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Wall Street Analysts Opt For Growth Stocks

U.S. sell-side equity analysts believe IPPs, such as **Calpine**, could perform well this year as the economy ratchets up a gear.

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In The News

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SCOTTISHPOWER TO ENTER SOLE TALKS ON U.K. PLANT ...

Damhead Creek Ltd., an independent U.K. power plant owned by its creditors, is set to enter exclusive acquisition negotiations with ScottishPower within the next few days, says an official close to the talks. The move reflects the strength of the Scottish utility's all-cash GBP309 million ($560 million) offer for the plant against two competing debt offers (PFR, 1/21). Yet the signing of any exclusivity agreement is unlikely to lead to a swift sale, given a sharp divergence of opinion among Damhead's creditors over how to

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... AS FOUR FIGHT IT OUT FOR KILLINGHOLME

The U.K.'s largest gas and power supplier, Centrica, is locked in a duel with **CGE Power**, New York investment boutique **MMC Energy** and another unnamed bidder to acquire **Killingholme Power**, a former **NRG Energy** combined-cycle gas-fired power station in Yorkshire, England, that is controlled by its creditors. Market watchers say the plant's management board, led by Chairman **John Mapplebeck**, is set to meet the plant's creditors this week to evaluate the bids. London-based Mapplebeck declined to comment as did officials at Centrica, CGE Power and MMC. The identity of the fourth bidder

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Kings Of Queens

DEVELOPER PLOTS FIRST POWER USE OF NY LIBERTY BONDS

The developer of a proposed 500 MW gas-fired power plant in Queens, New York, is looking to issue around $700 million in New York Liberty Bonds, the first use of the tax-exempt debt securities by a power company. The funding would form the lion's share of the $900 million project's cost, which is set to be developed by **Astoria Energy**, a subsidiary of Concord, Mass.-based **SCS Energy**. **Lehman Brothers** has been given the nod to underwrite the deal bonds. Calls to **Jim Croyle**, an official at SCS, were not returned by press time.

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ABN PREPS FINANCING FOR ALGERIA'S FIRST IPP

A syndicate of international lenders led by **ABN AMRO** is likely to close financing this quarter on Algeria's first independent power and water desalination project. The $450 million, 314 MW Kahrama IWPP is being developed on the Mediterranean coast near Algeria's second city, Oran, by U.S. engineering giant **Black & Veatch** (80%) and **Algerian Energy Co.** (20%), itself a joint venture between state-owned energy concerns **Sonatrach** and **Sonelgaz**. Sonatrach and Sonelgaz will enter 25-year offtake contracts with the plant.

A banker at **Mizuho**, financial advisor to Kahrama, says it's looking to pull together a bank

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At Press Time

CSFB Seen Shopping Plant Loans

Credit Suisse First Boston is reportedly shopping a loan portfolio, which consists of various project loans to six plants throughout the U.S. The size of the portfolio could not be determined, but a trader describes it as a substantial portion of the plants' project finance debt. **Pen Pendleton**, spokesman at CSFB in New York, declined comment.

An investor who saw the book says the loans pay around an 8% yield, but the illiquidity of the project finance debt is a barrier to a potential sale. It is believed that **Bear Stearns** and **Goldman Sachs** are looking at the portfolio. Calls to traders at Bear Stearns and **Peter Rose**, spokesman at Goldman, were not returned.

The facilities include the 150 MW Gray's Ferry plant owned by **Calpine** and **Tractebel North America**'s **Trigen Energy** unit in Philadelphia.

CSFB is also selling an interest in Ingleside Cogeneration, a 440 MW inside-the-fence plant in Gregory, Texas, owned by Dallas-based **Occidental Chemical.**

In addition, debt associated with three plants owned by Burlington, Vt.-based **InterGen** are for sale: Cottonwood, a 1,235 MW plant in Deweyville, Texas, Magnolia Energy, a 900 MW plant in Ashland, Miss., and the 1,220 Redbud power plant in Luther, Okla., which has not yet gone on-line.

An interest in **Edison International**'s 286 MW Brooklyn Navy Yard, in Brooklyn, N.Y. is also reportedly for sale.

AIG's Access To Capital Clinched El Paso Deal

AIG Highstar Generation was able to beat **Noble Power Assets** in the recent auction to acquire 25 U.S. qualifying facilities from **El Paso Corp.** because sister company, **AIG Financial Products** guaranteed financing for the entire package up-front. "They were able to offer customized and flexible financing," notes a banker involved in the deal, "so as El Paso received clearance to sell each of the facilities, AIG could immediately provide debt and equity." **Mel Scott**, spokesman at El Paso, declined comment. **Brian McLoone**, an official at AIG Highstar in New York, and **Walter Howard**, ceo of Noble in Chester, Conn., did not return calls by press time.

Noble reportedly offered a slightly higher price for the plants—less than $10 million more than AIG's bid, says a banker—but planned to finance portions of the portfolio with backing from Boston private equity group **Thomas H. Lee Partners** and Chicago-based firm **Madison Dearborn Partners** (PFR, 1/11). According to the terms of the deal, AIG agreed to pay $746 million plus the assumption of approximately $174 million of consolidated non-recourse debt.

Although the contracted portfolio was highly coveted, El Paso's partial interest in most of the facilities complicated the sale and may drag out financial closure, which is expected in the second quarter 2004. El Paso must now conduct the arduous process of asking co-owners, and in some cases off-takers, to sign off on the deal. On some plants co-owners have the right of first refusal to acquire the remaining stakes they don't already own and may trump AIG's bid. "This could take a while, but I am under the impression AIG has made contingencies for this," notes a banker.

J.P. Morgan and **Morgan Stanley** advised Noble Power and **Lehman Brothers** advised AIG. Calls to the banks were not returned.

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Crown Jewels

Reliant N.Y. Plant Sale Seen Wiping Debt Slate Clean

Reliant Resources' plan to sell its New York generation portfolio would raise enough cash to pay down the $1.33 billion in non-recourse debt attached to the plants and a fleet of Midwest assets, say project financiers. "They should be able to pay off all the debt," says one financier reflecting on the prime citing of the assets. But, if Reliant can't raise that much, lenders would be reluctant to approve the divestiture he says. Reliant needs bank approval to sell the plants and that is unlikely unless they're paid off in full because the New York assets are much more valuable as collateral than the Midwest fleet, says one banker.

Market officials signaled last week that the Houston player was looking to shop its New York assets. The fleet includes the 1,855 MW Astoria generation complex in New York City, which **Orion Power** bought from **Consolidated Edison** in August 1999, and 661 MW of hydro assets in central and upstate New York acquired from **Niagara Mohawk Power** in July 1999. Reliant subsequently acquired Orion.

The New York assets became part of the collateral package for the Midwest assets when two separate Orion non-recourse facilities came up for renewal in 2002 (PFR, 8/29/02). Lenders weren't keen on extending the debt to the poor performing Midwest assets without the New York fleet being attached. The Midwest assets are 2,614 MW of generation capacity in Pennsylvania and Ohio acquired by Orion from **Duquesne Light**.

SG Divests Damhead Stake

Société Générale has sold a GBP24 million ($44 million) stake in Damhead Creek, an 800 MW merchant power plant in Kent, southern England, that was foreclosed on last January by its bank creditors (PFR, 1/13/03). Market watchers say SG sold a GBP20 million tranche of senior debt to **Banc of America Securities** for 98.8% of face value and a GBP4 million tranche of subordinate debt to **Deutsche Bank** at 93%. The twin sales, which occurred on Jan. 14, leave the French bank free of Damhead debt.

The sale comes as Damhead's roughly one dozen creditors mull whether to accept one of the three offers for the power plant that were placed early this month (PFR, 1/18). U.K. utility **ScottishPower**, U.S. IPP **Calpine** and a newly formed bank-sponsored genco, **CGE Power**, have filed bids in the GBP300-350 million ($550-635 million) range within the past month.

Officials at SG and DB declined to comment. Calls to BofA were not returned

Secondary loan traders say SocGen may have chosen its timing wisely. Just two days later, on Jan. 16, another creditor failed in its attempt to offload Damhead paper, despite offering the senior paper at 97% of face value. One market watcher says concern that Damhead could be sold for debt to CGE Power, rather than cash to ScottishPower, caused the loan's pricing to soften.

AEP U.K. Trading Chief Reportedly Departs

Bob Kapp, head of power at **AEP Energy Services** in London, has reportedly left the U.S. energy trading shop as part of moves to cut headcount at the merchant energy firm. **Pat Hemlepp**, a spokesman at the company's parent **American Electric Power** in Columbus, Ohio, says AEP released six officials from its London office this week as part of its ongoing effort to wind down its European operations and focus on its domestic market. He declined to name the individuals. Kapp could not be reached for comment.

Rival traders say AEP's London-based power team, under Kapp's leadership, was probably the most active player in the U.K. forward market last year, especially during the summer when it was an aggressive buyer of contracts out to three years. The strategy likely paid off handsomely given a recent rally in U.K. prices.

American Electric Power also is looking to sell its only U.K. power stations, the Fiddler's Ferry and Ferry Bridge plants, which both have 2 GW of capacity (PFR, 11/17).

CL Readies Czech Financing

Mandated lead arranger **Credit Lyonnais** hopes to close a EUR250 million 15-year non-recourse loan later this month to refinance project level debt tied to Czech IPP **ECK Generating**. ECKG spokesman **Martin Frydl** in Kladno, near Prague, declined to comment and calls to Credit Lyonnais in London were not returned.

Proceeds from the offering will be used to replace a roughly $300 million **International Finance Corp.**-sponsored loan that was put in place in 1997 to fund the $400 million refurbishment and expansion of ECKG generation plant at Kladno into a 300 MW cogeneration facility.

The refinancing effort reflects a change in ownership at ECKG and a more attractive financing environment for the plant (PFR, 11/4). Swiss energy concern **Aare-Tessin Ltd. for Electricity** last fall acquired a 44% stake in ECKG from **NRG Energy**. This past spring it doubled its stake to 89% through the acquisition of minority stakes held by **El Paso Energy International**, **TECO Power Services** and **Mosbacher Power Partners**. Local wires utility **Stredoceská energetická** owns the remaining 11%.

MMC Raises Equity Fund

New York-based energy acquisition firm **MMC Energy** is set to launch an energy acquisition fund, MMC I, to acquire assets in the U.S. and U.K. power and natural gas markets, according to **Karl Miller**, senior partner. The company is looking to raise some $250-750 million from institutional investors and is in the process of preparing formal offering documents, says an official close to the company.

MMC I will be supported by an independent asset management and operations company run by MMC Energy as its general partner, says the official. To date MMC has received financial backing for more than $8 billion on various bids on an ad hoc basis. The new financing structure provides MMC Energy with a more formal relationship with its backers. It also encourages greater financial discipline, by requiring MMC to meet certain return targets on all investments, says one commentator.

Rockland Set To Close On California Acquisition

Houston-based **Rockland Capital Energy Investments** is set to close on its long-awaited purchase of **Tractebel North America**'s 49 MW Rippon qualifying facility in California this week. Rockland's advisor **Credit Suisse First Boston** is providing debt financing for the acquisition and an affiliate of Swiss investment bank **UBS** also will take an equity interest in the plant, according to one market watcher. **Scott Harlan**, managing director at Rockland in Houston, declined comment.

In October, Rockland won an auction to buy two Golden State plants from Tractebel: Rippon and San Gabriel, a 41 MW gas-fired plant (PFR, 10/19). It is not known when or if Rockland will close on San Gabriel. Market watchers say Rockland's need to raise debt financing has slowed down the deal.

Dexia, ANZ Get The Call On Shell Lone Star Deal

Dexia Crédit Local and **ANZ Investment Bank** have landed the lead arranger slots to provide non-recourse debt refinancing for an operational Texas wind farm developed by **Shell WindEnergy** and its joint-venture partner **Padoma Wind Power**. The 160 MW Brazos wind farm, located 90 miles southeast of Lubbock, went online before the Dec. 31 deadline for receceiving for production tax credits, says **Jan Paulin**, president and ceo of Padoma in La Jolla, Calif. Paulin declined to comment on any aspect of the financing as did an official at Dexia. Calls to ANZ were not returned.

The deal timing is dependent on finalizing the sale of Padoma's stake in the project to a third party, says one official. That is expected to happen by the end of next month and will be simultaneous with the closing of the loan. Specifics of the loan could not be determined, but in an interview with *PFR* in late December, Paulin said leverage will likely be 50-60% and the project cost is around the rough industry average of $1 million per megawatt (PFR, 1/5).

TXU Energy has signed an offtake contract with the wind farm and entered into a retail electricity arrangement with **Green Mountain Energy Co.**

RWE Looks To Grow Origination Team

RWE Trading is looking to bolster its European power and gas origination effort with four hires. **Jeremy Ellis**, head of European origination outside Germany, says the Essen, Germany-based energy giant is looking to hire a U.K. power originator to forge new and deepen existing client relationships and two structurers/commercial development managers to cover the continental gas market. RWE is also looking to hire an energy sector market research analyst to its roughly 30-strong origination team. The appointments could be made in either London, Swindon, or Essen.

The recruitment drive reflects RWE's desire to broaden its origination coverage, especially in central and eastern Europe. "We've been active in the past, but now we are trying to step up a gear," says Ellis.

RWE Trading, which formerly merged with **Innogy**'s trading business on Jan. 1, has hired recruitment firm **Alexander Mann** to carry out the search.

El Paso Readies Pipeline Loan

El Paso Corp. is looking to show 10-12 relationship banks a $300 million non-recourse loan that will fund development of its Cheyenne Plains pipeline. Bankers inquiring about the pending deal have been told the syndication, which should be launched in the first week of February, will be conducted on an invitation-only basis. A retail round may follow, but that is dependent on interest levels in the primary round, says one banker. Officials at **WestLB**, which is leading the deal, declined comment.

Cheyenne Plains is a 380-mile natural gas pipeline project that will run from Cheyenne, Wyo., to Greensburg, Kan. It is scheduled to come into service early in 2005 (PFR, 12/2).

The loan will have a five-year tenor and the bank market is being told that pricing will be in the low 200 basis point range over LIBOR. The project's debt-to-equity ratio will be around the 70/30 mark. The deal should see the traditional strong support that pipeline deals tend to draw, says one banker.

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Calpine To Update Banks On Maturing $2.5B Loan

Calpine will be giving lenders an update on the performance of the 14 plants covered by its $2.5 billion CCFC2 construction loan that matures in November. But, bankers say the key information they'll be after at the meeting next Thursday is what the IPP's plans are for refinancing the loan. "I'm curious about how in-depth they'll talk about refinancing and the timeframe," says one financier.

The facility is the biggest maturity for the sector this year (PFR, 1/5). However, after Calpine successfully refinanced its other mega-revolver, CCFC1, in the high-yield market last year, financiers say it's a question of timing and form rather than whether the deal can get refinanced. "I imagine it'll be tackled over the summer, rather than waiting until November," says one financier.

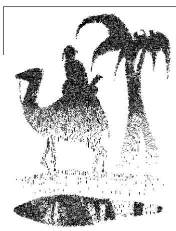
A combination of bonds and B loans is a possible form of the deal. One banker, noting $2.2 billion is outstanding on the loan, argues Calpine will likely have to inject more equity into the CCFC2 portfolio to get the deal refinancing. He adds a 50/50 split between bonds and loans is likely, but adds market conditions can change. Another financier notes the projects are nearly all complete and there is already a 50% equity cushion, so the refinancing should sell well.

KeySpan Set To Select N.Y. Financing Plan

KeySpan Energy expects to decide next month how to refinance its $300 million 250 MW expansion at its Ravenswood facility in New York City. The plant, which is located in Long Island City, Queens, passed its first major test earlier this month when it was briefly synchronized to the grid. **Ed Yutkowitz**, a KeySpan spokesman, says the company is still considering it options but is targeting February to make the call. The plant is due to become fully operational in March.

In an interview with *PFR* last year, **Mike Taunton**, treasurer, said the company was considering sale-leaseback financing or traditional non-recourse debt (PFR, 1/27/03). The swing factor for KeySpan will be cost. Calls to Taunton last week were not returned.

The new unit is the first base-load power generating-facility to be built in New York City since deregulation in the late 1990s, according to KeySpan.



Middle East & North Africa

Oman Bidders Line Up Backers

The roster of developers looking to win Oman's latest independent water and power production (IWPP) mandate have begun putting together bank groups to advise on their bids and provide project-level financing should they succeed. Oman's Ministry of Electricity and Water, advised by **Société Générale** and **Denton Wilde Sapte,** is looking to receive binding offers on the 500 MW Sohar IWPP in late March (PFR, 10/26).

Market watchers say French oil giant **TotalFinaElf** and a joint bid from London-based **International Power** and Japanese contractor **Mitsui** have lined up the strongest financing teams so far with at least four banks in place or about to sign up.

The TFE financing team is thought to comprise **ANZ Investment**, **Credit Lyonnais**, **Sumitomo Mitsui Banking Corp**. and **Royal Bank of Scotland**. The IP/Mitsui bid is thought to have backing from **GIB**, **National Bank of Abu Dhabi**, **Bayerische Landesbank** and **Bank of Tokyo-Mitsubishi**.

Meanwhile among the other frontline Sohar bidders, **AES**, owner of Oman's Barka IPP, has teamed up with **ABN AMRO**, and **BNP Paribas** is advising Belgium's **Tractebel**.

Latin America

La Grande Venta!

EdF Ponders Mexican Renewable Deal

enXco, a renewable energy development boutique owned by **Electricité de France**, is looking at setting up non-recourse financing for several small wind farms in Mexico. Project financiers say details of the so-called La Ventosa deal are sketchy, but **Crédit Agricole Indosuez** is on board to lead a bank loan. Calls to CAI in New York were not returned.

One wind farm financier says the deal would likely require extensive research for CAI as Mexico's wind sector is all but non-existent. The state-owned utility **Comision Federal de Electricidad** has estimated the sector has the potential for around 5,000 MW of capacity, with a large chunk coming from the notoriously windy Tehuantepec Isthmus, in the southern state of Oaxaca. The CFE developed a small wind farm at La Venta in the region in 1996 as a pilot project. Some permits have already been issued to developers and more are expected, says one banker.

Corporate Strategies

Dominion Kicks Off Annual Debt Refinancing Program

Dominion Resources tapped the bond mart recently for $300 million in a two-part deal as it fired up its annual refinancing program, which tops out at an average of $1.5 billion each year through to 2007. "They have no need for new debt," says **Aneesh Prabhu**, who tracks the credit at **Standard & Poor's** in New York, referring to the refinancing goal of the Richmond, Va., player. A Dominion spokesman declined comment on the offering.

With ready access to the debt markets, Dominion has structured its debt toward the short-end of the curve. Prabhu says during the period 2000-07 some 40% of the company's debt matured or will mature. "If a company believes it has access then it can have that flexibility to manage debt," he says. And staying at the short end of the curve generally means lower funding costs, he reflects.

The most recent debt offering, led by **Barclays Capital** and **Wachovia Securities**, consists of $200 million of 5.2%, 12-year notes and $100 million of two-year floating-rate notes paying a 30 basis point spread over three-month LIBOR. The fixed paper was issued at 99.965 and scored a 115 basis point spread over comparable Treasuries and the floaters were issued at par.

S&P rates Dominion BBB minus, with a negative outlook, reflecting the high leverage at the company once its **Virginia Power** utility is stripped out of the equation. The remaining businesses comprise E&P operation **Consolidated Natural Gas Co.** and unregulated energy operations and they have around 60% leverage. The average in the E&P sector is 50-55%, Prabhu says.

Dominion had $17 billion of consolidated debt, including trust-preferred securities, as of Sept. 30. While the figures are large and there are a series of maturities falling due, the company is a credit the debt markets like. "At this point in time if they went out for $2 billion, they'd get it," Prabhu says.

Weekly Recap

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

Europe & Middle East

- **E.on** subsidiary **Powergen** has completed the GBP1.146 billion acquisition of U.K. wires business **Midlands Electricity**. Powergen will merge Midlands with its existing **East Midlands Electricity** to create **Central Networks**, a 4.8 million-customer company (*Dow Jones*, 1/18).

- **Enel**, Europe's largest investor-owned utility, is likely to withdraw its bid for 35% of French energy producer **Societe Nationale d'Electricite et de Thermique** (SNET). However, talks to open France's energy market to the Italian energy incumbent, will continue. Enel was going to bid for the coal-fired peaking company in an effort to get a foothold on France's power market, but will likely withdraw given that rival bidder **Gaz de France** is state controlled and the company's unions prefer to remain under French control, says an official (*Dow Jones*, 1/20).

- Spain's Prime Minister **Jose Maria Aznar** and Portugal's Prime Minister **Jose Durao Barroso** have formally signed plans to create a pan-Iberian electricity market. The liberalization plan, known as MIBEL, will make it possible for generators in the two countries to sell their electricity on either side of the Spain-Portugal border (*Dow Jones*, 1/20).

- **Scottish and Southern Energy** plans to build a GBP200 million, 400 MV electricity transmission line between the Highlands and central Scotland. The line has to be constructed if national targets for the generation of electricity from renewable sources are to be achieved. SSE aims to begin construction of the 150 mile line in the first half of next year and complete the project in late 2007 (*Dow Jones*, 1/20).

- **E.on** has sold its 4.99% stake in Spanish utility **Union Fenosa** for approximately EUR217 million or EUR14.25 per share (*Dow Jones*, 1/20).

U.S. & Canada

- **El Paso Corp.** has agreed to sell 25 U.S. power plants to a unit of investment management company **AIG Global Investment Group** for about $746 million and the assumption of about $174 million in debt. The deal is part of El Paso's plan, announced in December, to cut debt to $15 billion from about $18.9 billion by the end of 2005, following a costly foray into energy trading (*Associated Press*, 1/18).

• The State Department of Natural Resources has granted an air emissions permit to Milwaukee-based **We Energies** for a $2.15 billion project to build a new coal-fired plant in Oak Creek (*Milwaukee Journal Sentinel*, 1/16).

• Two ex-**Enron** executives set to be sentenced for their guilty pleas in February have had sentencing dates postponed until September. **David Delainey** pleaded guilty to insider trading in October, and **Lawrence Lawyer**, a former finance employee pleaded guilty in November 2002 to filing a false tax return that did not report money he received from work on a questionable Enron partnership. It is common for such witnesses to see their sentencing dates reset, at least until their value as potential witnesses has been exhausted (*Houston Chronicle*, 1/21).

• The **Federal Energy Regulatory Commission** has given the green light for **Morgan Stanley** to buy **Duke Energy**'s speculative power trading book for an undisclosed sum. **Duke Energy Trading and Marketing** filed a request with FERC late last year for approval to sell 241 separate contracts to Morgan Stanley. The market value of the contracts has not been revealed. The companies want to finalize the transaction by Feb. 1 (*Reuters*, 1/20).

• Connecticut's attorney general is investigating whether power producers created power shortages, when freezing temperatures sent demand and prices soaring. Attorney General **Richard Blumenthal** said his office received reliable information that certain power producers may have sold natural gas at high prices rather than using it to generate electricity. Blumenthal said he asked the **Connecticut Department of Public Utility Control** and the **Federal Energy Regulatory Commission** to join his investigation (*Dow Jones*, 1/20).

• Several Congressional lawmakers are urging Capitol Hill colleagues to move quickly to get the stalled energy bill through Congress. The energy bill, one of the Bush administration's top legislative priorities, stalled in the Senate late last year, falling short by just two votes. Attempts by the Bush administration to bring the bill back to the Senate floor have so far faltered. The failure to pass the bill last year came largely as a result of a liability waiver for makers of MTBE, a gasoline additive, which has been proven to contaminate ground water supplies (*Dow Jones*, 1/20).

• **TXU** is selling its telecommunications business for $524 million in cash and $3 million in debt. The Dallas-based utility has agreed to sell **TXU Communications** to **Consolidated Communications** and the deal is expected to close in the first half. The sale is part of TXU's strategy of refocusing on energy (*Associated Press*, 1/16).

• **Calpine** has sold its 50% stake in a 545 MW natural gas-fired plant in Bastrop County, in central Texas. **GenTex**, a unit of the **Lower Colorado River Authority**, now owns the entire Lost Pines 1 plant after the $150 million acquisition. As part of the arrangement, Calpine will purchase 250 MW of power through Dec. 31. LCRA supplies wholesale power to 42 city-owned utilities and electric cooperatives in Texas (*Reuters*, 1/16).

• **Neptune Regional Transmission System**, sponsor of a planned underwater power line from New Jersey to Long Island, N.Y., has won approval from the **New York Public Service Commission** (*Bloomberg*, 1/21).

• **FPL Group** will expand its Turkey Point power plant to meet growing demand for electricity in South Florida instead of buying supplies from an independent generator. The company's **Florida Power & Light** unit will add a 1,100 MW, natural gas-fired power station at the Turkey Point site 25 miles south of Miami (*Bloomberg*, 1/21).

• **FirstEnergy** named **Anthony Alexander** chief executive and **George Smart** as chairman to replace **H. Peter Burg**, who died this month of leukemia (*Bloomberg*, 12/21).

• Former **Enron** accounting chief **Richard Causey** surrendered to federal authorities, just days after the company's former chief financial officer, **Andrew Fastow**, agreed to cooperate with prosecutors investigating the downfall of the energy giant (*Reuters*, 12/22).

• **Reliant Resources** is seeking bids for its New York state power plants, according to people familiar with the matter. Plants on the block include the 1,265 MW Astoria power plant in Queens, and the 500 MW Gowanus plant and 280 MW Narrows plant in Brooklyn, all of which are old plants that can be fueled either by natural gas or fuel oil. In addition, Reliant is seeking bids on a package of 70 hydroelectric plants scattered throughout upstate New York with a total gross capacity of 650 MW, and the 100 MW gas-fired Carr Street cogeneration facility in East Syracuse (*Dow Jones*, 12/22).

U.S. Stock Picks For 2004- Analysts Return To Growth Stocks

*A sharp rebound in the U.S. economy and the return of bulls to the stock market has encouraged U.S. equity analysts to favor cyclical IPPs, merchant energy stocks and those utility holding companies most exposed to wholesale power prices. **Calpine**, one of the most heavily pummeled stocks during the post-**Enron** power sector meltdown in 2002, seems firmly back in favor. The selections mark a dramatic change in sentiment from last January, when analysts typically opted for conservative utilities unburdened with heavy debt loads or volatile merchant operations.*

Maxcor Financial's Daniele Seitz

Dominion Resources (D) $73
DTE Energy (DTE) $42-43

Daniele Seitz

New York-based Daniele Seitz picks two stocks that were somewhat buffeted last year and she believes have yet to fully recover and reflect their strong fundamentals. "There were a lot of special situations," she says, referring to the fact some stocks were hit by non-fundamental business issues.

In the case of Dominion Resources, Seitz sees the company benefiting from an upswing in both gas and power prices. Last year, the Richmond, Va., player was anxious to hedge and protect its gas revenues and as a result it didn't rake in the full upswing from rising prices. There were also delays on the E&P side of its business, which meant fuel reserved didn't come on stream as predicted. The company will therefore likely benefit from less hedging and more production in 2004, she argues. Seitz adds on the power side of the equation, rising prices should help Dominion's generation fleet. "Coal and nuclear are its primary generation sources, so margins are very robust," she reflects.

Dominion, Seitz argues, stands out as being well positioned with a strong portfolio of assets. "It presents a growth story, when most electric companies are going back to basics." Her 12-18 month target is $72 and she is looking for an earnings per share of $4.04 this year. Dominion closed at $62.88 last Wednesday and has a 12-month trading range of $51.74-65.95

Seitz notes her other pick, DTE Energy, was one of the poorest performing stocks last year. The company was roiled by Internal Revenue Service queries about its syn-fuel business and also questions over the outcome of two big-ticket rate cases. She argues the syn-fuel tax issue now looks largely resolved and sees that part of the DTE business generating earnings of $210 million this year, against $187 million in 2003.

On the rate case issues, Seitz's believes DTE will get close to its request on gas and over half of its request on the electric side. She notes there are still risks with the stock, but its shares are trading at 11 times earnings, way under the sector average of a 13.4 multiple, which she believes is too deep a discount. Seitz is looking for the $42-43 target, against its one-year trading range of $34.00-45.85. The stock stood at $39.91 early afternoon last Thursday.

Williams Capital's Chris Ellinghaus

Calpine (CPN) $8
Dynegy (DYN) $6.50

Chris Ellinghaus

New York-based power and utility analyst Chris Ellinghaus says the power sector is due to rally this year because of a perception that power stocks have bottomed out and are poised to recover, along with other cyclical stocks. "People want to play power because they think the economy is on the upswing," he says. "All material industries will do well."

Calpine and Dynegy could stand out in the rally because their merchant portfolios will have most to gain from rising wholesale power prices. Ellinghaus also takes a contrarian liking to the two out-of-favor and beaten-up IPP stocks. "They're my number one picks because you don't think of them," he says. Calpine's stock, which touched a high of $8 last year has fallen 25% since then and is now looking cheap.

Ellinghaus estimates Calpine will make a $0.20 loss per share this year and gain $0.49 in 2005. Calpine closed at $5.98 last Wednesday and has a 12-month trading range of $2.51-8.03.

He is more measured in his enthusiasm for Dynegy, but he still thinks the stock will rise 25-50% this year as investors look to buy power stocks. "Anyone with significant merchant power is a company that investors will bet on as power prices rise," he says, "and they won't want to put all their eggs in Calpine's basket."

Ellinghaus expects Dynegy to make a $0.10 profit per share in 2004 and around $0.20-0.25 in 2005. Dynegy closed at $5.02 last Wednesday and has a 12-month trading range of $1.49-5.43.

Credit Lyonnais Securities' Gordon Howald

Calpine (CPN) $9
Dynegy (DYN) $6


Gordon Howald

New York-based Howald puts his faith in Dynegy partly because its recently installed President and CEO **Bruce Williamson** has a proven track record of success and is already making his mark at the energy merchant. "He has had tremendous success," says Howald. "He has extended debt maturities, taken care of outstanding convertibles and the sale of **Illinois Power** will help reduce debt." He posits that the company will sell itself. "Williamson has greater ambitions than to run a merchant company," he says. "I see a buy-out here of some sort. A master limited partnership would be a good fit."

Howald forecasts Dynegy's earning per share will grow from a negative $0.79 last year to $0.60 in 2004. Dynegy closed at $5.02 last Wednesday and has a 12-month trading range of $1.49-5.43.

Gerard Klauer Mattison's Michael Worms

Calpine (CPN) $9
Dominion Resources (D) $70

New York-based power and utility analyst Michael Worms selects Californian IPP Calpine as one of the top two performers of 2004 and is so confident of the stock's upward trajectory that he does not think it will fall below last week's price of $6.19 at any stage during the year. He points out that the IPP has reduced its risk profile and left itself well positioned to weather any fluctuations in the wholesale power market. Furthermore, "any kind of modest improvement in the energy environment is going to help Calpine," says Worms. He believes Calpine's share price will rise faster than other IPPs because its mostly gas-fired generation portfolio is among the most efficient and clean in the country.

Worms predicts Calpine's earnings per share should rise from $0.10 this year to $0.24 in 2005. Calpine closed at $5.98 last Wednesday and has a 12-month trading range of $2.51-8.03.

Worms says he's a fan of Dominion Resources because the $19 billion energy concern has a healthy mix of assets and business lines. "It has the utility in Virginia, an IPP operation and a large exploration and production business," he says. Dominion was also one of Worms' stock picks last year (PFR, 1/21/03) and it performed largely as he predicted, hitting $62.88 last week, just above his price target of $62.

Worms estimates that Dominion's earnings per share should hit $5.05 this year and rise to $5.35 in 2005. Dominion closed at $62.88 last Wednesday and has a 12-month trading range of $51.74-65.95

Power and utility analyst Gordon Howald says Calpine and Dynegy are his favored tips this year, arguing that both should profit when the power market's rebound sooner than most people expect. "The economy in 2004 is going to turn around," he says. "A lot of people shorted Calpine and got squeezed out last year. This means the stock has room to rise." He adds that Calpine should do especially well if gas prices remain strong going into the second half of this year, though he concedes, "it depends on [the] weather, to an extent."

Howald predicts earnings per share will more than double from $0.21 this year to $0.46 in 2005. Calpine closed at $5.98 last Wednesday and has a 12-month trading range of $2.51-8.03.

Pershing's Joan Goodman

Entergy (ETR) $62
Xcel Energy (XEL) $20

Chicago-based utility analyst Joan Goodman highlights two Midwestern utility holding companies, Entergy and Xcel as her top selections for the coming year. Both energy giants should do well as they're unencumbered by large unregulated power generation or merchant trading operations. Goodman favors Entergy, in part because, unburdened by leverage, it wasn't forced to scramble like other utilities to bolster its balance sheet. She adds that Entergy should perform particularly well if the Energy Bill is passed, as the legislation makes provisions for nuclear operators that could benefit Entergy's acquisition and expansion strategy.

Goodman expects Entergy to produce $4.30 of earnings per share in 2004, compared to $3.96 last year. Entergy closed last Wednesday at $58.40 with a 12-month trading range of $42.26-58.35.

Goodman says Xcel is well-positioned for steady growth this year after shaking itself free of its loss-making independent generation arm **NRG Energy**. "Xcel was too ambitious and now management has realized its mistake," she says. "I have faith that management will go back to a regular operating mode." She adds that Xcel's utilities are based in Denver and Minneapolis, two attractive regions to be a utility. "There are cold winters and hot summers in these places and that to me is utopia for a utility company," she says.

Goodman estimates that Xcel should generate $1.25 of earnings per share this year, compared to $.89 last year. Last Wednesday, Xcel closed at $17.39 with a 12-month trading range of $10.40-17.83.

ABN PREPS

(continued from page 1)

group that can provide some $320 million of export credit agency-covered non-recourse debt. The equity portion will be provided by the sponsors on a pro-rata basis and a group of private equity firms, he adds. Paris-based **Coface** is providing the credit guarantees. **Andrew Steel**, head of power sector project finance at ABN in London, declined to comment.

The syndicate line-up has yet to be determined, but those in the running to land a slot alongside ABN include **Citibank**, **Crédit Agricole Indosuez**, **HSBC** and **APICORP**, say market watchers.

This is the second time Kahrama has looked to seal bank financing. In the fall of 2002 an earlier move was shelved after the project became mired in legal complexities and environmental issues. Costs have since risen by roughly $50 million to meet environmental standards and fund the development of a sub-station, says the Mizuho banker.

Even at this late stage success is not guaranteed, notes one banker. He argues concerns about political risk in Algeria could still hamper the deal. It also remains unclear how the destruction of an $800 million LNG plant last Tuesday would impact the Kahrama deal. The Skikda LNG facility, which provides roughly 30% of Algeria's LNG needs, is thought to have exploded because of a faulty boiler, according to press reports.

—*W.A.*

Financing Record (JANUARY 14 - JANUARY 21)

Bonds

Issue Date	Maturity	Issuer	Nation	Amount ($ mil)	Price	Type of Security	Coupon (%)	Spread to Benchmark	Moody's	S&P	Bookrunner(s)
1/21/04	12/10/10	Edison	Italy	126.4	102.842	Medium-Term Nts	5.125	-	Baa3	BBB	BNP Paribas
1/21/04	2/15/13	NRG Energy	U.S.	475	Market	Secnd Prior Nts	8	381	B2	B+	CSFB

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

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could not be determined.

One market watcher says CGE's bid, thought to be in the ballpark of GBP260 million, and a slightly lower cash offer from Centrica, are leading the pack.

A 20-strong banking syndicate took control of the 680 MW Killingholme power plant last January and in April restructured the plant's GBP340 million of project debt into a three tranche deal including GBP190 million of perfoming loans and a GBP65 million C loan, that does not pay interest or principal until 2019 (PFR, 5/5). *—W.A.*

SCOTTISHPOWER

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proceed with the sale. Calls to **Cliff Stanley**, ceo of Damhead, were not returned and **Jamie Wilson**, projects director at ScottishPower, declined to comment.

Market watchers say Damhead's roughly 12-strong creditor committee is evenly split over whether to sell the 800 MW merchant power plant in Kent, southern England, to ScottishPower, or sell the asset to **CGE Power**, a new bank-sponsored genco that is looking to pool a swath of distressed bank-owned generation and will pay existing creditors with CGE debt instruments.

CGE is sponsored by several banks that are also among Damhead's creditors— **Abbey National**, **Bayerische Landesbank**, **HBOS**, **Royal Bank of Scotland** and **WestLB**. These lenders have the voting clout—at least one-third of Damhead's voting rights—to block a sale to ScottishPower.

These banks' apparent willingness to block a sale to ScottishPower is incensing many of Damhead's other creditors, who see ScottishPower's cash offer as a good exit strategy, especially as it covers Damhead's senior debt.

They accuse the CGE banks of being conflicted. "How can they make an unbiased appraisal of ScottishPower's bid," asks one financier, "when they clearly support another bidder?" He argues that lawsuits could fly. The sensitivity of the situation was highlighted at a Damhead creditor meeting at City law firm **Allen & Overy** earlier this month, when a WestLB financier was reportedly asked to leave the meeting because he was also working on the CGE bid. The CGE banks are meant to retain Chinese walls between bankers sitting on Damhead's creditor committee and those involved in the CGE bid. Calls to WestLB were not returned.

An official close to CGE says Chinese walls are being strictly maintained and denies the conflict of interest accusation. He argues that the CGE banks have a greater exposure to the U.K. IPP sector than Damhead's other creditors, and are therefore more likely to look at the bigger picture. "Clearly selling Damhead to a vertically integrated utility like ScottishPower leaves the other independent power plants that we own even more stranded."

The official adds that selling Damhead to ScottishPower would cast a pall over CGE's effort to build a new and viable independent generation company.

—Will Ainger

DEVELOPER PLOTS

(continued from page 1)

The NY Liberty Bond Program was set up after the Sept. 11 terrorist attacks to foster investment in New York City by giving bond investors exemptions from city, state and federal taxes, explains a banker. Bond investors traditionally have been skittish on construction and project risk, so the plan is to set up a bank letter of credit facility as a way to guarantee the debt. The leads for that deal have yet to be selected, he says.

However, there are question marks hanging over the Astoria project, bankers say. For one, the plan is that private equity investors will provide the non-debt portion of the financing, but landing this equity has reportedly proved tougher than expected. The initial plan was to launch a $900 million equity and debt package last summer (PFR, 7/14). That deal never emerged because private equity investors felt the terms of the project's offtake contract were weighted heavily toward **Consolidated Edison Co. of New York,** which will buy the output from the plant under a 10-year contract (PFR, 11/3).

One banker says the deal is also relatively more risky than other power deals simply because of the high construction costs in New York City. "If the costs overrun, who pays? It's not the developer," says one lender, referring to the fact SCS doesn't have deep enough pockets to pay for a large shortfall.

The ConEd offtake contract is partially driving the timeline for the financing. ConEd originally specified that financing had to be in place by Dec. 31, but has now extended that to March 31. Some doubt whether that is a hard-and-fast deadline. "They extended it once. They can extend it again," reflects one banker.

Credit Suisse First Boston is advising Astoria Energy on the financing. A spokesman at the firm declined comment.

—Peter Thompson

Quote Of The Week

"At this point in time if they went out for $2 billion, they'd get it."—**Aneesh Prabhu**, *credit analyst at* ***Standard & Poor's*** *in New York, commenting on* ***Dominion Resources****' strong standing among fixed-income investors (see story, page 6).*