 4-5% of the company's income. "EUR1.2 billion is relevant to any company's balance sheet, but the impact is limited because Endesa is valued at EUR45 billion. It won't prove to be substantial."

Other analysts add that the impact on AES and PSEG will also be minimal. "Their balance sheets will shrink due to the devaluation, but the impact will be small and the situation will surely turn around," says Jose Javier Ruiz, an analyst at BNP Paribas in Madrid. Daniele Seitz, an analyst at Salomon Smith Barney in New York, estimates AES has \$750 million invested in Argentina and PSEG has about \$200 million.

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## Goldman Analyst Joins Firm's M&A Unit

**Isabelle Hayen**, European utility analyst at **Goldman Sachs** in London, has crossed the bulge bracket firm's Chinese wall to join its power sector M&A advisory business. **Richard Morse**, managing director and head of Goldman's U.K. power advisory franchise, explains the move reflects Goldman's desire to bulk up the business.

Hayen says her vacant equity research position has yet to be filled. **Philip Green**, U.K. power analyst at Goldman, was out of the office on business and could not be reached for further comment.

## InterGen Shuttters Houston Outpost; Bulks Up in Mexico City

Boston-based InterGen has closed its Houston office and transferred some 30 staffers to Massachusetts ahead of the IPP's move to new headquarters in Burlington next month, says spokesman **Bob Morris**.

As part of the reorganization, **John Foster**, senior v.p. and regional executive for Latin America, and a number of his Miami-based colleagues are transferring to a bulked up Mexico City office, says Morris. A smaller Miami satellite will be maintained, but 18 staffers from there are also Massachusetts bound. With the busy development plan fired up last year, the company had outgrown its current Boston office. "It made sense to join the three [U.S.] offices in one location," Morris says, given that the company had to find a bigger space for its head office.

## Train Approaching French Railway Sale Enters Closing Straight

**Société Nationale Des Chemin De Fer (SNCF)**, the French state-owned railway, was due to receive final bids last week from a handful of shortlisted bidders to operate its roughly 800 MW power generation arm, according to a banker familiar with the matter. **Philippe de Vulpian**, a power sector banker at **J.P. Morgan** in London, who is advising on the deal, says the process is ongoing. He declined further comment.

SNCF hired J.P. Morgan last year to conduct a tender for **Société Hydroelectrique du Midi (SHEM)**, a portfolio of hydroelectric generation assets in the Pyrenées and Massif Central regions of France.

Last November market watchers said **Endesa** and **Electrabel**

were likely candidates to take over operation of SHEM as they have both recently bought stakes in the French power market and are looking to expand their Gallic presence. (PFR, 11/12). Calls to both firms were not returned by press time, and *PFR* was unable to ascertain if they are in contention to win the deal.

Bankers say Endesa has shown an interest in the assets because it is looking to expand its position in the French market having bought a 30% stake in French generator **Société Nationale d'Electricité et de Thermique** last spring. Similarly, Electrabel set up a power supply and trading business in France, **Energie du Rhone**, last September, through a joint venture with **Compagnie du Rhone**, and is looking to grow this franchise.

## Aquila Starts Up European Weather Shop

Aquila has set up a four-man weather team in London to tap into what it sees as growing client demand for weather hedging instruments. "No one doubted there are risks, but now you've got demand for hedges," says **Ravi Nathan**, general manager of the weather team in Kansas City. He says the ultimate goal is for the unit to do at least half as much business as the U.S. operation.

The staffers were hired in Europe and trained at Aquila's headquarters for six months before the Jan. 1 launch. On the trading side is **Sony Kapoor**, trader, and **Joaquin Narro**, analyst and structured trader, both of whom Nathan characterizes as having strong engineering or physics backgrounds. **Peter Brewer**, founder of the now defunct consultant shop **Weather Risk Advisory**, is the originator and **Pascal Mailier** is the meteorologist.

The team reports back to Kansas City, reflecting the fact Aquila runs a global book, Nathan says. While the team is already active, the company is also looking at getting U.K. regulatory approval which would ease some client suitability restrictions. That approval is expected in about a month, Nathan says.

Separately, Aquila has hired **Valter Stoiani**, weather derivatives marketer and structurer at Enron in Houston, in a similar position in Kansas City, Mo. Stoiani is scheduled to join Aquila at the end of January, according to a company official. The official declined to comment on whether this is an expansion to the department.

Stoiani will report to **Brian Tobben**, head of weather origination at Aquila. Tobben declined to comment. While at Enron, Stoiani reported to **Mark Tawney**, head of the weather derivatives desk.

## Gas Industry Needs \$150B Capital Injection

The U.S. gas industry needs to invest some \$150 billion to build and maintain its infrastructure over the next few years to improve supply and prevent bottlenecks, according to **Mike Warren**, chairman of the **American Gas Association**. At the **New York Society of Security Analysts**' "Outlook For The Natural Gas Industry" conference last Tuesday, Warren told Wall Street analysts that the massive capital expenditure program was necessary to expand the pipeline delivery infrastructure as supply and demands soars. In such an environment, "Investor confidence and partnering with the financial community is imperative," he said.

Warren continued that President **George W. Bush**'s national energy policy, including the controversial opening up of Alaska's gas fields, should be implemented because demand for natural gas will increase 50-60% over the next 20 years. "Although much of the gas in this country is off base for drilling, a national energy policy could change this because we could gain access to Alaska."

**David Parker**, president of AGA, added, Congress needs to adopt an energy policy to prevent "roller coaster rides" of demand and supply.

## Lennon And Arnie Duke It Out In German Utilities' Ad Campaigns

"*Imagine no possessions, I wonder if you can...*" It's doubtful **John Lennon** was thinking of the German utility sector when he wrote these lyrics but nevertheless his 1971 song *Imagine*, a paean to humanist anti-capitalism, has become the centerpiece of a DEM100 million (\$45.5 million) advertising campaign in Germany for electricity giant **RWE**. Not to be outdone, RWE's domestic rival **E.On** has responded with its own television advertising campaign featuring testimonials from well-known German-speaking actors, including, most recently, Hollywood superstar **Arnold Schwarzenegger**. Both are attempts by the two largest power company's in Germany to transform their stodgy images and win brand recognition in the largest deregulated energy market in Europe.

**Sabine Schmittwilken**, head of marketing communications at RWE in Essen, says the *Imagine* campaign has been very successful in raising the company's profile among opinion leaders since its launch in May. Schmittwilken sees no contradiction in a corporation using Lennon's song to market its brand and adds that **Yoko Ono**, Lennon's widow, was supportive once RWE had explained its

goals. "[Yoko] felt it was quite okay," she said, declining comment on how much of the DEM100 million campaign budget went to Lennon's estate.

E.On has reportedly recently called a halt to its campaign featuring Schwarzenegger, according to power sector officials in Germany. Spokespersons at E.On did not respond to repeated requests for an interview.

RWE's *Imagine* campaign replaces an earlier television promotional effort that had to be pulled when its star, former coach-elect of Germany's national soccer team **Christoph Daum**, admitted to cocaine use.

## The Saga Continues...

### Perryville Banks Talk Restructuring; Edge Toward Re-Launch

Bankers involved in the \$300 million non-recourse loan funding a 725 MW combined-cycle gas turbine plant in Perryville, La., are in talks to restructure the loan and are penciling in a possible re-launch of the deal for the end of the quarter, or the start of the next. The fully underwritten deal stalled in syndication last summer (PFR, 8/20), partly because of a glut of paper from co-sponsor **Mirant**, leaving five banks, including lead **KBC Bank**, over-exposed to the credit.

One official says the banks are confident the deal will be re-worked and the focus is on talks with Mirant. A number of options are being discussed, including a possible equity contribution from the Atlanta-based plant developer. The possible changes will likely not impact co-sponsor **Cleco**, says the banker. Indeed, **Kathleen Nolen**, treasurer at Cleco in Pineville, La., says as far as it is concerned the loan is fully funded and the issue is closed.

The banks have been working on a re-launch since late last year (PFR, 12/8), but this was complicated by Mirant's two-notch downgrade to junk status in December. At the time of the downgrade, **Moody's Investors Service** also said the "drop in Mirant's ratings below investment grade will trip collateral needs under certain project finance and commercial arrangements." Nolen says Mirant, in its capacity as a counterparty toller, had to post credit to satisfy the banks when it dropped below investment grade status. The details of that arrangement were negotiated independently with the banks, she adds.

One banker says there is no trigger requiring a renegotiation of the loan, but adds Mirant has recognized the benefit in re-working the structure. "Given what has happened [with the downgrade], they need as much support as possible from their banks," he says.



## Latin America

### Dresdner Relocates Rio Banker

**Vittorio Perrona**, an investment banker at **Dresdner Kleinwort Wasserstein** in Rio de Janeiro covering Latin American utilities, relocated to the firm's London headquarters earlier this month to cover the European power industry and lessen his focus on Latin America, say bankers familiar with the matter. This move is part of the firm's strategy to reduce its presence in Latin America in light of the lull in merger & acquisitions activity last year, they say.

**Marcello Torres**, a senior banker who worked directly for Perrona, will replace him as Dresdner's senior Latin American banker in Rio. Perrona covered Latin America M&A from the Rio de Janeiro office for five years. Both Torres and Perrona were traveling on business last week and could not be reached for comment.

Commenting on the move, a Dresdner banker says, "M&A activity in this sector has gotten very quiet. With the volume of M&A deals coming down over the past 12 months, it makes more sense to have him move away from Latin America."

## 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@iineews.com](mailto:alevin@iineews.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
Ceran	-	Hydroelectric	360	111	Brazil	BNDES	Will launch the loan shortly	10/8/01
CFE	Rio Bravo III	Gas-fired	500	250	Mexico	-	Only EDF has bid for the BOO project	6/4/01
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 Termoeletrica de Sepetiba	Coal-fired	1,377	1,000	Brazil	-	-	3/26/01
InterGen	Carioba	Gas-fired	945	670	Brazil	-	Looking at a \$470M non-recourse 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

## Corporate Strategies

### DTE Cuts Interest Bill At Recently Acquired Gas Arm

DTE Energy issued \$180 million of trust preferred securities last week in order to refinance at cheaper levels some of the debt load carried by its recently acquired gas outfit MCN Energy Group.

Mark Siwalk, manager of investor relations at the Detroit-based electric utility and energy concern, says DTE refinanced two bond series—\$100 million of notes issued in 1994 and \$80 million of debt sold in 1996—that became callable earlier this month. The two series had coupons of 9.375% and 8.625%, respectively, which are considerably higher than the 7.8% annual cost of the new hybrid debt-equity offering.

The Baa3/BBB- offering was priced at \$25 per share and was issued at 230 basis points over Treasuries. The preferred shares mature in 30 years and are non-callable for five years. Joint lead managers were UBS Warburg and Salomon Smith Barney. Co-lead senior managers were A.G. Edwards, Credit Suisse First Boston, Morgan Stanley and McDonald Investments. The offering was priced on Jan. 10 and closed on Jan. 15.

DTE Energy completed its acquisition of MCN Energy, a natural gas utility based in Detroit, last May. The transaction was valued at about \$3.9 billion, including the assumption of MCN's debt.

### Duke Drives Up Issue Size On Easing Rates, Spread Tightening

Duke Energy bulked up a recent bond issue from \$750 million to \$1 billion, when pricing the deal with its banks Jan. 9, to take advantage of sagging interest rates and tighter credit spreads. David Hauser, senior v.p. and treasurer in Charlotte, N.C., says the company likes to take a pro-active approach in upsizing deals. "This went up more than normal. But it was an opportunity too good to pass up."

The issue was made up of \$250 million in three-year floating-rate debt and \$750 million in 10-year fixed-rate notes, allowing the company to stay in line with its objective of keeping floating-rate debt at around 20% of capitalization.

The cash is being used for general corporate purposes and also to refinance commercial paper used to pay down first mortgage bonds it called last year, says Hauser. Over the course

of last year, some \$500 million in higher coupon mortgage bonds were called, he adds.

The 6.25% coupon deal was led by UBS Warburg and Wachovia Bank, with Deutsche Bank, Goldman Sachs, J.P. Morgan and Salomon Smith Barney as co-managers. For a routine debt deal such as this, Hauser says the company will normally turn to the stable of banks it regularly deals with, rather than setting up a wider, competitive bid process. He notes the idea to increase the deal size came from within the company, and the bookrunners said the investor interest was there to facilitate this.

The next major financing down the pipe is likely to be related to the acquisition of Canadian gas player Westcoast Energy. Part of that was funded with \$1.5 billion in convertible debt (PFR, 9/30), and Hauser says the plan still is to issue more notes, although a bridge loan might be an option if market conditions don't make sense for another convertible.

### TECO Takes First Step Into Convertibles

TECO Energy made its debut in the convertible market last week with a \$400 million offering of mandatory convertible trust preferred securities. The company was looking to strengthen its balance sheet, but didn't want to issue common stock immediately because of the dilutive effect on earnings, says Mark Kane, director of investor relations in Tampa, Fla. The company has announced a raft of development projects that will be phased in next year and generate a full year's earnings in 2004. So, when the securities convert in 2005, the effect will not be dilutive, he explains.

Kane says the company intends to use the proceeds to fund capital expenditures, working capital requirements and general corporate purposes, including repayment of commercial paper. The funds have not been earmarked for the re-worked financing of two plants snagged by the demise of Enron (see story, page 2), and timing is coincidental, he says. TECO has been looking to do the deal for six months and actually had to spike an attempt in December because of the Enron Chapter 11 filing.

Kane says the deal was placed Jan. 9 and closed Jan. 15. The BBB+ rated deal pays a coupon of 9.5% and was priced at par. The lead underwriter for the sale was Goldman Sachs.

## Euro-zone Stock Picks For 2002 - Open Field Reflects Divergent Views

*If divergence of opinion makes for a healthy stock market, then the mainland European power industry should be in fine fettle this year. Unlike their U.S. counterparts, who are opting for defensive stocks and **Duke Energy** in particular this year (PFR, 1/14), European sell-side analysts are finding little common ground. Not a single stock garnered more than one vote, and geographical preference proved equally scattered. If one dominant theme has emerged, it's the call to pick up battered and undervalued stocks, rather than chase winners ever higher.*

### HSBC's - Alexandra Perricone

#### Union Fenosa (UNS) at EUR24

Alexandra Perricone, a London-based euro-zone utility analyst, pinpoints Union Fenosa, Spain's third largest electric utility, as her top pick because it boasts high growth in its core Spanish electricity business and is geared to a recovery in the beat up telecommunication sector. Perricone says Fenosa's historic valuation premium has been significantly eroded recently and could recover as sentiment improves.

Furthermore she believes the stock could be bid higher on the back of a take-over approach. "As the last remaining mid-cap independent operator in Spain, we would not rule out a take-over in 2002 or at least some form of strategic alliance," says Perricone. Lastly, she predicts a possible easing of regulatory conditions in Spain this year could boost the utility's earnings.

HSBC expects Fenosa to report earnings of EUR0.89 per share for last year and EUR1.02 in 2002. Fenosa closed last Tuesday at EUR17.80 and has a EUR15-23.3 12-month trading range.

### ING Barings' - Javier Suarez

#### Endesa (ELE) at EUR22.5

Despite its recent and well-publicized woes in Argentina, Javier Suarez, a London-based euro-zone analyst, selects Endesa as his favored stock pick because of the Madrid utility's prospects in its domestic market.

Suarez reasons that Endesa's earnings suffered last year in part because Spain witnessed its highest rainfall levels for 25 years. While high water levels helped utilities with significant hydroelectric generation capacity—such as **Iberdrola**—produce power cheaply, Endesa lacks hydropower, and its earnings were hit by the glut of cheap electricity, explains Suarez. This should prove a one-off event and a more typical generation environment should return this year.

The ING analyst also believes investors have over-reacted to the impact of Argentina's devaluation on Endesa's earnings. More than two thirds of Endesa's Latin American assets are in Chile and Mexico and the utility has less exposure to Argentina than its Spanish rivals, reasons Suarez.

ING forecasts Endesa's EPS will rise from EUR1.46 to EUR1.56 in 2002. The Spanish utility closed at EUR16.60 last Tuesday and has a EUR15.51-21.60 one-year trading range.

### J.P. Morgan's - Neil Bradshaw -

#### Suez (SZE) at EUR42

J.P. Morgan opts for Suez, the Paris-based utility holding company and parent of Belgium's **Tractebel**, as its favored stock for the year, says Neil Bradshaw, euro-zone utility analyst. He is shying away from dedicated power utilities because of their penchant for making expensive acquisitions. To grow your electricity franchise you have to make big-ticket acquisitions, but because of the goodwill involved in such transactions, this invariably leads to the destruction of shareholder value, he argues. By contrast water companies are able to grow their businesses organically, he reasons.

Bradshaw also likes Suez because he expects its telecoms business to rebound this year.

Bradshaw predicts Suez's EPS will rise EUR0.20 in 2002 to EUR1.90. Suez closed at EUR31 last Tuesday and has a EUR24.96-39 one-year trading range.

### Theodoor Gilissen Securities'

#### William Cowan - E.on (EOA)

William Cowan, a euro-zone utility analyst at the **Fortis Group** brokering subsidiary, is bearish on the whole European power industry, but believes that E.on will be the best performer in an otherwise weak market. He declined to give a price target but says it should end the year in positive territory.

E.on has a massive cash pile and could use this acquisition warchest to good effect in the U.S., argues Cowan. Subdued price-earnings multiples across the pond following the collapse of **Enron**, could see it acquire a U.S. utility at a knockdown price. Cowan prefers E.on to its German rival **RWE** because of it is trading at a slightly cheaper multiple to forward earnings and has more scope to expand abroad.

In the longer term Cowan remains bullish on Endesa, his stock pick last year, but says fallout from its investments in Argentina will weigh on the stock over the coming months.

Cowan declined to give an EPS forecast for E.on. The German utility has a 12-month trading range of EUR46.50-64.60.



## Restructuring Saudi Arabia's Power Market

*The Kingdom of Saudi Arabia plans to begin deregulating its power sector shortly with the establishment of an independent regulator and the break up of its state-run utility. With the power sector needing over \$26 billion of investment over the next five years, the reforms must win the support of international banks and developers, writes James Gavin, a freelance journalist.*

This is shaping up to be a critical year in the development and deregulation of the Saudi Arabian power sector. The past couple of months have witnessed a series of measures taken to advance its cause. An independent regulatory body has been established to oversee the market and a master plan for the development of the power industry and the break up of state-run utility, **Saudi Electricity Co. (SEC)**, is under review and soon to be approved.

The pressing need for new generation capacity has given the Saudi authorities little alternative to seeking a commercially viable regulatory and fiscal regime for the electricity sector. It is projected that electricity consumption will rise 150% to 313,000 GWh over the next 20 years.

Over the same period, the number of electricity customers is likely to double to 8.5 million from 3.5 million, and the length of high-voltage cable needed to meet this growth must jump by 66% to 31,000 km. To start meeting this demand the Government estimates it must spend more than \$26 billion over the next five years alone.

Yet whether the government really has the will to push through the full raft of reforms needed to attract foreign capital when major international developers are already downscaling their presence in the Gulf, remains to be seen.

### Independent Regulator

The good news is that much of the hard work has already been done. An industry regulator was appointed last November, an autonomous body with its own legal status and financial independence. The **Electricity Services Regulatory Authority (ESRA)** will oversee the running of the sector, reviewing costs and tariffs and ensuring that the interests of producers, consumers, developers and investors are all equally safeguarded. It will also issue licenses for new projects and monitor their performance.

Analysts have welcomed the regulator's appointment, but some question its likely effectiveness. **Said al-Shaikh**, chief

economist at **National Commercial Bank (NCB)** in Jeddah, says "The establishment of the new authority is seen as a very positive move by financiers and developers, as it is less likely to be influenced by political considerations. But some key details are not yet known, such as whether it will have a mandate to set tariffs independently."

ESRA's first task will be to ensure the tariff system is made more attractive to foreign developers; a tall order after the depth of popular resistance to the last major price rises announced in April 2000. Unrest led to the subsequent rescinding of the new tariff.

"They're still working on the scope and authority of the regulator and therein lies the rub," says a senior U.S. lawyer in Riyadh. "Without a compensatory tariff and regulatory structure, they simply won't attract foreign investors."

Industry sources say the central problem is that the government wants to appear unwilling to relinquish full control. "The regulator may be given some authority, but always subject to a judgment change from on high and that

makes it unpredictable. Unless the government is really willing to give the regulator some clear-cut authority and make it truly independent, then it will continue to be a struggle," says the lawyer.

Under the present tariff structure, the weighted average cost of power is around \$0.045/kWh. NCB's Al-Shaikh estimates this is some 30% below the level foreign investors regard as an acceptable rate of return. Though better than the \$0.022/kWh in operation before the April 2000 rate hike, industry sources say it is still below the level needed to make private power projects bankable.

How quickly ESRA can move towards increasing tariffs is still unclear. "The tariff level is an issue that has to be resolved in order to stimulate private sector participation. It will be a high priority, but whether it will be established in a reasonable space of time is hard to say," argues **Ivan Hopkins**, head of project finance at **Saudi Investment Bank** in Riyadh.

### Saudi Government Investment Projections By 2023

Generation	\$47bn
Transmission	\$24bn
Distribution	\$19bn
Total	\$90bn

Source: **Saudi Press Agency**

## Deregulation

Complementing the appointment of the regulator is a new masterplan for the Saudi electricity industry. It was drafted by a group of international consultants led by **Arthur D Little**.

The plan envisages a single-buyer system, resulting in the creation of a series of generation companies besides grass-root independent power producers (IPPs), independent water and power producers (IWPPs) and brown-field SEC plants, which will be sold to private developers.

Transco, a new SEC subsidiary, will run the national grid, selling electricity to four regional distribution companies carved up out of the existing SEC network. Transco will also sell power directly to major industrial users, but with power transmission expected to open up to foreign investment under new government proposals, the path has also cleared for private transmission projects to get off the ground.

Yet without firm action over tariffs, analysts do not rate highly the restructuring program's chances. "This year the Saudis should have a roadmap for what they are going to do, but developers are, frankly speaking, less keen," says a senior consultant to the Saudi power sector. "Enron has gone, AES is not very interested and CMS Energy is just continuing on two specific projects. Saudi Arabia lost the train at a time when everyone was very keen. Now it's hard to win it back."

CMS was named preferred bidder to acquire the \$200 million 250 MW oil-fired Sadaf plant in Jubail last summer (PFR, 5/28). The Sadaf IPP, which is expected to result in an energy conversion agreement with CMS within the next couple of months, could prove a test case for future private power projects in the Kingdom.

A private option is also being considered for the 1,200-1,400 MW expansion of the Shuaiba power plant in the Western Region, which would allow the developer to operate the existing units at the plant. However, the new units 4 and 5 are not due to come into commission until 2005 at the earliest.

In any case, bankers say the regulatory framework for build-

own-transfer or build-own-operate schemes is still too sketchy. NCB's Al-Shaikh says developers would need a series of firm assurances to proceed on BOT schemes. These include fuel-supply agreements that would allow changes in the fuel price to be reflected in the output price, government guarantees on termination payments and assurances that contracts could be signed in dollars to mitigate exchange-rate risk.

## Gas-Fired IPPs

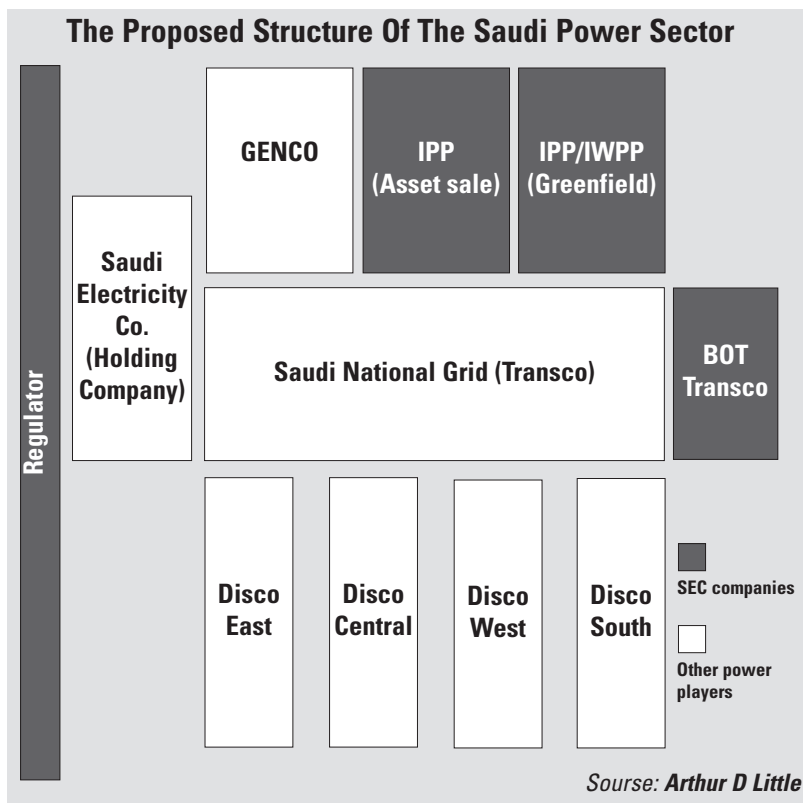
A new Saudi gas initiative could prove a more reliable source of private power projects than the deregulation of the whole market. The \$25 billion gas project, under which a series of international oil companies are planning to develop the country's substantial gas reserves through three core ventures, will include the development of gas-fired IWPPs. As the gas

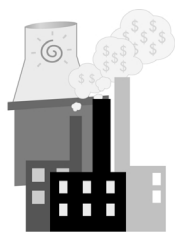
initiative forms the centerpiece of the Kingdom's economic diversification strategy, power projects associated with it may stand a better chance of getting off the ground than those commissioned by the SEC, say market watchers. International banks are already preparing to submit bids to take on an advisory role for an IWPP in core venture three. However, analysts caution not to expect too much too soon.

"Although the real drive in the three core ventures is to produce power and water, the government still needs agreements on tariffs as well as over fuel supply contracts.

In order to make these projects viable to international lenders, an agreed off-take formula needs to be put in place. That's not easy, even if it doesn't have to flow through the regulator," says the lawyer in Riyadh.

Still, pressure is intensifying on the government to make greater strides towards reforming the sector. The recent precipitous decline in oil prices means its hand may yet be forced. "The tight budgetary situation in 2002 may serve as an impetus to force the government to agree to greater independence for the regulator and help foster the foreign capital investment that is required," says the lawyer.





## 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](mailto: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.
	Puerto 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		
	Mississauga 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 shortly.
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		
Public Service Co. of New Hampshire (Northeast Utilities)	Schiller	N.H.	18	Diesel		Subject to approval for rate settlement by PUC and state legislature.
	White Lake	N.H.	23	Diesel		
	Amoskeag	N.H.	17.5	Hydro		
	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 shortly.
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 collapse 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.

## ENRON SHORTLISTS

(continued from page 1)

Enron retained **Credit Suisse First Boston** to advise on the sale of Elektro and all of its other Latin American assets shortly before the energy trader filed for Chapter 11 bankruptcy protection early in December. **Ronnie Hawkins**, head of Latin American utilities at CSFB, and **Luis Calbo**, manager of investor relations at Endesa in Spain, declined to comment on the sale. Calls to officials at Enron, Duke, AES, Tractebel and RWE were not returned.

The decision of RWE to enter the bidding war is raising some eyebrows. While Endesa, AES, Duke and Tractebel already own assets in Latin America, the German utility is new to the region and has historically been a conservative investor overseas. One European power analyst unaware of RWE's ambitions in South America, says the acquisition could be a smart move in the long run, given discount prices in the region, but says European stock investors would likely punish the move heavily in the short term. A New York-based Latin American power analyst agrees that valuations look attractive, "This could be the right time for [RWE] to make its

entrance." He adds that RWE, Tractebel and Duke are the likely auction winners because of their strong balance sheets.

While bankers agree that Elektro is a high-quality asset, Enron's desire to offload the utility quickly and the decision of many international players, such as **CMS Energy**, to exit the region, mean that it may have to sell Elektro on the cheap. "If there is a solid asset being sold at the right price, then it will be sold. And this is the case with Elektro. [But] we're going to see a fire sale, not only with Elektro, but also with the rest of Enron's Latin American assets," says one banker. He doubts whether Elektro will fetch \$1.5 billion, but declined to give a likely sale price.

Enron purchased Elektro in July 1998 for \$1.3 billion from **Companhia Energética de São Paulo (CESP)**. It serves approximately 1.5 million customers through approximately 51,000 miles of distribution lines.

A banker in New York says Enron's selection of CSFB as its advisor in Latin America was an obvious choice. "The alternatives would have been **J.P. Morgan** or **Citigroup**. But both of these are perceived to be mixed up with the Enron debacle," he explains.

—Amanda Levin Arnold

## SEMPRA ICES

(continued from page 1)

Two rival traders say the desk was hurt by what is turning out to be an exceptionally mild winter in North America. Kline declined to comment on this point. One of the rival traders says the mild winter has probably caught out a number of desks, noting in those circumstances it's important to have a strong book of client business that is geographically diversified as a hedge. Henry was effectively running a one-man shop on the trading side, the official continues, which means the business was likely to have had a strong proprietary element, since Semptra would have needed a much larger desk to develop client business. When Henry was hired (PFR, 4/22), Semptra officials said he would be trading on a proprietary basis and also offering products to its customer base. Prior to Dynegy, Henry was managing the weather-trading desk at **Enron**.

## CALPINE, CLECO

(continued from page 1)

into litigation over water and emissions permits, stalling any chance of getting the deal done at the time.

Now that litigation is close to being settled, Acadia Power Partners may look to restructure the terms of the original loan agreement, says **Kathleen Nolen**, treasurer at Cleco in Pineville, La. SocGen and Fortis' original bids reflected a project with construction risk, but construction has continued through the legal action and the plant is set for completion in July. "If there is no construction risk...the lenders should give us a break on pricing," she argues.

An official at SocGen says the bank expected to have more information on the project toward the end of last week, as *PFR* went to press, and was unable to provide comment on the potential for a change in leads.

Construction is being funded by the partners at the corporate level, but the aim is eventually to secure non-recourse financing for 70% of the cost. Nolan says there have been no discussions with the mandated leads, but given the delay there may be a need to re-visit the bank line-up and there is the possibility of hiring other banks. "The term sheet with SocGen and Fortis was envisaged in 2001. The market has changed a great deal." She emphasizes the issue of leads will not be seriously addressed until the second quarter.

In July, after the mandate was awarded, Acadia signed up **Calpine Energy Services** to a 20-year power-purchase agreement for half of the plant's output. **Aquila** had already inked a similar deal for the other 580 MW of output from the combined-cycle gas turbine plant.

The plant, just outside of Eunice, La., has had the relevant

water and air discharge permits from the **Louisiana Department of Environmental Quality** for a while. Suits by a local and a state environmental group tried to have the permits suspended, but a judge ruled construction should continue while the challenge to the permits went through the legal system. Nolan says the decision was made to settle as a means to resolve the issue more quickly. The local group has accepted an offer to reduce ground water usage and NOx emissions and the state group has recently made statements that it will as well, she adds.

—Peter Thompson

## UBS' BID

(continued from page 1)

"I find it amazingly strange," comments a former UBS commodity official. He notes that the decision to downsize the 200-strong commodity group, which included base and precious metals and oil trading, reflected a move away from risk-taking in favor of low risk/high margin business, such as M&A advisory and equity underwriting. UBS is thought to have retained a small precious metals group within the foreign exchange division.

"Some stranger things have happened, but I can't think of many," notes another UBS commodity veteran. "The first question we asked when told [commodity trading] would close was 'When are they going to be back in again?'" he adds. However, he contends that UBS' management didn't really understand the commodity business, and since it was a niche, proprietary trading-driven group that didn't make money on anything like the scale of the fx operation, its closure was hardly surprising.

UBS slashed the commodity group during a tumultuous year in which its parent merged with rival **Swiss Banking Corp.** and disclosed a CHF1.2 billion (\$719 million) loss through exposure to failed hedge fund **Long-Term Capital Management**. The LTCM fiasco, together with the Russian debt crisis and the disclosure of losses in the equity derivatives book all contributed to the strategic reappraisal in 1998 in which UBS also closed its much admired project finance business and sold its structured finance group to **Standard Chartered Bank**.

—Victor Kremer

## Quote Of The Week

*"If there is no construction risk...the lenders should give us a break on pricing."* —**Kathleen Nolen**, treasurer, explaining why **Cleco** may look to renegotiate the terms of a project loan (see story, page 1).