

# power finance & risk

The exclusive source for power financing and trading news

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## WestLB Names Global Heads

WestLB named **Tom Murray** global head of energy and **Manish Taneja** global co-head of syndications and private placements.

*See story, page 2*

## Private Equity Doubtful On Utility Plays

Private equity officials speaking at an industry conference expressed doubts that they could compete with infrastructure funds utility acquisitions.

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## Blackstone Hired

### AQUILA PUTS ITSELF ON THE BLOCK

Aquila has put itself up for sale and has retained **The Blackstone Group** as a financial advisor. The giant utility is looking to fetch a buyer willing to pay somewhere in the order of \$5-5.50 per share, says a banker familiar with the company's plans. That would value the Kansas City, Mo.-based company at a little over \$2 billion. Shares of Aquila closed at \$4.36 last Thursday with a 52-week high-and-low of \$4.50 and \$3.29. Calls to officials at the company were not returned.

*(continued on page 8)*



## DTE SEEN ACQUIRING PRIMARY ENERGY ASSETS

**DTE Energy** has emerged as the frontrunner in the auction of Oak Brook, Ill., generator **Primary Energy**. The operation is owned by **American Securities Capital Partners**.

The value of Detroit-based DTE's bid could not be determined, but auctioneer **Lehman Brothers** has offered \$325 million in staple financing provided the winner puts down an additional 20%, or \$65 million, in equity, according to a banker familiar with the process. In addition, there is approximately \$62 million in obligations related to facilities leased from **ArcLight Capital Partners**, putting the total enterprise value at about \$452 million.

**Harbert Distressed Investment Master Fund** is also believed to have made a final bid. **Jack Paris**, v.p. at Lehman in New York, and **Lorie Kessler**, spokeswoman at DTE, declined to comment when reached. **Michael Fisch**, managing director at American Securities Capital

*(continued on page 8)*

## CHENIERE LNG CONSTRUCTION DEBT GETS JACKED

**HSBC** and **Société Générale** are pitching a \$1.5 billion construction package to fund construction of Sabine Pass liquefied gas terminal in Louisiana for sponsor **Cheniere Energy**. Escalating demand for natural gas convinced Cheniere it could nearly double the capacity at its planned LNG terminal, says a banker. The original loan was closed as an \$820 million deal (PFR, 2/7/2005). Neither bank would comment on the transaction and a call to Cheniere was not returned.

The original 10-year loan was syndicated to some 47 lenders. That number is expected to be shrunk in this go around, with the leads asking some of the top-tier lenders to take on bigger slices, one banker following the syndication notes.

*(continued on page 8)*

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## At Press Time

### Hail The Latest Chiefs!

## WestLB Names Murray, Taneja As Global Heads

WestLB has named **Tom Murray** global head of energy and **Manish Taneja** global co-head of syndications and private placements in New York—both new positions. The German bank has seen a number of shifts over the past few years including the hiring (PFR, 11/8), and subsequent departure of Managing Director **Jim Brown** (PFR, 6/5), which was meant to part of a broad management overhaul at the firm.

The latest moves are being done in order to leverage the German bank's success in oil and gas deals in North America and coordinate those efforts globally. Both Taneja and Murray were formerly managing directors and co-heads of loan and debt capital markets for North America. A spokeswoman declined to make officials available for comment or provide details on personnel moves that might occur as a result of the new roles.

Murray will be in charge of power and the firm's financial sponsors and oil and gas groups, while Taneja will handle syndications along with co-head **Richard Hill** in London.

## Foreign Utility Investments Booms

Foreign appetite for utilities is ringing up record merger and acquisition volume in the U.S. According to data compiled by **Thomson Financial**, some \$26 billion in acquisitions have occurred year-to-date compared to \$1.5 billion completed last year and \$5 billion for all of 2004. That includes Australia's **Macquarie Infrastructure Partners** and **Diversified Utility and Energy Trusts'** \$1.5 billion bid to privatize **Duquesne Light Holdings**.

Deals of U.S. assets by foreign entities are on the rise primarily because of the repeal of the 1935 Public Utility Holding Company Act (PUHCA), which became official with the signing of the Energy Policy Act last year. Under PUCHA even a multinational company would have had required regulatory approval merging with another entity or issuing stock if it owned non-contiguous utility assets.

"A lot of people had predicted this and now the numbers bear it out," notes mergers and acquisition specialist **Irv Rotter**, partner at law firm **Sidley Austin LLP** in New York. "It's really a cost of capital issue: There's a lot of [foreign] money out there chasing deals and they see the United States as a good place to put it," he adds.

### Foreign acquisitions of US power utilities

Announcement Date	(\$ Mil)	Number of Deals
1998	19,739.3	14
1999	3,949.6	19
2000	16,400.3	34
2001	9,749.0	18
2002	654.6	12
2003	1,480.9	27
2004	5,123.1	27
2005	1,526.4	16
2006ytd	26,079.0	22

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Editor

**STEVE MURRAY**  
Deputy Editor

**PETER THOMPSON**  
Executive Editor [Chicago]  
(773) 439-1090

**MARK DeCambre**  
Managing Editor  
(212) 224-3293

**PETER ROTH**  
Reporter  
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**STANLEY WILSON**  
Washington Bureau Chief  
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**JANA BRENNING,**  
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**Editorial Offices:** 225 Park Avenue  
South, New York, NY 10003.  
Tel: (212) 224-3293  
Email: [mdecambre@iinews.com](mailto:mdecambre@iinews.com)

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**Institutional Investor NEWS**  
INTELLIGENCE FIRST

## Dexia Hired Complete Energy Puts Batesville Up For Sale

Complete Energy is shopping its 837 MW natural gas-fired plant in Batesville, Miss., and has retained **Dexia** to run an auction. The process is being spearheaded by **Ed Ludwig**, managing director at Dexia in New York, who declined to comment when reached. The exact timing of the auction could not be determined, but the first round has already kicked off, says **Rhonda Hollier**, spokeswoman at Complete.

Exactly how much Complete is looking to fetch and its reasons for selling could not be learned.

Complete, a Houston-based investment boutique, made Batesville its first acquisition when it purchased the plant from **NRG Energy** for \$27.6 million and the assumption of about \$300 million in project-level debt in 2004 (PFR, 5/19/2004).

**Sandell Asset Management** and **Stonehill Capital Management** are Complete's equity partners in the plant (PFR, 5/19/2004).

Dexia is believed to have been awarded the advisor role because the plant is highly levered and the acquirer will probably not be writing a large enough check to make the transaction of interest to the bulge-bracket firms, says a banker familiar with the plant.

## Bid Date Set For U.K. Eggborough Plant Option

Prospective bidders are being asked to submit preliminary offers next week for the acquisition of an option to purchase equity in Eggborough—a 2 GW coal-fired plant in east Yorkshire, England.

The process is expected to take between one and two months with a bevy of more than 20 bidders—mostly hedge funds and private equity groups—interested in purchasing £134 million bonds tied to the plant that have an embedded equity purchase option.

Eggborough, which belongs to **British Energy**, is considered a rare asset in the U.K. market because of its size and the fact it runs on coal rather than more expensive oil or natural gas. A spokesman for British Energy did not return a call for comment nor did officials at **Greenhill & Co.**, which is running the auction process.

Rising power prices have attracted investors to the U.K. sector over the past year. Investor interest in the sector was evident in the rising trading levels of **Drax Power**, another U.K. coal fired power plant, which saw its debt soar 27 points to 427 on the eve of its listing on the London Stock Exchange in December last year.

**Eggborough Power Station's** 7% bonds of 2022 soared 15

points to 335 last month (PFR, 6/19) and are within a couple points of that level now, says one trader.

## Airtricity Eyes Non-Recourse Turbine Funding

Airtricity will look to obtain project financing sometime next year to complete the acquisition of 300, 1.5 MW wind turbines from **General Electric**. The wind outfit is making payments on the turbines, which GE will deliver in 2008, in order to be ready for construction of a spate of projects at that time, says **Senan Murphy**, cfo at Airtricity in Dublin, Ireland.

In the past, Airtricity has worked with **HypoVereinsbank**, **Dexia Credit Local** and **BayernLB** (PFR, 11/13), but Murphy declined to provide details on its future funding.

At this point, infrastructure firm **NTR Infrastructure** and London-based renewables investment advisor **Ecofin** have invested a combined \$320 million in equity. "The reality of the business is that [renewable projects] are higher risk activities that require a certain portion of equity which banks will not secure," says Murphy, explaining why it sought to fund the bulk of the purchase with equity.

**Joe Mangion**, managing director of special situations at Ecofin, commenting on the deal, says, "We see great prospects in the wind farm market and Airtricity is well-positioned to take advantage of that." Officials at NTR could not be reached for comment.

**Credit Suisse** and **NCB**, which is a Dublin-based securities firm, arranged the equity investments.

## Private Equity Sees Little Chance Of Whole Utility Acquisitions

Private equity officials expressed doubts about their ability to acquire entire gas and electric utilities because of competition from infrastructure funds and integrated energy companies. Speaking at **Platts' 3<sup>rd</sup> Annual Utility M&A** conference, **Pat Eilers**, director at **Madison Dearborn Partners** in Chicago, thinks opportunities for taking utilities private are slim, but he told attendees that divestitures resulting from utility mergers create opportunities for private equity.

**Erik Ragatz**, director at **Hellman & Friedman** in San Francisco, sees less opportunity to buy individual assets and more investments being made "higher up the pyramid" and higher up the risk spectrum, such as partnering with an IPP to buy an existing generation portfolio. **Jason Satsky**, v.p. at **Credit Suisse**, agreed with Ragatz, saying the future for private equity may lie in investing in IPPs, growing their generation portfolios and aggregating plants at private prices, and then selling into the public markets.



Mark Miles, v.p. and principal at **AIG Highstar Capital** in New York, also sees generation as private equity's sweet spot, but notes higher valuations have reduced opportunities to restructure assets and turned them around. Miles notes integrated energy companies also have an advantage in utility mergers and acquisitions, and master limited partnerships have an advantage in the midstream sector.

Miles thinks private equity may have to look at development for opportunities. Satsky thinks private equity can also play a role in transmission and in unregulated gas storage, Ragatz said it was "not for lack of desire" that Hellman & Friedman has not made a transmission deal. The organization could not find an investment of sufficient size when it was looking, and its hope that regional transmission organizations would spin off more companies never happened.

The emergence in the sector of infrastructure funds run by banks such as **Macquarie** and **Babcock & Brown** "scares the hell out of people," says Satsky, a sentiment shared by the other panelists because of those funds' willingness to accept much lower returns than high teens-low 20s private equity seeks.

Miles said flatly that **AIG Highstar** is not looking to buy utilities, both because it does not have the cash and it does not think the returns are sufficient.

## Tyr, Starwood Aim For CalPeak Debt

**Tyr Energy** and a **Starwood Energy Investors** affiliate are looking to line up \$100-125 million in debt on their **CalPeak Power** assets via **Sumitomo Mitsui Banking Corp.** It is unclear if the funding is meant to replace debt assumed or replace short-term funds used to acquire the facilities. The partners purchased the generation plants from **Pratt & Whitney** in the spring (PFR, 3/6).

Given the small size only a handful of banks will be invited to participate, one financier notes. Pricing and terms also could not be learned, but the expectations are funding will be relatively long term and see a pricing range of 100-300 basis points over LIBOR. Officials involved in the deal either declined comment or did not return calls.

The **CalPeak** facilities are **El Cajon**, **Enterprise**, **Lonestar**, **Panoche**, **Vaca** and **Mission**, each about 50 MW.

## Corporate Strategies

### Lone Star Pipeline Co. Pays Down Revolver

Houston-based pipeline operator **TEPPCO**, a publicly-traded partnership, could raise as much as \$195.5 million to pay down a loan after a recent offering of five million units representing limited partner ownership. **Brenda Peters**, director of investor relations, says the company thought it would be prudent to pay down debt under its revolving credit facility. The loan was used to fund the ongoing expansion of the **Jonah** gas gathering system, which gathers natural gas from the **Green River Basin** in southwestern Wyoming. As of June 20, \$491 million was outstanding under the facility, bearing a weighted average interest of approximately 5.7%.

**TEPPCO** netted \$170 million with the offering. Peters says the company is waiting to see if the underwriters exercise their 30-day option to purchase 750,000 more units, in which case **TEPPCO** would net \$195.5 million. **TEPPCO's** historical performance and roughly 7.6 % yield attracted a combination of new and existing institutional investors, Peters says. She declined to say if **TEPPCO** was satisfied with the price of the units. The 52-week range of the units is \$33.15 to \$42.75.

**Citigroup Global Markets** and **Lehman Brothers** were joint bookrunning managers. **Citigroup** and **UBS Securities** were bookrunning managers for **TEPPCO's** May 2005 offering. For this offering, **UBS** served as co-manager along with **A. G. Edwards**, **Wachovia Capital Markets**, **Raymond James**, **RBC Capital Markets**, **Sanders Morris Harris** and **KeyBank Capital**

**Markets.** All of the firms have longstanding relationships with **TEPPCO**, Peters says.

### Puget Hits Up Mortgage Notes For Redemption

**Puget Sound Energy** has sold \$250 million of 30-year, 6.724% first-mortgage bonds to redeem \$200 million, 40-year, 8.40% trust preferred securities. The balance was used to pay down another batch of maturing 15-year, 8.06% first-mortgage bonds totaling \$46 million, says **Don Gaines**, v.p. of finance and treasurer in **Bellevue, Wash.**

By taking out the trust preferreds, **Puget** expects to save roughly \$50 million pre-tax in interest payments, Gaines notes. Later this year it is expected to issue senior secured debt to fund construction of the 229 MW **Wild Horse Wind Power Project** located outside of **Ellensburg, Wash.**, says Gaines. The project cost is estimated at \$380 million but the finance official declined to provide specifics.

**Citigroup**, **KeyBank Capital Markets** and **Scotia Capital** were joint lead managers while **JPMorgan Chase**, **UBS** and **Wells Fargo Securities** were co-managers on the first-mortgage offering. All six are relationship banks and in the core group of about a dozen institutions **Puget** leans on, explains Gaines.

**Puget**, a subsidiary of **Puget Energy**, received a BBB and Baa2 rating from **Standard and Poor's** and **Moody's Investors Service**. It has \$2.5 billion in long-term debt and \$186 million in short-term obligations.

## Chesapeake Offers Up \$1.6B Mixed Bag

Chesapeake Energy has sold nearly \$1.6 billion in a mix of debt and equity to help fund acquisitions, including 39,000 net acres of Barnett Shale in Johnson and Tarrant Counties, Texas. Proceeds also will help pay down \$444 million on its \$2 billion revolver. **Jeffrey Mobley**, senior v.p. of investor relations in Oklahoma City, says the company has acquired \$1.9 billion in assets and has \$450 million in deals pending, such as oil and gas assets in West Texas. He could not disclose specifics.

The independent natural-gas producer issued \$500 million of three-year, 6.25% convertible-preferred stock, about \$580 million in common stock, and \$500 million of seven-year, 7.625% senior notes. The equity issues include a 30-day option for underwriters to issue an additional \$75 million in common shares and three million preferred shares. **Goldman Sachs** led both equity issues while **Banc of America Securities** led the debt deal.

Mobley says Chesapeake prefers to maintain a 50/50 balance between equity and debt.

The company had \$6.3 billion in long-term debt in March. **Moody's Investors Service** assigned a Ba2 rating to the notes and B2 rating to the preferred.

## SoCal Authority Places Plant Bonds

Southern California Public Power Authority is selling \$38 million of revenue bonds to help pay down the cost of construction of a 242 MW natural gas-fired plant in Burbank, Calif. **Craig Koehler**, finance and accounting manager in Pasadena, says proceeds will reimburse \$24 million in excess plant costs, which were funded by some of the municipalities that will take capacity from the plant. Approximately \$13 million will replenish reserves and cover fees from the underwriters of the deal.

The power authority selected **Ambac** to insure the **Citigroup**-led bonds, which is expected to be priced mid-month at around the 4% range as a result of the added wrapper, notes Koehler. The Manhattan-based insurance company charged a 0.274% bond premium and a 1.95% debt service surety premium. The finance official declined to provide further details or disclose how much savings the company achieved by insuring the debt.

At this point, **Standard & Poor's** and **Moody's Investors Service** have assigned an A+ and A1 rating to the deal and will likely take it up a few notches to triple-A once the wrapper is put on in mid July.

Citi and co-managers **Goldman Sachs** and **Merrill Lynch** were selected based on its past work on other transactions and their distribution capabilities, Koehler notes.

## Financing Record (JUNE 28-JULY 5)

### Debt

144A	Issued	Issuer	Business Description	Principal(\$M)	Coupon(%)	Security	Maturity	Offer Price	YTM(%)	S&P	Moody's	Fitch
No	6/28/06	EDF	Pvd electric power svcs	240.8	3	Fxd/Straight Bd	1/31/13	100.75	2.873	AA-	Aa1	AA-
No	6/30/06	Landsvirkjun	Electric utility	12.8	Floats	Mdm-Trm Fl Nts	7/14/11	100	Floats	AA-	NR	NR
Yes	6/30/06	Empresa Distrbcon Elec Noreste	Electric utility	100	7.6	Fxd/Straight Bd	7/12/21	99.136	7.698	NR	NR	BBB
	7/3/06	Espirito Santo Centrais Elec	Electric utility	122.4	Floats	Debentures	6/1/11	Market	na	NR	NR	NR
No	7/4/06	Endesa Capital Finance LLC	Special purpose finance co	192	Floats	Flt Rte Gtd MTN	7/24/09	100	Floats	A	A3	A+

### M&A

Announced	Effective	Target Name	Target Advisors	Target Nation	Acquiror Name	Acquiror Advisors	AcquirorNation	Value (\$M)
6/28/06	6/28/06	Cia de Transmissao de Energia	Citigroup, Rio Bravo Investimentos SA	Brazil	Interconexion Electrica SA		Colombia	536.424
6/28/06		Cia de Transmissao de Energia	Rio Bravo Investimentos SA, Citigroup	Brazil	Interconexion Electrica SA		Colombia	427.426
6/28/06		Duke Energy Corp-Natural Gas	Lazard	United States	Shareholders		United States	
6/28/06		Nittetsu Kagoshima Chinetsu		Japan	Nittetsu Kagoshima Chinetsu		Japan	
6/28/06		South Beloit Water Gas & Elec-Geat Distribuzione Gas		United States	Illinois American Water Co		United States	4
6/29/06	6/29/06	Cascal BV		Italy	Holding Energia & Risorse		Italy	
6/29/06		Energie Electrique du Simphon		Netherlands	Biwater Plc		United Kingdom	
6/29/06		Trans Elect NTD Path 15 LLC	Morgan Stanley	Switzerland	EOS		Switzerland	15.885
6/30/06		Undisclosed Heating Power		United States	Atlantic Power Holdings LLC	BMO Capital Markets	Canada	85.5
6/30/06	6/30/06	Pathum Thani Operation Co Ltd		Sweden	Malarenergi AB		Sweden	
6/30/06	6/30/06	Transwestern-Pipeline		Thailand	Mahasiri Siam Co Ltd		Thailand	0.06
7/3/06		Hafslund ASA-Valuable		United States	PVR Midstream LLC		United States	15
7/3/06		AS Narva Elektrivork		Norway	Vakt Service AS		Norway	
7/4/06		EMAC Services Pty Ltd		Estonia	Viru Keemia Grupp AS		Estonia	
7/5/06		Duquesne Light Holdings	Morgan Stanley, Lehman Brothers	Australia	Hastie Group Ltd		Australia	3.86
				United States	Investor Group	Macquarie Securities Ltd	Australia	1,567.00

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

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## 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

- **ConocoPhillips** has bought a 24% stake in the planned 1,663-mile Rockies Express Pipeline project, the largest natural-gas pipeline in North America. The roughly \$4 billion project is a joint venture between **Kinder Morgan Energy Partners** and a unit of **Sempra Energy** (Houston Business Journal, 7/3).
- **LS Power Group**, a unit of asset management group **LS Power Equity Partners** headquartered in East Brunswick, N.J., has acquired a 50% stake in the 600 MW gas-fired combined-cycle Griffith plant from Allentown, Pa.-based **PPL** (Associated Press, 6/30).
- **Enron Corp.** founder **Kenneth Lay**, who was convicted of fraud that led to the collapse of the company, died in Colorado (Bloomberg, 7/5).
- **Duquesne Light** is being acquired by a consortium led by Australia's **Macquarie Infrastructure Partners** and **Diversified Utility and Energy Trusts** for roughly \$1.59 billion (Associated Press, 7/5).

- **WPS Resources**, a Green Bay, Wis.-based gas and electric utility, is in talks to purchase Chicago gas utility **Peoples Energy** for about \$1.5 billion. Under the takeover proposal WPS will swap its shares for Peoples at a discount (Wall Street Journal, 7/6).

- To advance its debt reduction program, Houston-based natural-gas provider **El Paso** has sold its stake in a plant operated by **Fauji Kabirwala Power** in Pakistan and a power plant operated by **NEPC Consortium Power** in Bangladesh to **Globelec** for \$38 million. Globelec is a Hamilton, Bermuda-based international electric provider (Houston Business Journal, 7/5).

### Asia

- London-based energy company **BP** has reached an agreement with Beijing-based **China National Offshore Oil** to supply 2.6 million tons of liquefied natural gas annually to a LNG terminal in China's Fujian province. The deal awaits final approval from the Indonesian government (AFX News Limited, 7/2).

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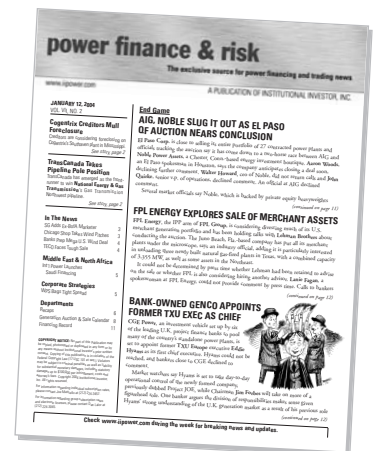
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**UNITED KINGDOM**  
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Fax: 44 207 779 8619  
Email: jdavies@euromoneyplc.com  
Mail: Julian Davies  
Institutional Investor News  
Nestor House, Playhouse Yard  
London, EC4V 5EX, England

**HONG KONG**  
Tel: 852 2842 6910  
Fax: 852 2543 7617  
Email: enquiries@euromoneyasia.com  
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## Weekly Recap (cont'd)

### Russia

• Russian monopoly **Gazprom** is interested in buying the U.K.'s largest gas distributor **Centrica**, but has not engaged in talks with shareholders or management (Reuters, 6/30). The monopoly also has plans to buy a 1.2-billion cubic meter Iran-Armenia pipeline, which is currently under construction (RIA Novosti, 6/30). Gazprom also is in talks to acquire a controlling stake in **Yemen LNG** (Reuters, 7/6).

• Moscow electricity company **Mosenergo** is planning in 2008 to build a 4 GW electric power plant in Moscow, which will control one third of the city's grid. Gazprom has plans to buy a 25% stake in the company (RIA Novosti, 6/29).

### Europe

• **Tony Blair** is advocating new nuclear power stations to mitigate dependence on foreign gas imports before the U.K. government's energy review is published later this month (Telegraph, 7/5). Concurrently **International Power**, a London-based electricity generator, is interested in a move into nuclear generation in the country (AFX News Limited, 7/5).

## AQUILA PUTS

(continued from page 1)

Aquila predominantly is owned by hedge funds and private equity shops one of which told *PFR* the utility has been preparing for an exit strategy for the past several months by streamlining operations to make it more appealing to a potential acquirer. In a **Lehman Brothers** and **Blackstone**-led deal, it shed gas and electric utility arms it considered ancillary to **Empire District Gas Co.** (*PFR*, 11/7) and **WPS Resources** (*PFR*, 9/26).

According to the **Thomson Financial** database, **Horizon Asset Management**, **Jennison Associates**, **Och-Ziff Capital Management**, **Cyrus Capital Partners**, **Seneca Capital Advisors** and **Luminus Management** are six of Aquila's largest

shareholders. **Pirate Capital** also recently acquired a large position, says one hedge fund manager, noting that many of those entities now are itching to reap yield.

"Aquila doesn't pay a dividend so we are looking for some way to cash out," notes one New York-based hedge fund manager. "I think there's an element of pressure but you don't have shareholders and management at odds with each other."

As of March, Aquila CEO **Richard Green** owned 626,000 shares of the company. —*Peter Roth & Mark DeCambre*

## CHENIERE LNG

(continued from page 1)

Cheniere had a debt-to-equity ratio of about 80:20 on its original deal and it is likely it had to plow more money into the expansion. It is unclear what the current debt-to-equity breakdown is. Pitched pricing is at LIBOR plus 1 1/8 through the construction period and notches down to 7/8 in the first three years and ramps up again to 1/18 in the latter portion of the loans tenor.

Original pricing was sub-LIBOR plus 1 1/2 basis points, decreasing to LIBOR plus 1 1/4. HSBC and SocGen are pushing for completion of syndication over the next few weeks.

A relatively small developer, Cheniere has been capitalizing on the interest in the lending community to fund LNG terminals—none have which have actually been completed.

Cheniere has begun construction on the facility, which will be ongoing until 2009. It is supported by 20-year lease agreements with **Chevron Corp.** and **Total**. —*M.D.*

## DTE SEEN

(continued from page 1)

Partners in New York, and **Bill Johnson**, executive v.p. at **Primary Energy**, did not return calls for comment. —*P.R.*

## Quote Of The Week

"The reality of the business is that [renewable projects] are higher risk activities that require a certain portion of equity which banks will not secure." —**Senan Murphy**, cfo at **Airtricity** in Dublin, Ireland, explaining why the company sought to fund the bulk of its turbine purchase with equity (see story, page 3).

## One Year Ago In Power Finance & Risk

**Duke Energy** was thinking about re-launching the sale of its **Duke Energy North America** merchant unit. [LS Power won the auction for the assets in January after a bid from **Complete Energy** fell through].

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