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SunTrust Launches Gas Storage Loan

SunTrust Robinson Humphrey has kicked off syndication of $320 million in construction funds for a gas storage terminal in the Evangeline Parish, La.

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Exelon/PSEG Hits N.J. Rough

Exelon Corp. and **Public Service Energy Group**'s $13 billion merger may be on shaky ground.

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<u>**'Eat Or Be Eaten'**</u>

UTILITY M&A CHATTER APPROACHES FEVER PITCH

A frenzy to identify merger candidates between U.S. utilities amid the wave of tie-ups over the past few months is sifting out possible hookups between **Southern Co.** and **Progress Energy** in the Southeast, **FirstEnergy** and **American Electric Power Co.** in the Midwest and **PG&E** and **Sierra Pacific Resources** on the West Coast. Bankers and energy execs say discussions among utilities have reached a fever pitch now because the utilities who have not found partners, anxious not to be left behind by those who have, are set to capitalize on economies of scale and bigger

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MIRANT PONDERS CARIBBEAN GENERATION OPTIONS

Mirant is contemplating options for its stakes in Caribbean generation that include debt restructuring or divestiture. The Atlanta-based IPP signaled last week it is combing for investors or fresh debt for 2.2 GW of assets in the Philippines and bankers say a similar move has been entertained for the Caribbean. Both tracks would streamline its business and better capitalize operations, a goal of the company following its emergence from bankruptcy earlier this year.

The 1.05GW portfolio includes three integrated utilities and assets in Jamaica, Grand Bahama, Trinidad and Tobago and Curacao.

Calls to CEO **Edward Muller** were directed to a spokesman, who did not return a call

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DEVELOPER PROWLS LEADS FOR CANADIAN LNG

Canaport LNG, which is building a liquefied natural gas re-gasification terminal in Saint John, New Brunswick, is looking for lead banks for a $700 million financing expected to take the form of a bank loan or bond offering. Bankers say requests for financing proposals were issued by Canaport backers **Repsol** and **Irving Oil** and bids were due two weeks ago. The timeframe to select a winner could not be learned.

A spokesman at Repsol in Madrid declined to comment and a spokeswoman for Irving Oil in Saint John, New Brunswick, was unable to comment.

Ground breaking on the $750 million project has begun with the major lifting to build the one-billion-cubic-feet per day facility scheduled for this summer. Once completed, sometime in 2008, it will be the first liquefied natural gas import facility in Canada. Repsol

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At Press Time

Amaranth Energy Head Exits

Harry Arora has departed **Amaranth Advisors**, where he headed the 21-person energy trading desk. **Brian Hunter**, who works in the same group at the $8 billion Greenwich, Conn., hedge fund firm, will replace him, according to an individual in communication with Arora. Calls to Arora were referred to an outside spokesman, who declined comment.

Love On The Rocks?

Exelon/PSEG Consummation Hits Jersey Bump

Exelon Corp. and **Public Service Energy Group**'s $13 billion merger may be on shaky ground as New Jersey regulators evaluate the deal to ensure the entity that is created does not result in price fixing or hikes. A big part of the focus of the hearings being held in Newark is whether the entities might have to unload more than the proposed 6 GW of nuclear generation they've offered to in order to quell market dominance fears. Experts testifying in the hearings are saying the company might have to shed nuclear plants Limerick I & II, Salem I & II, and Hope Creek as well as a raft of other coal and gas plants in order to comply with standards set by the **New Jersey Board of Public Utilities**

"If we had to sell more nuclear plants we would have to take a couple steps back from the deal and ask if it still makes sense," says **Paul Rosengren**, spokesman for Newark-based PSEG. Exelon has the nation's biggest nuclear fleet with an interest in 17 plants while Public Service has a stake in four stations. Officials at Exelon directed calls to a spokeswoman who declined to comment and directed calls to PSEG.

It has been more than a year since Exelon and PSEG rang in the wave of mergers that has swept through the industry, while tie-ups such as **Duke Energy**'s $9 billion hookup with **Cinergy** and **MidAmerican Energy Holdings**' purchase of **PacifiCorp** are set to close sooner than the languishing Exelon/PSEG deal. "Are we a little frustrated by the length of the process? Absolutely," Rosengren says, adding that geographic concentration and the size of the deal also has contributed to the drawn out process.

Once the hearings are complete, which are expected to have been completed if not extended to today, PSEG and Exelon will try to negotiate a settlement with state officials, consumer advocates and its peers, Rosengren says. Then the New Jersey Board will have its final word. No timetable has been set for its decision.

Meanwhile, Exelon was reportedly attempting to find buyers for a nuclear facility in Lacey Township, Ocean County, near the New Jersey Shore known as Oyster Creek (PFR, 1/23). The facility generates some 636 MW and was one of the first large-scale plants built in the market.

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Canadian Manufacturer Sizes Up Solar Unit IPO

ATS Automation Tooling Systems is considering an initial public offering for a pair of its solar energy units. The Toronto-based manufacturer could look to complete the equivalent of a $250 million offering of **Photowatt International** based in Bourgoin-Jallieu, France, and **Spheral Solar Power** in Cambridge, Canada. Both units manufacture solar cells used in the construction of renewable energy generation.

ATS has not yet filed publicly to list the shares either in the Americas or abroad but is asking bankers to advise it on the process, says one energy official following the plans. **BMO Nesbitt Burns** has been a longtime general advisor to ATS and is helping identify a possible underwriter, a banker says.

Officials at BMO Nesbitt in Toronto did not return a call for comment. Calls to **Ron Jutras**, ceo at ATS were not returned. The company's timeline for any offering could not be learned but its plan could be six months away, the banker says.

In the last several months, solar companies such as **SunPower** and **SunTech Power** and **Trina Solar Energy Co.**, a private Changzhou, China-based manufacturer of silicon wafers, have launched successful IPOs.

SunTrust Preps Gulf Coast Gas Storage Syndication

SunTrust Robinson Humphrey has launched syndication of $320 million in construction funds for a gas storage terminal in the Evangeline Parish, La., known as Pine Prairie Energy Center. The Atlanta-based **SunTrust Capital Markets** subsidiary was hired by **Plains All American Pipeline** and **Vulcan Capital** in February to arrange funds—**ABN AMRO** had been leading the debt back in September (PFR, 9/19). The reasons behind the lead switch could not be determined.

Financing was expected to be launched earlier, but the fallout from Hurricanes Rita and Katrina caused delays, say deal trackers. Officials at SunTrust would not comment and calls to an official at ABN were not returned. A call to **Phil Kramer**, cfo of Plains in Houston, and an email to the press representative for Seattle-based Vulcan, which is an investment entity started by **Microsoft** co-founder **Paul Allen**, were not returned.

The loan's preliminary structure includes a $50 million, five-year revolver and a $270 million, seven-year term loan B. Pricing has yet to be determined, as the rating agencies have yet to weigh in. SunTrust is hoping to wrap the financing up in late April. Debt is said to represent some 75% of the project cost.

DENA Acquisition Loan Staged To Wrap

After being tweaked two weeks ago, **LS Power** financing for is purchase of **Duke Energy North America** assets is expected to be completed in the next few weeks. Bankers involved say the financing and syndication are essentially wrapped, but final local regulatory approvals for the sale of assets, expected soon, need to be obtained. **Credit Suisse** and **Goldman Sachs**, **Morgan Stanley** and **WestLB** are handling the financing. Officials at the sponsor LS Power did not return calls and bankers either declined to comment or did not return calls for comment.

Pricing was flexed and the size of the tranches rearranged: debt comprises a first-lien term loan totaling $950 million seven-year first-lien term loan, from $850 million and includes a $150 million eight-year second-lien tranche, reduced by $100 million. Pricing on the first is set at 175 from initial talk of LIBOR plus 250 basis points and the second-lien term loan comes in at LIBOR plus 350, from LIBOR plus 425 (PFR 3/27).

Standard & Poor's has rated the package BB- and B, for the first and second lien facilities, respectively, while **Moody's Investors Services** has rated the package Ba3 and B2.

Northern Star To Acquire Sunshine State QFs

Northern Star Generation has inked an agreement to acquire an interest in two qualified Florida generating facilities from **Arroyo Energy Investors**, the wholly owned private equity arm of **Bear Stearns**. Northern Star, an investment vehicle for partners **AIG HighStar** and **Ontario Teachers' Pension Plan**, plans on acquiring gas-fired facilities bought by the Bear Stearns unit from **American Electric Power** about two years ago. The deal is pending regulatory approvals including that of **Federal Energy Regulatory Commission**.

Jim Leech, senior v.p. at Ontario Teachers in Toronto, and **Christopher Lee**, president at AIG in New York, were unavailable for comment. Officials at Arroyo in Houston did not return a call for comment

Northern Star's total purchase price could not be learned. Arroyo paid $156 million to AEP for a 46.25% of the 120 MW Mulberry and 50% share of 103 MW Orange facility, both of which are located in Bartow. The makeup of the remaining ownership interest could not be learned.

Mulberry has a 79.2 MW PPA with **Progress Energy Florida** that expires Aug. 10, 2024 and another with Progress for 30.8 MW that expires Aug. 10, 2009. Orange has a 74 MW PPA with Progress that expires on Dec.31, 2025, and a 23 MW PPA with **Tampa Electric** that runs through June 15, 2015.

BNP Kicks Off Tenaska Gas Unit Revolver

BNP Paribas is aiming to take tickets for retail syndication of a $1 billion credit facility on behalf of **Tenaska Marketing Venture** on April 5. Tenaska Marketing, the natural gas dealing arm of Omaha, Neb.-based **Tenaska**, is obtaining the revolver to support its trading. A banker hoping to participate says gas has been volatile of late and the entity wants to ensure it has enough capacity in case prices, which have settled down from highs, whipsaw in the future. Futures contracts for natural gas on the **New York Mercantile Exchange** for the Henry Hub are trading in the range of $7.06 for April delivery. This is down from trading of $15.50 in December last year. A call to spokeswoman at Tenaska was not returned.

"These days [natural gas companies] need a backup liquidity vehicle to allow you not to be constrained by increases in energy prices," says one banker. About $875 million in commitments have been secured thus far, bankers say.

BNP is targeting insurance lenders and banks with an appetite for commodities risk. So far, five to six banks have agreed to take early top-tier roles in pre-syndication, including **Fortis Capital**, **CoBank**, **MetLife**, **Société Générale** and **Bank of the West**. The banks are expected to take tickets of approximately $100 million, one banker following the deal notes. **Bank of Tokyo-Mitsubishi** and **Calyon** are also participating.

Pricing on the line is set at 100 basis points over LIBOR with incremental increases depending on utilization. The credit line also carries a commitment fee of 37.5 basis points.

Financing Record (March 23-March 30)

Debt

144A	Issued	Issuer	Business Description	Principal($M)	Coupon(%)	Security	Maturity	Offer	YTM(%)	Spread	S&P	Moody's	Fitch
No	3/23/06	United Utilities Electricity	Electric Co.	173.5	1.475	Medium-Term Nts	4/6/46	100	1.475		A-	A2	NR
No	3/24/06	Taipower	Electric utility	18.4	1.85	Fxd/Straight Bd	5/3/11	100	1.85		AAA	NR	
No	3/24/06	Taipower	Electric utility	15.3	1.97	Fxd/Straight Bd	5/3/16	100	1.97		AAA	NR	
No	3/24/06	Taipower	Electric utility	15.3	1.97	Fxd/Straight Bd	5/3/16	100	1.97		AAA	NR	
No	3/24/06	Taipower	Electric utility	33.7	1.97	Fxd/Straight Bd	5/3/16	100	1.97		AAA	NR	
No	3/24/06	Taipower	Electric utility	3.1	1.95	Fxd/Straight Bd	5/3/16	100	1.95		AAA	NR	
No	3/24/06	Taipower	Electric utility	30.6	1.95	Fxd/Straight Bd	5/3/16	100	1.95		AAA	NR	
No	3/24/06	Taipower	Electric utility	18.4	1.95	Fxd/Straight Bd	5/3/16	100	1.95		AAA	NR	
No	3/24/06	Taipower	Electric utility	30.6	1.95	Fxd/Straight Bd	5/3/16	100	1.95		AAA	NR	
No	3/24/06	Taipower	Electric utility	15.3	1.85	Fxd/Straight Bd	5/3/11	100	1.85		AAA	NR	
No	3/24/06	Taipower	Electric utility	61.3	1.85	Fxd/Straight Bd	5/3/11	100	1.85		AAA	NR	
No	3/24/06	Taipower	Electric utility	30.6	1.85	Fxd/Straight Bd	5/3/11	100	1.85		AAA	NR	
No	3/24/06	Taipower	Electric utility	15.3	1.85	Fxd/Straight Bd	5/3/11	100	1.85		AAA	NR	
No	3/24/06	Taipower	Electric utility	3.1	1.85	Fxd/Straight Bd	5/3/11	100	1.85		AAA	NR	
No	3/24/06	Taipower	Electric utility	61.3	1.95	Fxd/Straight Bd	5/3/16	100	1.95		AAA	NR	
No	3/28/06	Fortum Oyj	Electric utility	256.1	3.75	Medium-Term Nts	4/6/11	99.888	3.775	17	A-	A2	NR
No	3/28/06	Fortum Oyj	Electric utility	320.1	Floats	Mdm-Trm Fl Nts	4/6/09	100	Floats		A-	A2	NR
Yes	3/29/06	Nevada Power Co	Electric utility	250	6.65	Fxd/Straight Bd	4/1/36	99.846	6.662	170	BB	Ba1	BB+

M&A

Announced	Effective	Target Name	Target Advisors	Target Nation	Acquiror Name	Acquiror Advisors	Acquiror Nation	Value($M)
3/24/06	3/24/06	Biomasse-Heizkraftwerk		Germany	Techem AG Energy Contracting		Germany	
3/24/06		Coastal Power Co Ltd		Hong Kong	LIM Asia Arbitrage Fund Inc		Hong Kong	4
3/27/06		Holding Slovenske Elektrarne		Slovenia	E ON AG		Germany	
3/27/06		Holding Slovenske Elektrarne		Slovenia	E ON AG		Germany	
3/27/06		Sempra Generation-Energy		United States	Honeywell Building Solutions		United States	
3/27/06		TransMontaigne Inc	UBS Investment Bank	United States	Sem Group LP		United States	773.739
3/28/06		Light SA	Citigroup	Brazil	Rio Minas Energia		Brazil	319.81
3/28/06		Light SA	Citigroup	Brazil	Investor Group		Brazil	
3/29/06	3/29/06	Pine Ridge-Water Assets		United States	Pennsylvania Amer Water Co		United States	2.4
3/30/06	3/30/06	Murraylink HQI Australia	Rothschild	Australia	Australian Pipeline Trust	Pacific Road Corporate Finance	Australia	153

Source: **Thomson Financial Securities Data Company**. For more information, call **Rich Peterson** at (212) 806-3144.

Corporate Strategies

Canadian Player Taps Funds To Wrap Ontario Plant Purchase


Tony Anderson

Northland Power Income Fund, a Toronto-based subsidiary of **Northland Power, Inc.**, has completed the approximately C$175 million ($150 million) offering of subscription receipts. The deal finances the acquisition of the 110 MW Kingston cogeneration facility in the Ontario region of the same name. **Tony Anderson**, cfo in Toronto, says the fund also will use some proceeds to pay off debt assumed with the facility and for general purposes.

Northland opted to use subscription receipts, which act as a type of bridge funding that converts into equity units, because completion of the purchase still hinged on scoring approvals from regulators, which could have been denied at the final hour. The receipts, sold to investors at C$15.15, convert into units on a one-to-one basis. Until the deal was completed, the receipts sat in an escrow account.

CIBC World Markets was the underwriter on the offering largely because it is one of Northland's primary lending relationships.

The fund paid about C$129 million ($110 million) for the remaining interest in Kingston to **AES Corp.** that it did not already own. The cogeneration facility went online by 1997 and has a power purchase agreement with **Ontario Electricity Financial Corporation** that expires 2017.

Dynegy To Place Privates

Dynegy Holdings, the financing arm of the Houston energy player, is planning to offer $750 million of unsecured 10-year notes in the private placement market to pay down existing high-interest debt. **David Byford**, spokesman for parent **Dynegy**, declined to comment on the offering. The exact timing of the offering, coupon and deal underwriters could not be ascertained.

Aaron Freedman, an analyst at **Moody's Investors Service** in New York, says proceeds from the sale combined with funds from its $2.35 billion auction of its midstream business (PFR, 10/17) will be used to pay down $225 million of floating rate notes due 2008, $625 million, 9.875% senior secured notes due 2010 and $900 million, 10.125% second priority senior secured notes dues 2013. Freedman calls this is a significant debt reduction. "As a result, even though they're issuing $750 million in debt right now, they're expecting a reduction from this component of net reduction in debt of $1 billion," he says.

Freedman notes Dynegy also has been offloading assets in an effort to restructure and focus on merchant generation. Dynegy remains highly leveraged, but does not have substantial maturities coming due until 2011, which gives the company flexibility, and the market time to improve, Freedman 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.

The Americas

- The Dominican Republic government has also filed a lawsuit against Virginia-based **AES Corporation** for more than $80 million in damages relating to industrial waste (*The Bahama Journal*, 3/27).

- Richmond, Va.-based **Ingenco Wholesale Power** wants to start construction on a 6 MW energy plant that would collect methane gas obtained from decomposed solid waste. The company wants to commence construction in August (*The Daily Times*, 3/27).

- Maryland's general assembly is looking to dismantle its public service commission. Some believe the five-member commission, which overseas generation, has become beholden to local energy companies (*Washington Post,* 3/28).

- The **Long Island Power Authority**, in the wake of the $7.3-billion all-cash bid by London-based **National Grid** for **KeySpan** last month, said it would push for a better management service agreement than one LIPA negotiated with KeySpan just four months ago (*New York Newsday*, 3/28)

- Owners **Southern California Edison** and Hopi and Navajo Indian tribes have taken a tentative step toward reopening the Mohave power plant in Nevada that was shut down due to pollution. The 1.5 GW, coal-fired facility, in Laughlin, Nev., is a major source of power for the area (*Los Angeles Times*, 3/28).

- **Duke Energy**'s purchase of **Cinergy** is expected to be closed this weekend—a tie-up that will form one of the nation's largest public utilities. The North Carolina Utilities Commission approved the deal last Friday, which was the final hurdle needed to complete Duke's $9 billion merger (*Richmond Times*, 3/28).

- **Progress Energy** has called for a U.S. plan on managing emissions of the gases many scientists have linked to global warming. The Raleigh, N.C.-based energy holding company says it is considering cleaner generation, such as integrated gasification combined cycle, upgrading an oil-burning plant to run natural gas and looking at the potential for burning animal waste at a plant in North Carolina (*Reuters*, 3/28).

• A Brazilian consortium led by Minas Gerais state-controlled utility **Companhia Energetica de Minas Gerais** paid $320 million for an 80% stake in Rio de Janeiro power distributor **Light Servicos de Electricidade** from France's **Electricite de France** (*The Wall Street Journal*, 3/29).

• The prosecution rested its case against former **Enron** chief executives **Jeffrey Skilling** and **Kenneth Lay** after more than eight weeks and 22 witnesses (*The New York Times*, 3/29).

• A federal pre-sentence investigation recommended life in prison for two former **Westar Energy** executives convicted of looting the company. **David Wittig**, the former president, chairman and ceo, and **Douglas Lake**, former executive v.p., are scheduled to be sentenced Monday by U.S. District Judge **Julie Robinson** (*The Wall Street Journal*, 3/30).

• A consortium including London emerging-markets fund manager **Ashmore Investment Management** and U.S. hedge funds **D.E. Shaw & Co.** and **Eton Park Capital Management** is nearing a deal to buy **Enron Corp.**'s international assets, which operate under the holding company **Prisma Energy**, for close to $2 billion. The assets have been for sale since last year (*The Wall Street Journal*, 3/30).

Europe

• Italian generation company **Enel** mapped out a five-year growth plan, but dodged the major issue of the day: whether it would launch a $60.4 billion bid for Franco-Belgian utility **Suez** (*Wall Street Journal*, 3/24).

• German energy giant **E.On** formally requested regulatory clearance from Spanish authorities for its all-cash $34.9 billion bid for Spanish company **Endesa** (*Dow Jones Newswires*, 3/24).

• Spain's stock market regulator says the deadline for any new takeover counter-bid for **Endesa** will be April 5 (*Dow Jones Newswires*, 3/24).

• France's **Gaz de France** and French-Belgian energy and water conglomerate **Suez** have created a steering committee and task force to work on their planned merger. The committee is co-chaired by **Jean-Francois Cirelli**, president of Gaz de France, and **Gérard Mestrallet**, president of Suez (*The Wall Street Journal*, 3/29).

• The U.K. power sector could face as much as £1.3 billion ($2.3 billion) per year in extra costs if the government continues to reduce the amount of carbon dioxide businesses are allowed to emit during the second phase of the European CO2 Trading Scheme (*The Wall Street Journal*, 3/29).

• The European Union's internal market commissioner said he would propose legal action against Spain for rushing through regulations that would allow its authorities to block a proposed €29.1 billion takeover of Spanish utility **Endesa** by Germany's **E.ON**. EU officials said the commissioner would also start legal action against France for orchestrating a merger between **Suez** and **Gaz de France** to pre-empt a bid for Suez by Italy's **Enel** (*International Herald Tribune*, 3/29).

• **Suez** is ready to sell two Belgian nuclear plants and a 57% stake in the gas distribution network **Fluxys** to Italy's **Enel** as a compromise to avoid a possible €50 billion hostile bid by the Italian power group (*AFX*, 3/29).

• U.K. gas and power regulator **Ofgem** said the country's electricity and gas transmission entities, **National Grid**, **Scottish Power Transmission** and **Scottish Hydro-Electric Transmission**, face an unprecedented challenge to connect up new renewable energy and gas supply and storage projects. Ofgem is reviewing the prices grid companies are allowed to charge users to meet investment needs, while keeping costs to a minimum. The review will result in revenue allowances being set for the period from April 2006 until March 2012 (*The Wall Street Journal*, 3/30).

• Germany's **RWE** plans to invest €1 billion in a first-of-its-kind coal-fired power plant that will not emit carbon dioxide. Although the company has not yet identified a site for the facility, it hopes to have it completed sometime in 2014 (*Reuters*, 3/30).

Asia

• A court ordered the shutdown of Japan's second-biggest nuclear power plant on Friday on the grounds it was vulnerable to earthquakes. The plant cost $3.1 billion and is Japan's 55th commercial reactor. It is located near the Ochigata fault line, which the government judges to be prone to strong earthquakes (*Financial Times*, 3/24).

• India's **Petronet LNG**, a joint venture promoted by state-owned energy majors, hopes to sign a long-term agreement for supply of 2.5 million tons of liquefied natural gas from additional supplies (*Economic Times*, 3/24).

• The Republic of Korea has expressed its interests in a project to build the first nuclear power plant in Vietnam (Vietnam News Agency, 3/24).

• Malaysian conglomerate **Genting** is buying a 724 MW coal-fired plant in southern China's Fujian province for $155.3 million. It will pay $100 million to owners of holding company **InterGen** for a 73.7% stake in **Fujian Electric** and $55.3 million for the remaining 26.3% of Fujian Electric held by **China Pacific Electric** (*Associated Press*, 3/27).

VIEWPOINT

Tackling The Risk In Transformers

More than a dozen U.S. power producers and distributors are now adopting technology to manage and protect transformer fleets. This will allow utilities to protect—over the long term—$200 billion in asset replacement costs, and avert unplanned failures and blackouts through automatic, continuous, online monitoring and testing.

This development reflects an increasing recognition by utility executives that the costs of preventable failures, which can be immense, increase such risks as business interruption, collateral damage and penalties, lawsuits, share price erosion and balance sheet impairment. Additionally, there are environmental and brand considerations. Furthermore, investors, governments and the public want technology standardization that can contribute to a higher and demonstrable standard of governance and power reliability.

Since these consequences are not borne by just one or two company departments, decisions to manage and protect assets such as transformer fleets are beginning to be seen as top-down strategic directives, or bottom-up initiatives requiring senior utility management attention.

Transformers, especially the large power units that sit right outside the power plant, are a case in point. They are, in effect, the shipping dock of the plant. They must function without interruption for power to flow out and revenues to flow in.

There are over 100,000 large transformers in U.S. and 400,000 worldwide. Each costs between $500,000 and $6 million or more and in the U.S. average about 40 years in age. These iron behemoths do not last forever and many are nearing or beyond the end of design lives. On any given day, any given transformer can fail, catch fire or even explode with little visible warning.

In recent years, many transformers have been pushed to operate at nameplate loads and above, further shortening life expectancy, as utilities have taken calculated risks to conserve capital resources in a competitive, high-cost environment. Yet, according to **Hartford Steam Boiler**, a major industry insurer, about 1,500 U.S. power transformers will fail this year alone.

And when they fail catastrophically, as 20% do, they can cause collateral damage, environmental clean ups, legal action and other factors beyond the cost of interruption and replacement power. The unplanned failure of a single $2 million transformer can easily generate a $10 million bill. Doing the math, that's $6 billion a year and it can only escalate.

Postponing decisions to better manage and protect transformers and all aging components and systems in the power plant and on the grid is no longer worth the risk.

And as the focus sharpens on transformers, the utility industry can expect to see broad, compelling returns on investment from adopting and adapting new technology-driven preventive strategies.

This Viewpoint was written by ***Bart Tichelman****, ceo at Hillsboro, Ore.-based* ***Serveron Corp.****, which develops on-line transformer and battery monitor products.*

Bart Tichelman

UTILITY M&A

(continued from page 1)

territories.

Companies such as Southern, while not formally engaging an M&A advisor, have suggested to investment bankers that it is on the prowl for merger partners. One financier says Southern has been in acquisition mode for months and had entertained linking with **Duke Energy** months ago until Duke pulled the trigger on a $9 billion buyout offer for **Cinergy**.

Officials say Southern has toyed with the notion of buying Progress because it would create a heavyweight player in the Southeast and their territories match up well. "On paper that merger makes sense," the banker says. Southern supplies power in Alabama, Georgia, Florida, Mississippi and Georgia, while Progress serves the Carolinas and Florida. Calls to Progress Energy's Chairman and CEO **Robert McGehee**, 63, were directed to a spokeswoman who declined to comment. A Southern spokesman also declined to comment.

In Ohio, bankers say a potential merger between Columbus-based AEP and Akron-based FirstEnergy could provide immediate benefits for both. One utility executive notes AEP, whose stock closed at $34.60 last Wednesday, has been relatively flat over the past two years and should be looking at strategies to juice it. The executive points out that FirstEnergy's stock, which last traded at $50.70 last Wednesday, is up by nearly 30% over the past two years and could be an acquirer on the mid-tier level.

A banker who follows the Midwest utilities, says utilities in that region, such as AEP and FirstEnergy, are looking closely at one another and evaluating potential matches. "Companies in the Midwest, midlevel companies, are having discussions because it's at point in the cycle where it's eat or be eaten. And they want to build up their business with companies that have contiguous territories or that give them entrée into new territories entirely," he notes.

A call to FirstEnergy's CEO, **Tony Alexander**, 54, was directed to a spokesman who said that the company does not comment on speculation or rumors. A spokeswoman for AEP, responding to calls directed to CEO **Michael Morris**, 59, declined to comment.

In California, talk of PG&E, which emerged from bankruptcy about two years ago, buying out Sierra Pacific has been working its way around the investment banking community. A few bankers have said such a move might make logical sense because PG&E has significantly cleaned up its balance sheet and may be considering a push into a Nevada market that is viewed by one New York-based utility analyst as high growth. "Sierra Pacific is facing some big challenges including a service territory that is growing in population and has a lack of generation," the analyst says, noting that the energy company is maintaining some significant leverage and could use the pockets of a larger entity to finance its growth. "It could be a good story for both."

PG&E has a market capitalization of approximately $13.8 billion while Sierra Pacific Resources has a market cap of about $2.8 billion. A spokesman for PG&E, fielding calls for CEO **Peter Darbee**, 52, declined to comment. A call to Sierra Pacific executives was not returned.

One energy official sees a buyout of Sierra Pacific Resources by PG&E as a risky proposition for a California energy company that just emerged from bankruptcy. The official also holds the view that the Nevada service territory is still too dependent on gaming to expect much in the way of growth in the near term.

—Mark DeCambre

MIRANT PONDERS

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for comment. An official at **Credit Suisse**, hired to advise the energy company with its plans in the Philippines, declined to comment.

According to a recent public filing, the Caribbean operations generate revenues of $730 million, and the Philippine assets post revenues of about $491 million. A New York-based utility credit analyst says both are strong performers but he is unsure who logical buyers for the assets, which are largely qualified by long-term contracts, would be because of the size of its investments.

Mirant reportedly plans to raise around $1.2 billion in a refinancing deal for its core Philippine assets. Filings indicate the Filipino assets are valued at $2.95 billion, while its Caribbean plants have a value of $1.2 billion.

The analyst notes an auction of overseas assets would allow Mirant to focus more on the U.S. It owns or leases more than 14 GW of electric capacity in the U.S. *—M.D.*

DEVELOPER PROWLS

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has a 75% interest in the project, with Irving holding the balance.

The sponsors were going to the market last year for $300 million non-recourse deal, but it could not be determined if that plan ever got off the ground (PFR, 12/13/04). Repsol is expected to take the entire output of the facility.

The receiving terminals for the project would be situated close to a Maritimes & Northeast pipeline, which extends from the Canadian maritimes to Massachusetts, and would serve markets in eastern Canada and New England. It obtained federal and provincial government approval two years ago (PFR, 12/13/04).

—Mari Slater

Calendar

- **Euromoney** and the **American Council on Renewable Energy** will host the third annual Renewable Energy Finance Forum-Wall Street in New York at the Waldorf Astoria Hotel June 21-22. For more information, please contact **Glenn Cooney** via phone at +44-0-20-7779-8914.
- **Midwest Renewable Energy Association** is hosting its 17th annual Renewable Energy and Sustainable Living Fair June 23-25, 2006. The Fair will again be held at the ReNew the Earth Institute, MREA's educational facility, in Custer, Wis. For additional information contact http://www.the-mrea.org.

Quote Of The Week

"As a result, even though they're issuing $750 million in debt right now, they're expecting a reduction from this component of net reduction in debt of $1 billion."—**Aaron Freedman**, *analyst at* ***Moody's Investors Services*** *in New York, on* ***Dynegy Inc.****'s latest note offering and debt reduction plans (see story, page 5).*

One Year Ago In Power Finance & Risk

Nevada Hydro Co. and the **Elsinore Valley Municipal Valley District** were searching for debt and equity for a $400 million hydroelectric plant above Lake Elsinore in southern California. The venture was hoping to leverage the 500 MW LEAPS project by about 70-80%. [**Greg Morrison**, spokesman for Elsinore Valley in Lake Elsinore, Calif., says the project is still going through the environmental review process. As a result of the prolonged environmental review process, the project's completion date has been pushed back a year to all phases completed by 2011. He adds securing funding for the project has been put off until the permitting process is closer to completion.]