power finance & risk

The exclusive source for power financing and trading news

www.iipower.com

A PUBLICATION OF INSTITUTIONAL INVESTOR, INC.

MARCH 18, 2002
VOL. V, NO. 11

SocGen, Citi, CSFB Land Award Nominations

PFR has unveiled the nominations for its inaugural project finance awards. Non-recourse deals sponsored by **InterGen**, **PSEG Power** and **Tenaska** have all scooped nominations.

For full details, see page 6

Goldman Snags AES Mandate

AES has retained **Goldman Sachs** to advise the IPP on its divestiture plans in the U.S.

See story, page 2

In The News

Latin America

Corporate Strategies

Departments

RWE TARGETS BIGGEST U.S. INDEPENDENT POWER GENERATORS

RWE is looking to acquire an independent power producer in the U.S. and plans to target four of the biggest names in the industry: **Calpine**, **AES**, **Reliant Resources** and **Mirant**, says a New York banker. He adds that RWE has been examining such an acquisition for some time, but is now looking to swoop to take advantage of low valuations in the IPP sector. He says Germany's RWE has retained **Morgan Stanley** and **Merrill Lynch** to advise on its expansion plans.

(continued on page 12)

XCEL TO PUT AFFILIATE NRG'S INTERNATIONAL ASSETS UP FOR SALE

Xcel Energy is planning to put affiliate **NRG Energy**'s entire 5.4 GW international plant portfolio and trading operations up for sale once their merger is approved and is in the process of selecting banks to advise on the process.

A power sector M&A banker whose firm is courting Xcel for the lucrative sale advisory mandate says the utility began holding a beauty parade with the great and the good of Wall Street last Monday and continued discussions throughout last week. Xcel is looking

(continued on page 11)

BANCO SANTANDER CUTS LATAM ENERGY FOCUS, SHOWS 12 BANKERS THE DOOR

Banco Santander Central Hispano is phasing out its project finance and mergers and acquisitions coverage of the Latin American power, oil and gas sectors and has handed pink slips to most of its New York energy team. A banker at the Spanish firm says it is in the process of laying off seven project financiers and five M&A bankers.

The Spanish bank will retain only two of its New York energy bankers, **Facundo Vazquez**, head of M&A, and **Pablo Garcia**, senior associate in project finance. Vazquez will

(continued on page 11)

SocGen Survey

PROJECT FINANCIERS READY TO COMMIT TO MERCHANT RISK

A surprising 60% of project finance banks in the U.S. say they are willing to commit to new merchant power deals, despite weak spot power prices and the bearish attitude to non-contracted risk shown in the syndication of recent deals, according to a recent survey conducted by **Société Générale**. However, the bears still have a strong constituency, according to the survey, with 31.5% of respondents saying they have committed to merchant deals in the past and are now firmly on the sidelines.

(continued on page 12)

AEP Snags Enron Honcho

American Electric Power has hired Enron's top weather derivatives trader to fire up a desk for the Columbus, Ohio, power-trading giant. **Steven Vu** is in the process of relocating from Houston and will report to **Bill Reed**, head of trading at AEP. Vu declined comment, referring calls to Reed, who did not respond by press time. The entry of AEP into the market has weather players salivating: given the amount of end-user power business the firm handles, the prospects for follow-on weather flows is strong, says one rival.

At the same time, weather officials are puzzling over why such a key member of the Enron desk didn't stick with team chief **Mark Tawney**, who has been looking to land a group move. **Swiss Re** is believed to top the list of likely suitors (PFR, 1/29). One official close to the situation says Vu, who left Enron last month, had been looking to stick with Tawney, but simply decided that AEP offered a better opportunity.

Calpine Banks Ready Launch For $2B Package

Leads bankers are targeting next week for a bank meeting to unveil the $2 billion credit line for San Jose, Calif.-based Calpine. The package consists of a $1 billion 364-day revolver, a $400 million one-year line and a $600 million B loan.

The $1.4 billion tranche, priced at LIBOR plus 200 basis points, is led by **Bank of Nova Scotia**, **Bank of America**, **Bayerische Landesbank**, **Credit Suisse First Boston**, **Citibank**, **Deutsche Bank** and **The Toronto-Dominion Bank**, though the first four will lead the sales effort, says one syndicate official. He adds there was a degree of horse trading for league table status on both parts of the facility. Citi, CSFB and Deutsche Bank are leading the $600 million institutional tranche, which is initially priced at LIBOR plus 275. The banker notes that there is a 30-day delay in the release of funds on the B loan—even though it is fully underwritten—to allow the banks time to sell the paper and also finalize the security.

Allegheny Preps Corporate Loan

Hagerstown, Md.-based **Allegheny Energy** has given the nod to **Citibank** to arrange a new 364-day revolver and a three-year facility. Calls to Allegheny and Citibank were not returned by press time, so the size of the facility could not be determined. "People will be watching to see what the pricing is," notes one loan banker, explaining the company has a strong name and pricing will give an indication of where the benchmark sits after the turmoil of the last six months in the sector.

AES Chooses Goldman For Domestic Asset Sale

AES has chosen **Goldman Sachs** to advise on the sale of its U.S. assets, which comprise 40% of the independent power producers' revenues, says a banker familiar with the matter. He declined to name the assets the Arlington, Va.-based IPP has put on the block.

At the end of February, AES announced a restructuring plan that included divesting between $1-1.5 billion of underperforming assets in both Latin America and the U.S. (PFR, 3/3). It is looking to sell generation capacity to shore up its balance sheet and improve its credit ratings in the wake of the **Enron** meltdown, which has caused an abrupt downturn in the energy sector. Calls to Goldman and AES were not returned.

power finance & risk

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

PRODUCTION
DANY PEÑA Director
LYNETTE STOCK, DEBORAH ZAKEN Managers
SHERRY MURRELL, MICHELLE TOM, ILIJA MILADINOV, ERIC OGBURN Associates
GEORGE NELSON Senior Web Production Designer
JENNY LO Web Production Designer

MARIA JODICE Advertising Production Manager (212) 224-3267

PUBLISHING
GUY CROSSLEY Group Publisher
NAZNEEN KANGA Publisher (212) 224-3005
ELAYNE GLICK Director of Marketing & Circulation (212) 224-3069

ADVERTISING
For Advertising info, call (212) 224-3005
JENNIFER FIGUEROA Media Kits (212) 224-3895

INDIVIDUAL SUBSCRIPTIONS
ANTHONY COMANTO Director of Sales (212) 224-3457
WILLIAM POWELL Senior Account Executive [New York] (212) 224-3012
THOMAS GANNAGE-STEWART [London] (44-20) 7779-8998,
KATE COLCHESTER [Hong Kong] (852) 2842-6929, Fax: (852) 2973-6260, email: colchesterk@iinewslts.com, Account Executives

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

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

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

CHRISTOPHER BROWN Chief Executive Officer

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

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

Circulation Offices: 477 Madison Avenue, New York, NY 10022. Tel: (212) 224-3800. Fax: (212) 224-3491.

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

Five Banks Put In Bids For Spanish Project Financing

Ireland's state-owned electric utility, the **Electricity Supply Board,** is currently reviewing five requests for proposals submitted by prequalified project lenders to finance the construction of an 800 MW combined-cycle gas-turbine fired power plant in the Basque region of northern Spain. A banker who bid for the mandate says the RFPs were due two weeks back and that ESB is looking to make a selection in short order and have financing in place by year-end.

The Amorebieta plant near Bilbao is expected to cost some EUR470 million ($425 million) to build and bankers say ESB is looking to fund the bulk of the costs through a syndicated non-recourse bank loan. Calls to **Kevin MacDermott**, a spokesman at ESB in Dublin, were not returned.

Bilbao Bizkaia Energía, a subsidiary of ESB, hopes to break ground on the project next spring and bring the plant on line by 2004 (PFR, 11/5).

Japanese Utilities Expected To Enter Weather Mart

Kansai Electric Power Co. and **Kyushu Electric Power Co.** are separately considering entering their first weather derivatives contracts to hedge against a cold summer reducing the revenue they generate from powering air conditioning units, according to officials familiar with the companies' plans.

Takahiro Honda, assistant manager of the accounting and finance department at Kyushu Electric, says, "we're evaluating these types of transactions." He added that he is speaking with a number of banks and insurers about entering contracts to hedge against cool summers in the coming months, though he declined to elaborate on specific products or the potential size of deals. **Naoki Naito**, head of corporate planning at Kansai in Osaka, declined comment.

Separately, **Tokyo Electric Power Co.**, which was the first and is believed to be the only electric power company in Japan to use weather derivatives, is planning to enter new hedges. **Yazunori Yumoto**, manager of the corporate planning department at Tokyo Electric Power Co., says the firm will look to hedge against a cool summer to stabilize earnings in the coming months. He adds it is now negotiating with **Tokyo Gas**, its counterparty for the last swap, as well as a number of other potential counterparties. TEPCO will likely close two or three deals in the coming months, according to Yumoto. In the first structure, which was arranged directly between the two firms, TEPCO purchased a put option to hedge against the temperature falling below a predetermined level while Tokyo Gas bought a call option whereby TEPCO would pay out if the temperature rose above an agreed level. Yumoto noted that as there was a cool summer last year, TEPCO received a payment from Tokyo Gas.

"We're starting to see inquiries," notes **Hiroshi Matsui**, senior manager of derivatives and fixed income at the **Industrial Bank of Japan** in Tokyo. He continues that after the fiscal year-end at the end of March, he expects utilities to hedge weather fluctuations for the coming summer, which could reach JPY5-10 billion (USD38-77 million) in total volume. He adds there was strong interest from utilities at the recent **Weather Risk Management Association** conference held in Japan.

"Electric power companies are starting to seriously study this," says **Hiroshi Yoshimine**, global head and general manager of the derivatives and structured products division at the **Bank of Tokyo-Mitsubishi** in Tokyo. He adds some hydroelectric generators are also eyeing precipitation contracts to hedge against low rainfall. Both declined to name the firms.

Eight Banks Weigh Up Conoco Loan

Eight banks are considering investing at a senior syndication level in **Conoco Global Power**'s GBP257 million ($365 million) non-recourse financing for the construction of Immingham, a combined heat and power plant in the U.K. Financiers familiar with the transaction say the banks currently weighing up their options on the deal are **Abbey National**, **Bank of Scotland**, **Bank of Tokyo-Mitsubishi**, **Bayerische Landesbank**, **Commerzbank**, **Credit Lyonnais**, **HypoVereinsbank** and **KBC Bank**. He adds that all these firms attended a bank meeting in London earlier this month arranged by sole underwriter **Royal Bank of Scotland** (PFR, 3/11).

Conoco is offering sub-underwriting fees of 40 basis points and a further 50 basis points for take-and-hold positions, notes the banker. These "moderately healthy" fees, the credit quality of the sponsor and the deal's conservative 63% debt-to-equity structure may persuade the banks to sign up for the loan, reasons the banker, but he warns many financiers may balk at investing in a 20-year loan that is fully exposed to U.K. merchant risk. The loan is priced at 130 basis points over LIBOR and steps up after construction.

CGP, the generation subsidiary of Houston oil giant **Conoco**, will use the proceeds to finance the construction of a 734 MW gas-fueled CHP plant at Immingham, on the northeast coast of England. The site is adjacent to Conoco's Humber oil refinery and is the U.S. company's first power plant in the U.K. Steam from the facility will be sold to Conoco and **TotalFinaElf** under long-term off-take agreements.

Banks Wrap Up First European Mini-Perm

Lead arrangers **ING Bank** and **TD Securities** wrapped up syndication of **International Power**'s GBP175 million ($248 million) mini-perm financing for the acquisition of a U.K. power plant on March 8 with the addition of four banks committing at the buy-and-hold level. **Bayerische Landesbank**, which committed at the GBP20 million level, was the last lender to sign up, say financiers. Earlier this year **Abbey National** and **Bank of Scotland** signed up for GBP20 million tickets and **Credit Agricole Indosuez** committed at the GBP15 million level. **Bank of Tokyo-Mitsubishi** and **Credit Lyonnais** came aboard as arrangers before the non-recourse loan was launched late last year (PFR, 11/19). **Peter Pjiper**, head of project finance at ING in Amsterdam, notes that all four arrangers took GBP25 million tickets.

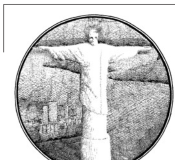
The lead banks had originally been looking to wrap up financing by year-end, but pushed back closure because of a muted response in syndication and the fallout from **Enron**'s collapse (PFR, 12/24). They also sweetened up-front fees from 50 to 75 basis points to heighten interest in the deal, say bankers.

The mini-perm met a frosty response because of its novel structure—it was the first mini-perm to be launched in Europe—and its aggressive payment schedule. Earlier this year one banker noted that his major worry was that a cash sweep only begins in the final year of the mini-perm—year seven—and that only 9% of the principal will be repaid by this time. This creates unnecessary refinancing risk, he explained.

IP is using the proceeds from the mini-perm to fund its acquisition of Rugeley, a 1,000 MW coal-fired plant it bought from **TXU Europe** in May. The loan pays a spread over LIBOR of 120 basis points for the fist two years and then steps up to 130 basis points in years three and four, 170 basis points in years five and six, and 195 basis points for the final year. IP can extend the loan for a further 18 months at a spread of 225 basis points over LIBOR. The deal is thought to be the first mini-perm in the European power market.

TXU Readies Plans For Revolver

TXU is preparing to roll over a $1.4 billion, 364-day revolver that expires in April. **Tim Hogan**, an investor relations official in Dallas, says finance staffers are still determining the size of the facility and who will lead the deal. He was unable to provide further details. One banker says he had heard the revolver might be sliced down to $1 billion. With a strong bank following, the deal will probably place quickly. "Anytime someone is reducing size a little is a good thing, and TXU is a strong name as well," the banker says. He adds that the deal might also provide a chance for bankers to get the company's take on the state of deregulation in the Texas market.



Latin America

TransAlta Chooses BofA For Mexican Project

TransAlta, Canada's largest unregulated generation concern, has hired **Bank of America** to arrange $150 million in project financing for the construction of a 259 MW gas-fired facility in Chihuahua, Mexico. A New York financier familiar with the matter says that since the non-recourse deal is at a preliminary stage, the details of the transaction have yet to be determined. Bankers at BofA and officials at Calgary, Alberta-based TransAlta did not return phone calls.

Like other independent power projects (IPPs) in Mexico, the financier says Chihuahua will sell all of its output to the **Comision Federal de Electricidad** (CFE), Mexico's national power company, under a 25-year power purchase agreement. He says the company expects the plant to be operational by the second quarter of 2003. The total cost of the facility is expected to be $192 million.

The Chuhuahua project is TransAlta's first push into the Mexican IPP market. As part of plans to geographically diversify its 9.5 GW generation portfolio outside Canada, TransAlta is looking to bid for a large number of Mexican projects over the next few years and hopes the country soon will account for some 30% of its business (PFR, 3/5). The CFE plans to roll out 13 IPPs—representing 5.5 GW of combined capacity—for tender this year.

RWE Eyes Generation Assets In Brazil

German utility RWE is looking for generation assets in Brazil as part of its strategy to enter South America at a time when prices are depressed in the region. A banker familiar with the company says that among other things, it is planning to acquire a coal-fired plant in the country. An RWE spokesman could not ascertain details by press time.

RWE, which is new to the region and has historically been a conservative investor oversees, is also looking to purchase **Enron Global Services**' largest Latin American asset, **Elektro Eletricidade e Servicos**, a distribution utility in Brazil (PFR, 12/20). A New York-based Latin American power analyst commenting on attractive valuations in the region, says, "This could be the right time for [RWE] to make its entrance."

Peru Readies Generation Sale

The Peruvian government and its financial advisor **Inter-Europa Bank** will launch the privatization of the country's state-owned generation market next month with the auction of two regional players **EGASA** and **EGESUR**, both located in southern Peru. **Sandra Santilan**, an official at the **Commission For The Promotion of Private Investment** (COPRI) that is responsible for the sale, says **AES**, **NRG Energy**, **PSEG Global**, **Duke Energy**, Norway's **Statkraft** and Begium's **Tractebel** have all prequalified to bid for the generators.

Santilan says EGASA and EGESUR have 358 MW of combined capacity and account for 7.1% of Peru's generation market. Peru will announce the minimum sale price on April 5 and the auction is set for April 30, she adds.

But a New York banker warns that Peru will be hard pressed to sell the generators in such a tight time frame, given the slew of other assets on the block in Latin America. "It would be surprising if the government could pull off the sale within six months. But if the pricing is reasonable, it could possibly get done," he says. AES, **Enron,** NRG Energy and **Constellation Energy** are just a few of the other sellers in the region.

The Peruvian government has also selected **BNP Paribas** and **N.M. Rothschild** to advise on the sale of some state-owned distribution and transmission companies, says Santilan. The sale of four distributors—**Electronoroeste**, **Electronorte**, **Hidrandina** and **Electrocentro**—is still at an early stage and bidders have yet to be prequalified, says Santilan, adding the sale is expected to be completed by June. The four distributors are located in central Peru and have more than one million customers.

Another CORPI official says the government is currently evaluating potential bidders for the sale of Peru's two transmission companies, **ETECEN** and **ETESUR**. He notes preliminary bids are due April 23 and expects the sale to be completed by late May. The two transmission companies cover all of Peru and operate 5,489 km of wires. Officials at the banks did not return phone calls.

Latin American Power Financing Calendar

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

Sponsor	Project	Project Type	Size (MW)	Cost ($mil)	Country	Advisor/ Financier	Status	PFR Issue
ABB	Thermo Bahia	Gas-fired	187	205	Brazil	IDB/BofA	Launched $173M loan	3/4/02
Alcoa	Santa Isabel	Hydro	1,087	700	Brazil	Citi	Has hired Citi to lead deal	2/11/02
Ceran	-	Hydroelectric	360	111	Brazil	BNDES	Will launch the loan shortly	10/8/01
Compahnia Energetica de Pernambuco	Termopernambuco	Gas-fired	520	403.5	Brazil	IADB/BBVA/BNDES	Syndication due shortly	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	Pederneiras	Gas-fired	500	270	Brazil	-	Will finance with equity capital.	3/11/02
Electricité de France	Altamira	Gas-fired	495	300	Mexico	Citi/Fuji	Prepped $200M loan	2/11/02
Electricite de France	Rio Bravo III	Gas-fired	500	290	Mexico	SocGen	Arranging a $217M project loan	3/4/02
El Paso	-	Gas-fired	200	200	Mexico	-	Expects to bring project on line by 2003	4/16/01
El Paso	Araucaria	Gas-fired	469	340	Brazil	Dresdner	Closing $340M in financing	3/4/02
El Paso	Macae	Gas-fired	400	700-800	Brazil	-	Refinancing with a project loan	3/11/02
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
InterGen	La Rosita I & II	Gas-fired	1,060	Mexico	Citi, BNP, EDC, SocGen, KBC, ANZ	-	Plan to Launch general syndication in March	2/25/02
InterGen	Carioba	Gas-fired	945	670	Brazil	-	Project delayed until Q1 of 2003	2/25/02
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 Resources	Mexicali	Gas-fired	600	350	Mexico	SocGen	In the process of arranging a corporate loan	3/11/02
TransAlta	Chihuahua	Gas-fired	259	192	Mexico	BofA	Looking to arrange $150M loan	3/18/02
Union Fenosa	La Laguna II		450	-	Mexico	-	-	7/2/01
Union Fenosa	Tuxpan III & IV	Gas-fired	938	600	Mexico	Deutsche Bank BOTM	Expects to bring plant on line by 2003	6/4/01

North American Power Project Finance Award Nominations For 2002

Power Finance & Risk *will present its inaugural power project finance awards on Monday April 15. Below are the nominations for best North American project finance deals and top loan arrangers that the editors of* PFR *thought stood out from the crowd last year. If you want to have your say on which of the nominations should win, please e-mail your thoughts to* wainger@euromoneyplc.com. *All responses will be treated in confidence. PFR will run the nominations for top European, Middle East and Latin American deals next week.*

Best North American Deals

• **InterGen**'s linked—but separate—$430 million Magnolia, $558.8 million Redbud and $550 million Cottonwood deals split opinion. While some bankers gripe about a less than smooth syndication process for some of the deals, other officials have nothing but admiration for **West Griffin**, the ex-cfo, who is widely credited with formulating the structure. Banks pitching for a lead slot had to agree to commit to the two deals they didn't get, with the result that each deal had six banks already locked in before syndication was launched.

But, the real twist on the deals is the annual recalculation of the debt servicing ratio, which is determined partly by looking at the level of contracted power and the forward power curve. Expanding the 24-month curve horizon, which has been the norm of merchant deals, was a key innovation, adopting a structure commonly used in oil and gas financing.

• Although not registering in the mega-deal category, **PSEG Power**'s $822 million Midwest plant financing has its fans because of its unique peaker structure over a short timeline of five years. The fact it was the sponsor's debut deal, the tight pricing achieved for the borrower and that **Credit Suisse First Boston** didn't need to flex the deal, unlike other loans in the market, all added to its luster.

• **Teco Power Services/Panda Energy**'s $2.2 billion financing for the construction of two 2,200 MW plants in Arizona and Arkansas is ranked by many officials as best-in-show among the handful of jumbo deals launched last year. It may have skidded in to technical default because its EPC contractor was an **Enron** subsidiary (PFR, 1/21) and had its pricing significantly sweetened during syndication, but it still gets the thumbs up from a number of admirers.

The sheer size of the loan, the lack of sponsor track record in the project finance market and the fact leads **Citibank** and **Société Générale** eventually drew in over 40 institutions all brought strong praise from market officials.

• **Tenaska/Kiowa Power Partners**' $770 million funding of the Kiamichi project gets plaudits from a number of industry watchers. Closing in the fourth quarter as sentiment was turning bleak post Sept. 11 and in the run-up to Enron's default, it was a deal for an un-rated sponsor, which already had a lot of project finance paper in the market. But, a strong syndication effort from the five banks arranging the loan saw 25 banks sign up, including some new European names.

Best North American Lender

• **Citibank**'s traditional place near top of the flow chart was maintained last year, with the behemoth keeping its finger in the pie of many key deals, not least of which was last summer's $2.2 billion Teco/Panda deal, the largest U.S. project loan launched last year. Citi also co-led along with SocGen and **J.P. Morgan PG&E National Energy Group**'s $1.7 billion project loan launched last August.

• **Credit Suisse First Boston** maintained it's status as the 10-ton gorilla of the power project finance market, bringing a lot of paper to market and often doing so by itself or by teaming up with banks outside the big three. A strong deal was **NRG Energy**'s $2 billion construction facility, which even though it had to be flexed, typified CSFB's skills: a big deal placed without leaning heavily on another bank. CFSB also co-led with **BNP Paribas Sithe Energy**'s $1.25 billion Sithe Boston loan that was syndicated at the beginning of last year.

• **Société Générale** continued to gain profile and fans. The tough syndication for **American National Power**'s $1.4 billion financing, which SocGen led with Citi, is seen by some as a plus for the bank in that the deal got done, and others as a negative because of the restructuring. However, bankers see the firm as one that brings big, soundly structured deals to market. Like Citi, SocGen co-led three of the four largest power loans to hit the market last year.

Corporate Strategies

NorthWestern Pays Down Acquisition Bridge

Sioux Falls, S.D.-based NorthWestern tapped the bond market last week with $720 million in senior notes and plans to use the bulk of the proceeds to repay a $600 million bridge loan it arranged to fund the cash portion of its $1.1 billion acquisition of **Montana Power**. The bridge comes due next February.

The BBB/Baa2 rated bond offering, priced March 8, was divided into two tranches of $470 million and $250 million. The larger tranche has a 10-year maturity, offers a 8.75% coupon, and was priced at 99.841 to yield 8.774%. The smaller tranche has a five-year maturity and was priced at 99.946 with a coupon of 7.875% to yield 7.888%. **Credit Suisse First Boston**, **Barclays Capital** and **Morgan Stanley** were the joint book runners.

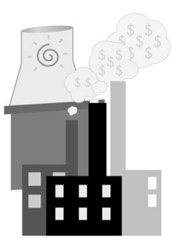
The two tranches offer relatively wide spreads of 325 and 350 basis points over Treasuries, respectively, according to **Peter Otersen**, a credit analyst at **Standard & Poor's** in New York. He describes the pricing and timing of the deals as "unfortunate" and says, "the terms of the pricing could have been better." He continues, "The markets are still a little cautious due to **Enron**, but there was a timing issue because the merger was approved and NorthWestern needs to repay the loan. However, as interest rates are expected to creep up again, it was probably best that NorthWestern issued the bonds now."

Canadian Power Player Taps Private Convertible Mart

St. John's, New Foundland–based **Fortis Inc.**, which holds stakes in six electric utilities in the Americas, issued $10 million of unsecured subordinated convertible debentures last week, in a private placement with three offshore investors. **Karl Smith**, cfo, says the financing structure reflects the fact that investors are interested in taking an equity stake, but wanted a tax efficient way of achieving that. Fortis handled the placement itself because it wasn't necessary to drum up investor interest since the company already knew the three buyers. "You don't always need investment bankers," he says.

The debentures pay an annual rate of 6.75%, mature on March 12, 2012, and are redeemable by Fortis at par at any time on or after March 12, 2007. They are convertible into common shares at CAD58.20 ($36.44) per share, a 20% premium to current market prices. Smith declined to name the investors.

Fortis, which has holdings in electric utilities in Newfoundland, Prince Edward Island, Ontario, the U.S., Belize and the Cayman Islands, will use the funds for a $5.55 million increase in its stake in **Caribbean Utilities**, which operates in Grand Cayman, Smith says. Fortis holds 21.6% of Caribbean Utilities and can increase this further under an agreement with the company.



Generation Auction & Sale Calendar

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

Seller	Plants	Location	MW	Plant Type	Advisor	Status
American Electric Power/ Central and Southwest Corp.	Northeastern units 3 & 4	Okla.	300	Coal	N/A	Reviewing sale strategies.
	Lon C. Hill	Texas	546	Gas	-	
	Nueces Bay	Texas	559	Gas	-	
	Ennis S. Joslin	Texas	249	Gas	-	
ADWEA	Um Al Nar	Abu Dhabi	1,100	Gas & Water Desalination	CSFB	Expected to send out RFPs in December.
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	
Enel	Eurogen	Italy	7,008	Various	-	Having sold Elettrogen it will sell one of two other generation portfolios shortly.
	Interpower	Italy	2,611	-	-	
Enron	Bahia Las Minas	Panama	355	Various	PwC (administrator)	Intention to sell.
	Pueto Quetzal	Guatemala	110	-		
	PQPLLC	Guatemala	124	-	-	
	Margarita II	Nicaragua	70.5	-	-	
	EcoElectrica	Puerto Rico	507	-	-	
	Puerto Plata	Dominican Republic	185	-	-	
	Cuiaba	Brazil	480	-	-	
	Nowa Sarzyna	Poland	116	-	-	
	Sarlux	Italy	551	-	-	
	Trakya	Turkey	478	-	-	
	Chengdu Cogen	China	284	-	-	
	Northern Marianas	Guam	80	-	-	
	Bantagas	Philippines	110	-	-	
	Dabhol	India	2,184	-	-	
	Subic Bay	Philippines	116	-	-	

(Continued)

Generation Auction & Sale Auction (cont'd)

Seller	Plants	Location	MW	Plant Type	Advisor	Status
Enron	Teesside	U.K.	1875	Various	PwC	Intention to sell.
	Wilton	U.K.	154		(administrator)	
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	-	-
North Atlantic Energy	Seabrook*	N.H.	408	Nuclear	N/A	Must be sold by Dec. 2003.
NRG	CEEP	Poland	10 (10% stake)	-	-	Is currently selecting a financial advisor
	Csepel II	Hungary	389	Gas/Oil	-	
	ECK	Czech Republic	350 (44% stake)	Coal/Gas/Oil	-	
	Enfield	U.K.	380 (25%)	Gas-fired	-	
	Killingholme A	U.K.	680	Natural Gas	-	
	MIBRAG	Germany	238 (50% stake)	Coal	-	
	Gladstone Power	Australia	1,500 (37.5% stake)	Coal	-	
	Flinders	Australia	760	Coal	-	
	Loy Yang A	Australia	2,000 (25% stake)	Coal	-	
	Hsinchu	Taiwan	400 (60% stake)	Gas-fired	-	
	Lanco Kondapalli	India	340 (30% stake)	Gas/Oil	-	
	Collinsville	Australia	192 (50% stake)	Coal	-	
	TermoRio	Brazil	1040 (50% sake)	Gas	-	
	COBEE	Boliva	220 (98% stake)	Hydro/Gas	-	
	Itiquira Energetica	Brazil	160 (98% stake)	Hydro	-	
	Cementos Pacasmayo	Peru	66	Hydro/Oil	-	
	Bulo Bulo	Bolivia	90 (60% stake)	Gas-fired	-	
	Cahua	Peru	45	Hydro	-	
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 &	Expects to sell Lennox and Lakeview shortly.
	Lakeview	Ontario	1,140	Coal	Scotia Capital-	
	Atikokan	Ontario	215	Coal	-	
	Thunder Bay	Ontario	310	Coal	-	
	Mississagi River	Ontario	490	Hydro	-	
Public Service Co. of New Hampshire (Northeast Utilities)	Merrimack	N.H.	475.8	Coal	J.P. Morgan	Subject to approval for rate settlement by PUC and state legislature.
	Newington	N.H.	415	Oil/gas	-	
	Schiller	N.H.	146.6	Oil/gas	-	
	Lost Nation	N.H.	19.1	Diesel	-	
	Merrimack	N.H.	42.2	Diesel	-	
	Schiller	N.H.	18	Diesel	-	
	White Lake	N.H.	23	Diesel	-	
	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	-	
Reliant Resources	Reliant Energy Power Generation Benelux	Netherlands	3,476	Mixture	Merrill Lynch	Is looking to seal sale imminently
	Argener	Argentina	160	CHP	-	
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 collaspe of NRG deal.
	New Haven	Conn.	1,100 (combined)	-	-	

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

Weekly Recap

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

Asia

• **BP** has joined the bidding for Enron's $2.9 billion, 2,184 MW Dabhol power plant in India. This takes the number of bidders to eight, including **Shell** and **Gaz de France**. "We believe the asset is a key piece of infrastructure for the future development of the gas business in India," explained a BP spokesman. The facility is only 95% complete and is also owned by **General Electric** and **Bechtel**, which both hold a 10% stake (*Financial Times*, 3/11).

• China plans to resolve funding problems for its CNY180 billion ($22 billion) Three Gorges hydroelectric power facility by offering shares on the domestic stock market, through a Hong Kong listing and possibly in London. An initial listing of CNY4-5 billion is expected in Shanghai. **Merrill Lynch**, **Morgan Stanley**, **Nomura** and **Goldman Sachs** are bidding to underwrite the transaction. **Mirant** and **CLP China Power**, a Hong Kong company, have also been in talks to take part of a 10% tranche being offered via a private placement (*Financial Times*, 3/12).

Europe & Middle East

• **RWE** has signed a deal worth EUR100 million ($87.6 million) to modernize an 800 MW plant in Bulgaria. Together with engineer **Dillinger Stahlbau**, an RWE unit will upgrade the Maritza East III combined heat and power plant near Stara Zagora. The facility is owned by a joint venture between **Entergy** and Bulgarian state power company **NEK** (*Dow Jones*, 3/11).

U.S. & Canada

• The **Commodity Futures Trading Commission** is investigating whether **Enron** committed fraud or manipulated markets through improper trading on commodity exchanges, and is also looking at derivatives trading via EnronOnline. The regulator doesn't have the authority to regulate the over-the-counter derivatives market, but can investigate if it suspects possible fraud or manipulation (*Wall Street Journal*, 3/11).

• **Williams** will pay $750 million for former subsidiary **Williams Communications** to purchase network assets. Under the deal, Williams will in return receive unsecured debt or equity in Williams Communications (*Reuters*, 3/11).

• The U.S. wind power industry is welcoming a two-year extension of a key federal tax credit, saying it will restore momentum to an industry that saw record growth last year but then froze in its tracks due to a delay in the credit. The wind energy production tax credit—an important factor in financing new wind power projects—was part of the economic stimulus bill signed on Saturday by President **George W. Bush**. (*Reuters*, 3/11).

• Tulsa, Okla.-based **Williams Companies** has agreed to sell a gas pipeline to **Warren Buffett**'s **Berkshire Hathaway** investment company for $450 million. Williams also agreed to raise $275 million through the sale of cumulative convertible preferred stock to the Berkshire Hathaway group. Williams is selling its Kern River interstate natural gas pipeline business to **MidAmerican Energy** for $450 million in cash and the assumption of $510 million in debt. **Lehman Brothers** acted as financial adviser to Williams for the transaction (*Financial Times*, 3/11).

• **Bank of America** will enter the volatile world of energy trading in April when it hires three former **Enron** power traders. **Tara Burke**, a BofA spokeswoman, said the former Enron traders would start on April 1 in New York City (*Reuters*, 3/12).

• The **Long Island Power Authority** has decided not to immediately buy 47 plants from **KeySpan Energy**, but the two have agreed to an option allowing LPIA to buy the plants in November 2004 through May 2005. The original plan drew criticism from clean energy advocates and it became increasingly clear the purchase was not something New York Gov. **George E. Pataki**, who essentially created LIPA, wanted to deal with during an election year (*The New York Times*, 3/12).

• California Attorney General **Bill Lockyer** is suing **Dynegy**, **Mirant**, **Williams** and **Reliant Energy** for market misconduct. The suit, filed in the San Francisco Superior Court, charges the companies with double-dipping by first selling certain kinds of electricity reserves to the California Independent System Operator and then selling the power needed to back these commitments on the open market. The transactions reportedly took place between April 1998 and September 2000 (*Wall Street Journal*, 3/12).

• **Alliant Energy**'s **Wisconsin Power and Light** filed a request with the **Public Service Commission of Wisconsin** to reduce annual electricity prices by $18.9 million because of projected lower fuel and purchased power costs. The company said the move would result in about a 3.1% reduction in overall electric revenue (*Dow Jones*, 3/12).

power finance & risk

The exclusive source for power financing and trading news

www.iipower.com A PUBLICATION OF INSTITUTIONAL INVESTOR, INC.

You read it here *first!*

We stay ahead of our competition
so you can stay ahead of yours.

PFR - MARCH 4, 2002

BERKSHIRE HATHAWAY EYES BARGAINS IN THE UTILITY SECTOR

Warren Buffett's Berkshire Hathaway, the parent of Des Moines, Iowa-based **MidAmerican Energy Holdings**, is planning to acquire another utility in the Midwest to take advantage of depressed asset prices and broaden its presence in the region. An official who is advising the Sage of Omaha's investment vehicle on the strategy says, "It's a shrewd move on Berkshire's part because it could snap up a utility right now [on the] cheap. The **Enron** situation has made it difficult for companies in the sector to get a hold of capital and since Berkshire has a lot of capital, it's a win-win situation." Officials

MARCH 8, 2002

Make FT.com your homepage

FT .com FINANCIAL TIMES

Warren Buffett offers helping hand to Williams.

By SHEILA MCNULTY

Williams Companies, the US energy group, reported a net loss of $477.7m for 2001 assume the debt from a former telecommunications subsidiary, but the company out strengthen its balance sheet.

The Tulsa, Oklahoma-based company agreed to sell a pipeline to Warren **Buffett**'s empire of companies for $450m. Williams also agreed to raise $275m through the s convertible preferred stock to the Berkshire Hathaway group.

PFR - FEBRUARY 4, 2002

U.K. UTILITY PUTS 600 MW U.S. WIND BIZ ON THE BLOCK

U.K. utility **Innogy** has put its U.S. wind farm business up for sale and hired **J.P. Morgan** to find a buyer. An official familiar with the sale says the portfolio, which consists of two 20 MW farms in California and a further 600 MW of projects in construction or under development in California, Texas and Pennsylvania, could fetch Innogy some $300 million.

Innogy, through its **National Wind Power** (NWP) subsidiary, is the largest developer, owner and operator of wind farms in the U.K. One market watcher who was unaware of the sale, reasons Innogy's decision to exit the

FEBRUARY 11, 2002

The **Guardian**

Innogy to sell US windfarms

Geoffrey Gibbs

Innogy, the biggest domestic electricity supplier, wants to sell its American windfarm business to concentrate on core generation and supply operations in Britain.

US industry experts say that wind power projects cost about $1m per megawatt to install, suggesting the British group could cash in more than $100m (£68m) at a time when new projects are being held up by a congressional tax wran-

PFR - FEBRUARY 4, 2002

Aiming For No. 1

XCEL ENTERS MERGER TALKS; LOOKS TO BUY BACK NRG

Xcel Energy, one of the largest electric utilities in the U.S., is courting **FirstEnergy**, TXU and **Entergy** as potential merger partners and at the same time is looking to repurchase the remaining 20% stake of its unregulated IPP affiliate, **NRG Energy**, which it partially spun off in May 2000. **Lehman Brothers** is advising the Minneapolis-based utility on the concurrent strategies. **Paul Adelmann**, a spokesman at Xcel Energy, confirmed the company is looking at these options, but declined to elaborate.

Xcel, a utility serving 12 states in the Midwest and Southwest, has a

FEBRUARY 19, 2002

WALL STREET JOURNAL

By a WALL STREET JOURNAL *Staff Reporter*

MINNEAPOLIS—**Xcel Energy** Inc., an electricity and natural-gas company, said it plans to begin an exchange offer to buy the 26% of independent power producer **NRG Energy** Inc. that Xcel doesn't already own. Both companies are based here.

To Subscribe Call

212 224 3800 (USA), + 44 207 779 8491 (UK), EMAIL: abelinsky@iinews.com

Financing Record (MARCH 7 - MARCH 14)

Bonds

Date	Maturity	Issuer	Amount	Price	Type of Security	Coupon (%)	Moody's	S&P	Book Manager(s)
03/07/02	12/30/05	Nederlandse Waterschapsbank	63.2	100.736	Fxd/Straight Bd	4.5	Aaa	AAA	TD Securities
03/07/02	03/27/07	Tokyo Electric Power	876.7	100.977	Fxd/Straight Bd	5.125	Aa2	AA-	BNP Paribas/West LB
03/08/02	03/15/07	Kansas City Power & Light	225	99.795	Notes	6	A2	BBB	BA SEC/BNP Paribas
03/08/02	03/15/12	NorthWestern	470	99.841	Senior Notes	8.75	Baa2	BBB+	Barclays Capital/Morgan Stanley
03/08/02	03/15/07	NorthWestern	250	99.946	Senior Notes	7.875	Baa2	BBB+	Barclays Capital/Morgan Stanley
03/12/02	03/12/04	Mississippi Power	80	100	Float Rate Nts	Floats	A1	A	Lehman Brothers
03/13/02	-	Dominion Resources	300	50	Eq Sec Units	-	baa1	BBB+	Citigroup
03/13/02	07/27/06	EDF	65.1	100	Fxd/Straight Bd	5.76	Aaa	AA+	MILTD
03/13/02	07/27/06	EDF	90	100	Fxd/Straight Bd	4.54	Aaa	AA+	MILTD
03/13/02	12/15/08	Transco	260.2	99.327	Fxd/Straight Bd	7.125	A2	A	RBC/DOM

M&A

Date Announced	Date Effective	Target Name	Target Country	Acquiror	Acquiror Country	Value ($mil)
03/07/02	-	Kern River Gas Transmission	United States	MidAmerican Energy Holdings	U.S.	960.000
03/07/02	-	Williams	United States	MidAmerican Energy Holdings	U.S.	275.625
03/08/02	03/08/02	Energo Holding	Hungary	E.ON Hungaria	Hungary	-
03/08/02	-	Ontario Power Mississagi River	Canada	Brascan	Canada	214.268
03/08/02	-	Southern Water (Scottish Power)	United Kingdom	First Aqua	U.K.	2927.605
03/11/02	-	KeySpan	United States	Long Island Power Authority	U.S.	-
03/12/02	03/12/02	Havirovska Teplarenska	Czech Republic	OKD	Czech Republic	-

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

BANCO SANTANDER

(continued from page 1)

remain in the New York office but Garcia will be transferred to the bank's Madrid head office in May. Both bankers will maintain their titles, but their remits eventually will be expanded to include other duties. Garcia and Vazquez declined to comment and officials at BSCH did not return calls.

The BSCH banker says, "Basically the whole team is being let go and the groups are shutting down. The plan going forward is for BSCH's energy coverage in Latin America to become a boutique-type project finance and M&A business, where we won't be going after deals, but instead maintaining the clients we already have."

He adds, "M&A and project finance activity has slowed considerably so it's understandable that BSCH would redeploy resources [elsewhere]."

A New York M&A banker unaware of the BSCH layoffs says the move is not surprising as Brazil, Chile and Argentina's access to the non-recourse debt markets has dried up over the past year. "There is less business to go around and banks don't have an appetite to make moves in the region," he says. To keep costs down many firms are trying to do as much business as possible in the region with significantly fewer people, he adds.

The New York banker notes that one of the first firms to scale back in the region was **Dresdner Kleinwort Wasserstein**. It relocated **Vittorio Perrona**, an utility sector investment banker in Rio de Janeiro to London late last year (PFR, 12/20). ***A.L.A.***

XCEL

(continued from page 1)

to recoup some $1.8 billion through the sale of NRG's international assets, adds another official.

Xcel's decision to offload and monetize NRG's assets follows its decision to bid for the 26% of NRG it spun off through an initial public offering two years back. **Enron**'s collapse, increased scrutiny from the rating agencies and a downturn in the IPP sector prompted Xcel to rethink its strategy for its unregulated affiliate. **Lesa Bader**, a spokeswoman for NRG in Minneapolis, explains that as part of the corporate restructuring Xcel wants NRG to focus on the U.S. market. She declined further comment on what plants could be sold. A spokesman at Xcel declined to comment.

The M&A banker says Xcel plans to sell NRG's international portfolio in four separate packages of U.K. (730 MW), mainland European (1.1 GW), Asian-Pacific (2.4 GW) and Latin American (1.1 GW) assets. He says banks could be hired to sell one or more packages. The bulk of NRG's international plants are fossil-fueled, but it also has four hydroelectric plants in Bolivia, Brazil and Peru (for a full list of assets up for sale, turn to page 8).

NRG is the world's third largest independent power producer with some 33 GW of generation assets.

—Will Ainger

PROJECT FINANCIERS

(continued from page 1)

The survey, based on 36 bank respondents, was aired at SocGen's annual conference for project financiers and sponsors held in Boca Raton, Fla., two weeks ago. "Power prices are so low [that this willingness] to take on risk to a commodity in a downcycle surprises me a lot," says one financier who was in attendance. Another banker, who was also taken aback by the level of merchant appetite, says the numbers may reflect the expected overall flows in the market. "I think firms recognize that with power prices so low now it will be difficult to get deals structured with long-term tolling agreements, therefore, you have to look at merchant [risk]," he says. The 50-75 basis point differential between tolled and merchant deals doesn't compensate for increased risk, he argues, but notes that with the lack of flow, "I don't know how firms can keep the lights on if they don't do merchant."

The expected lack of overall flow is also borne out by the survey, with 66% of banks expecting fewer opportunities and 74% expect financing volumes to fall from last year. **Don Kyle**, managing director syndications at SocGen notes that expectation started to surface last summer, even before the collapse of **Enron** and heightened equity investor and rating agency scrutiny of the sector, because of a natural cyclical correction following the huge flows in 1999 and 2000. In the face of that, firms are still geared toward growth, however, with 40% saying their strategy is to grow business volume and 53% saying their strategy is to maintain their activity in new volumes. "That is philosophically what they want to do," Kyle reflects.

Delving deeper into the project financier psyche, respondents were asked to prioritize the key issues and obstacles for the market. Overbuild and fewer plant retirements than forecast topped the list, followed by sponsor liquidity, the Enron default, default in merchant portfolios, the number of financing opportunities, mini-perm refinancings and finally EPC contractor credit worthiness. *—Peter Thompson*

RWE TARGETS

(continued from page 1)

Michael Rosen, a spokesman at RWE, would not comment citing that the company typically does not comment on market speculation. Senior executives and spokespeople at Calpine, AES, Reliant and Mirant did not return calls by press time.

Pierre Stiennon, a utility analyst at **J.P. Morgan**, says it's an opportune time for European players, such as RWE to cross the pond as U.S. stock market valuations have tumbled in recent months. "Companies like RWE have been studying the U.S. market, waiting for prices to come down. It's a logical strategy to act now, given the downturn in the sector." Stiennon notes AES' stock price has declined by some 83% over the past 12 months, Calpine's by 75% and Mirant's by 52%.

RWE is targeting unregulated IPPs, rather than investor-owned utilities, because it's also in the process of buying a water utility stateside and federal regulation prevents it from owning both regulated water and power utilities. While RWE is unable to follow the multi-utility approach—its favored strategy in Europe—it can still enter the U.S. power business by buying an unregulated power producer. RWE is entering the U.S. water market through its $4.6 billion acquisition, announced last year, of **American Water Works**. The acquisition is expected to close next year.

Edward Metz, an analyst at **SNL Securities** in Charlottesville, Va., says Calpine is particularly appealing because it has expertise building and operating power plants. He adds, "All four companies have had a tough go of it, first with the California crisis and then the **Enron** debacle. So they're probably all attractive to foreign companies because their stock prices are so low. In terms of market timing, it's a great time to make an acquisition."

Metz says that an acquisition of any of these energy concerns would make RWE one of the preeminent players in the U.S. power business given the size of its targets. As of last week, Mirant had a market capitalization of $4.8 billion, AES $4.5 billion, Reliant $4 billion and Calpine $3.4 billion. Despite the rocky market Metz forecasts that RWE would have to offer a substantial premium to current valuations to seal an amicable merger, as these IPPs still offer attractive long-term growth opportunities and would be unwilling to sell at current depressed prices. "These companies weren't built with the goal of selling in four or five years. The merchant power market is still in its infancy," he says.

—Amanda Levin Arnold

Quote Of The Week

"You don't always need investment bankers."—**Karl Smith**, *cfo of* ***Fortis Inc.****, commenting on the utility holding company's decision to fly solo on its recent bond offering (see story, page 7).*

One Year Ago In Power Finance & Risk

A regional Brazilian authority rejected a bid by **UBS Warburg** to advise on the sale of local utility **Cia. Paranaense de Energia** (Copel) after the bank submitted its proposal 11 minutes after the agreed deadline. UBS was one of four banks shortlisted by the state of Paraná to advise on the sale of Copel. [**Dresdner Kleinwort Wasserstein** won the advisory mandate in April and launched a roadshow to drum up interest in Copel in June. The auction was eventually cancelled in November after three prequalified bidders walked away from the table.]

