

power finance & risk

The exclusive source for power financing and trading news

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Web Exclusive

PFR this week introduces a new section in which we track the latest electric power industry rating changes.

The feature is exclusively available on *PFR*'s Web site (www.iipower.com).

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BANKS SCRAMBLE TO LAND LUCRATIVE FRENCH PRIVATIZATION MANDATES

Investment banks are jockeying to win two of the most potentially lucrative underwriting mandates in recent memory following the recent announcement by the French government that it will privatize and partially float stakes in **Electricité de France** and **Gaz de France**.

London-based investment bankers say they've traveled to Paris frequently these past two weeks to make their case. While the leading French banks are almost certainly guaranteed a slice of the action, a more heated battle is shaping up between the international bulge-bracket

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ENDESA SEEKS TO UNLOAD LATAM DISTRIBUTION ASSETS

Endesa, Spain's largest utility, is looking to divest three Latin American distribution companies, **Edesur** in Argentina and **Companhia Energetica de Ceara (Coelce)** and **Companhia de Eletricidade do Rio de Janeiro (Cerj)** in Brazil. A senior Endesa executive says the company would like to sell the three wires companies, but realizes the downturn in the Latam utility sector likely makes any sale difficult to execute in the near term. However, if a suitor can be found that is willing to make a solid offer, Endesa would accept it. Otherwise, he says, the Spanish utility will retain the assets and continue to improve their quality of services. **Jacinto Pariente**, an investor relations official at Endesa in New York,

(continued on page 2)

INTERGEN SWEETENS \$600M LOAN TERMS AS MARKET BALKS AT U.K. PAPER

InterGen last week was forced to flex the terms of a GBP429 million (\$633 million) non-recourse loan, making it the second U.K. project sponsor this month to cave in to the pricing demands of a lukewarm bank market. Two weeks ago **Conoco Global Power** and its lead arranger also jacked up the pricing of its Immingham project loan after the deal struggled in wholesale syndication for the better part of four months. It could not be determined by press time whether InterGen or its lead arrangers will have to foot the bill for the sweetened terms.

(continued on page 12)

WESTLB AXES SENIOR STAFFERS IN N.Y. PROJECT REORG

WestLB has laid off two managing directors, **Richard Slocum** and **Arminee Bowler**, from its New York project finance and debt syndication team. Both casualties were high profile players in New York's power financing market. Bowler was the market face of WestLB's syndication desk for a number of years and Slocum was the point man for marketing project bonds in the private market.

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Check www.iipower.com during the week for breaking news and updates.

BBVA Lays Off Latam Analyst

Victor Galliano, an equity research analyst who covered Latin American utilities at **Banco Bilbao Vizcaya Argentaria** in New York for 10 years, was recently laid off, says **Todd Edwards**, director of equity research at BBVA in New York. He says analysts in Brazil and Chile have absorbed Galliano's coverage area. It could not be ascertained by press time whether Galliano has found a new post.

According to another analyst at the firm, the layoff was part of a restructuring that took place a couple of months ago in which 50% of employees in the London and New York offices were let go. He says that Galliano specifically received a pink slip because the firm decided to have the research conducted locally.

Calls to Galliano at his home were not returned.

Mirant Edges Toward Revolver Target; Term-Out Still Looms

Mirant is getting closer to securing a new \$750 million revolver, with the running tally of conditional commitments said to be around \$680 million, according to market officials. But, with its current \$1.125 billion one-year revolver maturing Wednesday, the Atlanta-based IPP may have to exercise a term-out provision (PFR, 7/8) that would convert the revolver in to a one-year loan maturing next July. "Although we expect the term-out to be exercised soon, we remain optimistic that we will ultimately complete the renewal of our bank revolver," **Marce Fuller**, ceo, said in a statement issued last week.

One banker says 11 banks have made commitments to the deal, including \$75 million from lead **Credit Suisse First Boston**. The banker says the tickets are conditional on the commitment being cut back to a target hold level in the final allocation, but he was unsure what those hold levels were.

Siemens Lands Israeli Project

An Israeli affiliate of Siemens has been awarded a government contract to build, own and operate a 350 MW combined-cycle gas turbine plant in southern Israel. An official close to the matter says Israel's Ministry of National Infrastructure selected **OPC Rotem**, a Siemens-sponsored SPV, at the end of last month, after a year-long bidding process and has asked the company to have financing in place by 2004 and construction of the plant completed by 2006. The project is expected to cost some \$400 million to complete. Siemens did not respond to calls.

The project, dubbed Mishor Rotem, will be built at an industrial park in the Negev (PFR, 7/30/01). The site was originally developed by **MidAtlantic Energy** in 1996 through a joint venture with **Israel Electric Corp** to build a 150 MW oil-fired power plant. MidAtlantic walked away from the project in 1999, citing high costs.

Siemens was selected on June 25 after a pre-qualification tender process produced only one bidder, says the official.

ENDESA SEEKS

(continued from page 1)

declined to comment.

A Latin American utility analyst in New York says, "I'm sure that Endesa would love to sell Coelce, Cerj and Edesur as they're all suffering serious financial distress, but I don't think anyone will buy them." He continues: "Fortunately, Endesa doesn't have the cash needs of other sellers, like AES, so even though it's taking a loss, it's manageable."

Neither the Endesa official nor the analysts would place a likely price tag on the assets. Coelce distributes power to 1.8 billion customers in Ceara state. Cerj's wires network covers 1.6 million customers in the state of Rio de Janeiro. Edesur has 2.1 million customers.

—Amanda Levin

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Citibank Relocates New York Financier

Daisy Yow, a project financier at Citibank in New York covering the energy markets for the Americas, relocated to the bank's Hong Kong office at the beginning of this month to cover the Asian energy industry. A banker close to the matter says, "The energy sector in the Americas has taken a lot of blows in recent months, so it makes sense that her coverage area has changed."

A banker at Citibank confirmed the move, but declined further comment. Calls to Yow and **Tony Muoser**, managing director of the global project and structured trade finance group, were not returned.

Franklin Templeton Hong Kong Hires Analyst

Franklin Templeton Investments (Asia) in Hong Kong has hired **Joanne Wong**, an analyst covering China at **Credit Suisse First Boston** (CSFB), as a research analyst for the region's power and gas utility sector. Wong joined Franklin Templeton last week, replacing **Nicola Daniel**, who left for personal reasons last year, said **Allan Chua**, an analyst and portfolio manager for the industrial sector. Wong declined to comment, referring questions to **Norm Boersma**, head of research in Toronto. Boersma was travelling and could not be reached. A spokeswoman at CSFB said it does not have a direct replacement for Wong but is looking to expand the team.

Tractebel Readies U.S. Plant Financing

Tractebel North America is looking to launch its long awaited non-recourse financing for a portfolio of U.S. generation projects by month-end, according to lenders tracking the deal. They add the offshoot of Belgian energy giant Tractebel recently got the green light for the financing from its parent **Suez**. Calls to **Rachel Kilpatrick**, Tractebel North America treasurer in Houston, and lead bank **Credit Suisse First Boston** were not returned by press time.

Details of which plants will be covered and the overall size of the project loan are still unclear, but bankers say a \$1.5 billion loan financing three or four plants remains the likely option. Another piece of the jigsaw puzzle yet to be revealed is the syndication strategy. Bankers note that Tractebel has been keen to pitch a club-type deal, where lenders have to commit to all deals (PFR, 5/6). One project financier says tough

market conditions and lenders concerns over concentration of counterparty exposure could make this approach difficult for many lenders to swallow.

Wind Power Banker Flies Solo

Carl Tischler, v.p. in J.P. Morgan's London-based energy group is set to leave the U.S. firm towards the end of this summer to set up a London investment banking boutique to advise on renewable energy projects. An official familiar with his plans says he has yet to determine if he will set up the shop independently or form a joint venture with an existing company. Tischler declined to comment.

In recent times Tischler has focused on European renewable energy deals at J.P. Morgan. Earlier this year he advised **Cinergy** on the sale of its European wind farm assets. Last month **ENERGI E2**, a Danish wind farm developer, agreed to buy **Cinergy Renovables Ibericas**, a 93 MW portfolio of predominantly wind farm assets in Spain (PFR, 6/7). The official adds that the small size of many of the renewable companies or stand alone projects makes them better targets for small boutiques than bulge bracket investment banks that need to focus on big ticket deals.

Barclays Wraps Irish Financing

Lead arranger **Barclays Capital** has closed syndication of a EUR219.5 million 16-year non-recourse loan on behalf of Northern Irish utility **Viridian Power**, with the addition of nine banks to the lending group. A syndicate official at Barclays in London described the syndication effort as a resounding success, noting the loan was slightly oversubscribed. However, two other financiers downplayed the success of the deal, noting the syndicate size was on the small side given the amount of firms pitched the deal. They note that concerns about the credit quality of the sponsor, and fears that an interconnector between Ireland and the U.K. could send Irish wholesale power prices spiraling downwards dissuaded some banks from joining the deal.

The syndicate team comprised **Allied Irish Bank**, **Bank of Ireland**, **HSBC**, **Bank of Tokyo-Mitsubishi**, **Royal Bank of Scotland**, **Rabobank**, **ING**, **KBC Bank** and **NordLB**. Participants signed up for either EUR20 million or EUR10 million tickets. Syndication was launched May 14 (PFR, 6/27).

Viridian will use the loan's proceeds to refinance the construction costs of Huntstown, a 343 MW combined-cycle gas turbine plant it is building slightly north of Dublin. Output from the plant will be sold to **Energia**, an unregulated supply affiliate of Viridian through a 16-year tolling agreement.

WPS Eyes Bonds To Fund Calpine Asset Acquisition

Wisconsin Public Service is looking to fund its \$120.4 million acquisition of the 180 MW De Pere Energy Center from Calpine via a long-term bond offering. Joe O'Leary, senior v.p. and cfo in Green Bay, Wis., says the company has filed with the Public Service Commission of Wisconsin to issue \$125-175 million in debt and hopes to get the deal approved by the end of this quarter. The funds from the issue will be used for the initial payment of \$72 million and also to retire some existing debt falling due in October and February, he adds.

WPS has yet to select a lead underwriter for the bond offering, O'Leary says, adding that it looks at a number of criteria, including prior relationships, ability to place paper and the ease of working with a bank, when making its decision.

The power from the De Pere Energy Center was already under long-term contract to Wisconsin Public Service, a subsidiary of WPS Resources. As part of the deal with Calpine, WPS also will purchase 150 MW in 2005, rising to an estimated 235 MW in 2006 through 2015, from Calpine's proposed Sherry Energy Center.

AEP Taps Fortis For Lone Star Wind Financing

American Electric Power has awarded Fortis Bank the mandate to refinance at the project level its recent \$175 million acquisition of a Texan wind farm. Project financiers say details of the financing have not been determined, but note among other options AEP has been looking at a \$120 million package with a 10-15 year tenor. David Hagelin, an AEP spokesman, declined to comment. Calls to Fortis Bank were not returned.

AEP picked up the 160 MW Indian Mesa Wind power project, located at Iraan, 45 miles east of Fort Stockton, from Enron Wind at the end of last year, and initially funded the project with cash while it scouted the project finance market for lenders (PFR, 2/18). The project was completed last December, so lenders will not have to stomach any construction risk.

Unlike in Europe, wind farm financing deals have been thin on the ground in the U.S., notes one banker who is taking a watching brief on the market. This means there is a lack of technological knowledge at many banks, especially at the credit committee level, and that makes some uncomfortable about the risks. While wind power provides technology diversification for holders of the paper, there is also a question mark over whether the turbines will survive the full term of a financing, the banker explains. For instance, the AEP project utilizes a turbine model that was only unveiled in 1998 and thus has no long-term track record.

Advisory Boutique Lands Goldman Chief For Power Push

Greenhill & Co. has hired Richard Morse, U.K. power banking chief at Goldman Sachs, to forge a presence for the transatlantic advisory boutique in the European power market. Morse will join Greenhill in October after three months of gardening leave. He becomes the firm's 18th London-based partner.

Simon Borrows, partner and co-head of the London office, says Greenhill has yet to establish a power industry franchise, but is looking at the sector in the expectation it will become an increasingly hot market for m&a deals over the medium term. He notes the boutique's presence in London, New York and Frankfurt leave it well placed to profit from an expected pickup in transatlantic deal flow. Greenhill's London office primarily focuses on advising financial institutions and retail companies and also has a strong corporate restructuring unit. It is presently advising Diageo on its sale of Burger King and EasyJet on its acquisition of rival low cost airline Go.

Morse declined to comment on why he's making the move, but Borrows says Morse was attracted by Greenhill's pure focus on advisory work. "He doesn't have to concern himself with selling other products or worry about Chinese walls."

Prior to joining Goldman in 2000 Morse was deputy director general of Ofgem, the U.K. energy regulator. Before that he spent over a decade at Dresdner Kleinwort Wasserstein.

Spokespersons at Goldman did not immediately return calls.

Mirant Retains Mass. Assets

Mirant has taken three Massachusetts power plants off the auction block because it is close to reaching a \$1.6 billion fundraising goal, says a New York banker close to the sales process. The company had been looking to unload the three Bay State plants as part of plans to inject fresh capital into the beleaguered IPP, shore up its balance sheet and maintain its credit rating (PFR, 4/8). David Payne, a Mirant spokesman, declined comment on the matter. Marce Fuller, president and ceo of Mirant, told PFR last month that the IPP had received competitive bids for \$200-300 million of generation assets (PFR, 6/24). Calls to Fuller last week were not returned.

Mirant retained Merrill Lynch this spring to shop its Canal plant (1,109 MW) in Sandwich; Kendall (100 MW) in Cambridge and the Martha's Vineyard plant (12 MW). They are all natural gas and oil-fired facilities. Lauri Coben and John Thorndike, co-heads of the power group at Merrill Lynch, did not return calls.

Over the past six months, Mirant has sold \$1.4 billion of assets, including its large investment in Bewag, a German utility, to Vattenfall for some \$1 billion.

Corporate Strategies

Austin Utility Preps Bond Refinancing

Austin Energy is prepping a \$140.8 million issue of revenue refunding bonds to refinance a higher coupon 1992 series. **Harvey Winkelmann**, v.p. of finance, says the municipal utility will achieve lower rates, though he was unable to be more specific as terms and documentation are still being finalized. Under its rules, Austin Energy needs to be able to achieve at least 4.25% in present value savings before it can retire and refinance debt, he adds.

The bonds are scheduled to price this week, via negotiation through a syndicate of banks led by **Lehman Brothers**. Winkelmann was unable to elaborate on the selection criteria for underwriters by press time. The offering will be the third issue under a new master ordinance that allows the municipality's electric, water and wastewater utilities to issue bonds separately. Using this greater financial and operating flexibility, the utility tapped the market for \$81.1 million earlier this year (PFR, 3/4).

The notes are rated A by **Fitch Ratings**, reflecting the expectation they will get a credit wrap. Fitch says Austin Energy has diverse generating resources, a fuel adjustment clause to better manage volatility in fuel prices, and historically strong electric sales growth of about 5% annually. On the flip side, credit risks center on the electric system's high fixed costs connected to its 16% ownership interest in the South Texas Project nuclear facility, a substantial capital improvement program, and competitive pressures related to deregulation in Texas, according to the agency.

Florida Municipal Cuts Debt Bill

The **Florida Municipal Power Agency** was set to tap the bond market late last week with a \$245 million multi-tranche offering of floating-rate revenue bonds to pay down existing debt and slash its interest burden. A spokesman in Orlando says the agency hopes to cut its funding bill by some \$5 million annually by refinancing \$250 million of bonds with average coupons of roughly 5%.

The original deal was issued in July 1992 when the interest-rate environment was far tighter and proceeds were used to help finance the construction of the St. Lucie Unit 2 nuclear generating facility. **Florida Power & Light** operates the 838 MW reactor.

The FMPA has entered into six interest-rate swaps to lock in the financing costs for some 63% of the new offering. It will retain its floating-rate exposure on the remainder of the deal. The agency executed three of the swaps with **Morgan Stanley**

and another three with **Salomon Smith Barney**. The swaps have staggered terms to reflect the tenor of the debt and mature on July 1, 2005, 2006 and 2007.

Fitch Ratings has assigned the bonds an A minus rating and **Moody's Investors Service** has rated them A3. The bonds are expected to receive a credit wrap from monoline bond insurer **Ambac Insurance**. **Morgan Stanley**, **Salomon Smith Barney** and **A.G. Edwards** led the offering.

The pricing of the issuance could not be ascertained by press time. The spokesman says the deal was expected to close last Friday.

XL Executes First Project Finance Credit Wrap

XL Capital Assurance has completed what it believes to be the first insurance wrap for a U.S. non-recourse power financing, through guaranteeing a \$325 million bond offering issued by **NRG Energy** late last month.

Phil Henson, managing director at XLCA in New York, declined comment on the NRG deal, but notes that power company inquiries about credit wraps have been rising because of the constrained bank market for financing power deals and the limited appetite of bond investors for paper in the BBB minus range. "[Credit wraps] give you access to another source of investors," he notes. Henson was brought on board by XLCA from **ING** last year as part of an effort by the insurer to break into the power financing market (PFR, 4/8/01).

NRG issued the notes, which mature in 2019, via subsidiary **NRG Peaker Finance Co.** to fund a portfolio of five peaker plants, totaling approximately 1,318 MW in Illinois and Louisiana. The proceeds will primarily be used to reimburse NRG for construction and acquisition costs related to the projects, according to a press release from the company. The specific projects could not be determined. The transaction was rated triple-A due to the XLCA guarantee that covers principal and interest payments on the bonds. NRG was unable to provide further details on the financing by press time.

Despite the up tick in queries, Henson doesn't expect a dramatic flood of wrapped deals to hit the market. Firstly, he notes, there isn't the depth in terms of other insurance players looking at the market. Also, issuers have to be prepared to go through an intensive rating process. However, he adds XLCA is working on another similar deal that it expects to close this quarter.



Latin America

IDB Set To Grant Brazil Financing

The **Inter-American Development Bank** will likely approve a \$150 million loan to help finance the construction of **Termoacu**, a 340 MW combined-cycle gas-turbine plant in Rio Grande, Brazil, says an official at the bank. She says a proposal submitted by the project sponsors, **Iberdrola** and **Petrobras**, for the loan has been well received at the multilateral institution and approval will probably occur within the next few months. **Termoacu** is scheduled to come on line in 2004.

Iberdrola, which has a 70% stake in the project, and **Petrobras** are also seeking \$140 million in loans from commercial banks. The names of the banks and status of the loans could not be ascertained by press time. Officials at **Iberdrola** and **Petrobras** did not return calls.

Rating Agency Warns of Derivatives Risk At Chilean Generator

AES Gener could be forced into default imminently if its creditors exercise put options on the company's debt, warns **Marta Castelli**, an analyst at **Standard & Poor's** in Buenos Aires. She calculates that the Santiago, Chile-based power generator has some \$43 million of cash on its balance sheet, but could be forced to stump up \$112 million if put options tied to a bank facility and some floating-rate bonds are exercised in the near-term. She declined to name the creditors that hold the puts. Calls to **AES Gener** were not returned.

Castelli says the first option becomes exercisable at the end of this month. The derivative contract gives the creditor the

right to put back to **Energy Trade & Finance**, an **AES Gener** affiliate, a \$40 million loan due January 2004. **Castelli** adds the other put option relates to a \$72 million tranche of FRNs issued by **Termoandes** and **Interandes**, two Argentinean generation and transmission affiliates of **AES Gener**. This put can be exercised in October.

Earlier this month S&P downgraded **AES Gener's** credit ratings from triple B minus to double B to reflect its weakening financial status.

Banks Close Syndication Of Brazilian Loan

Lead banks **Banco Bilbao Vizcaya Argentaria** and **Société Générale** have wrapped up syndication of a \$160 million non-recourse loan that will be used to finance the construction of the **Termopernambuco** generation project in Brazil. An official close to the matter says that six other banks committed to the deal. **Caja Madrid** signed up for a \$20 million ticket and **Banesto**, **Banco Santander Central Hispano**, **Transamerica**, and **Fortis** also made commitments of \$10-15 million. He adds that the first disbursements of the funds will be released in two weeks.

The gas-fired project is being built in Pernambuco state and is being financed with a \$40 million loan from the **Inter-American Development Bank**, \$90 million in loans from **Banco Nacional de Desenvolvimento** and the \$160 million syndicated loan (PFR, 6/17).

Local utility **Compahnia Energetica de Pernambuco**, whose investors include **Iberdrola**, **BB Banco de Investimento** and **Previ**, is developing the gas-fired plant. **Iberdrola** will operate the plant once it comes on line.

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**, Reporter, at (212) 224-3292 or email: alevin@iinews.com

Sponsor	Project	Project Type	Size (MW)	Cost (\$mil)	Country	Advisor/Financier	Status	PFR Issue
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
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
EdF, Mitsubishi	Altamira	Gas-fired	495	300	Mexico	Citi/Fuji	Expects to seal financing shortly.	7/1/02
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

Continued

Sponsor	Project	Project Type	Size (MW)	Cost (\$mil)	Country	Advisor/Financier	Status	PFR Issue
El Paso	Araucaria	Gas-fired	469	340	Brazil	Dresdner	Closing \$340M in financing	3/4/02
El Paso	Macaé	Gas-fired	400	700-800	Brazil	SocGen	Financing due shortly	7/1/02
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	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
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

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PFR - JUNE 24

BofA REPORTEDLY READIES POWER TRADING; HIRES ENRON QUARTET

Bank of America is reportedly planning to establish an electricity derivatives trading desk in New York and has landed four former Enron traders to staff the operation. The quartet consists of **Rogers Herndon**, who heads the team, **Gautam Gupta**, **John Suarez** and **Paul Broderick**, according to market officials. **David Mooney**, global head of commodities, referred calls to BofA's media relations department. **Jeff Hershberger**, a spokesman in New York, says BofA is not currently a participant in the power

REUTERS .com

June 28

Bank of America gets OK to trade electric derivatives

WASHINGTON, June 28 (Reuters) - The government this week approved a request by Bank of America Corp. to trade in the vast electricity derivatives market, marking the first time that a bank has entered this market.

The Office of the Comptroller of the Currency (OCC), an arm of the U.S. Treasury Department, on Thursday issued a letter ruling that it is permissible for the Bank of America "to engage in financial intermediation transactions, where the payments between parties are based on the price of electricity."

The approval could open the door for other banks to enter this market. They would have to request permission to trade electricity derivatives, an OCC spokesman told Reuters.

A Bank of America spokesman confirmed that it intends to trade electricity derivatives, and has hired an undisclosed number of traders to man a trading desk, including some traders from now-bankrupt energy

PFR - MAY 27

MORGAN STANLEY HONCHO JOINS TOP-RANKING HEDGE FUND ...

Andy McMillan, head of European power and gas trading at Morgan Stanley in London, has left the bank to join **Tudor Investment**, one of the world's largest and most renowned hedge funds managers with more than \$6 billion in assets. McMillan, a native New Zealander whose background is in oil and energy options, left the U.S. investment bank last month and has already taken

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GLOBAL INVESTING: Hedge funds move in on distressed energy sector

By Robert Clow in New York
Financial Times; Jun 07, 2002

Smart investors love a little carnage, so it should come as no surprise that some of the smartest hedge fund investors are getting into the energy market following the collapse of Enron and the admission by its competitors of bogus trades to boost revenues.

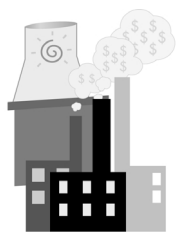
Two hedge fund giants, Citadel Investments and Tudor Corp, have started to build up

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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	Looking to sell plants in 2003.
AES Fifoots Point	Fifoots Point	U.K.	363	Coal	KPMG (Administrator)	Looking to sell plant by end of April
BP	Great Yarmouth	U.K.	400	Gas	J.P. Morgan	Looking to sell plant this summer.
Central Hudson Gas & Electric	Syracuse	N.Y.	100	CHP	Navigant	Final bids due by late Nov.
	Beaver falls	N.Y.	100	CHP		
	Niagara falls	N.Y.	52	Coal		
Cinergy	Cinergetika	Czech Rep.	230	CHP	J.P. Morgan	Expects to sell assets this summer
	Energetika Chropyne	Czech Rep.	48	CHP		
	EPR Ely	U.K.	36	Straw		
	Moravske Teplamy	Czech Rep.	410	CHP		
	Pizenska Energetika	Czech Rep.	406	CHP		
	Redditch	U.K.	29	Gas		
	Teptama Otrokovice	Czech Rep.	349 (11%)	CHP		
CMS Energy	Loy Yang	Melbourne, Australia	2,000	Coal	Not chosen	Announced intention to sell.
	Ensenada	Argentina	128	Gas-fired	J.P. Morgan	
	CT Mendoza	Argentina	520	Gas-fired	J.P. Morgan	
	El Chocon	Argentina	1,320	Hydroelectric	J.P. Morgan	
DPL	All plants	Ohio	3,500	N/A	Morgan Stanley	
Enel	Interpower	Italy	2,611	Various	CSFB, Lehman, Merrill	Having sold Elettrogen and Eurogen it will sell one more generation portfolio shortly.
Enron	Nowa Sarzyna	Poland	116		PwC (administrator)	Intention to sell.
	Sarlux	Italy	551			
	Trakya	Turkey	478			
	Chengdu Cogen	China	284			
	Northern Marianas	Guam	80			
	Bantagas	Philippines	110			
	Dabhol	India	2,184			
	Subic Bay	Philippines	116			
	Teesside	U.K.	1875			
	Wilton	U.K.	154			
IVO Energy	Grangemouth***	U.K.	130	Gas	-	Looking to refocus in Nordic region.
	Edenderry	Ireland	120	Peat		
Niagara Mohawk Power	Nine Mile Point 1	N.Y.	1,614	Nuclear	N/A	Awaiting bids.
	Nine Mile Point 2	N.Y.	1,140	Nuclear	N/A	
NRG	Gladstone Power	Australia	1,500 (37.5% stake)	Coal	ABN AMRO	Awaiting bids.
	Flinders	Australia	760	Coal		
	Loy Yang A	Australia	2,000 (25% stake)	Coal		
	Hsinchu	Taiwan	400 (60% stake)	Gasfired		
	Lanco Kondapalli	India	340 (30% stake)	Gas/Oil		
	Collinsville	Australia	192 (50% stake)	Coal		

Continued

Generation Auction & Sale Auction (cont'd)

Seller	Plants	Location	MW	Plant Type	Advisor	Status
NRG	TermoRio	Brazil	1040 (50% stake)	Gas	Deutsche Bank	Awaiting bids.
	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		
NRG/Xcel	CEEP	Poland	10 (10% stake)		Goldman	Awaiting bids.
	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		
NRG	Big Cajun II	La.	2,400 (90%)	Coal	-	Has shortlisted three bidders
	Pike	Miss.	1,192	Gas		
	Batesville	Miss.	1,129	Gas		
	Brazos Valley	Texas	633	Gas		
	Kaufman	Texas	545	Gas		
	Big Cajun	La.	458	Gas		
	McClain	Okla.	500 (77%)	Gas		
	Bayou Cove	La.	320	Gas		
	Sabine River	Texas	420 (50%)	Gas		
	Sterlington	La.	202	Gas		
	Mustang	Texas	485 (25%)	Gas		
	Pryor Cogen	Okla.	88 (20%)	Gas		
	Timber	Fla.	13.8	Biomass		
	Power Smith	Okla.	80 (9.6%)	Gas		
Oman (Ministry of Housing, Electricity & Water)	Rusail	Oman	730	Gas	CSFB	
	Ghubratt	Oman	507	CHP		
	Wad AlJazzi	Oman	350	Gas		
Ontario Power Generation	Lennox	Ontario	2,140	Oil, gas	Merrill Lynch & Scotia Capital	Expects to sell Lennox and Lakeview shortly.
	Lakeview	Ontario	1,140	Coal		
	Atikokan	Ontario	215	Coal		
	Thunder Bay	Ontario	310	Coal		
Pacific Gas & Electric	68 Plants	Calif.	3,800	Hydro	Morgan Stanley	Awaiting PUC approval. Expect sale to close shortly.
Polish Treasury	Elektroncieplownie Poznanskie	Poland		CHP	-	Bids due in June.
Reliant Resource	Argener	Argentina	160	CHP		
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)		CSFB	Has put up for sale following collapse of NRG deal.
	New Haven	Conn.	1,100 (combined)			

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

- **Tata Power**, India's largest private-sector utility, is seeking shareholder approval to borrow up to \$1.7 billion, which could be used to buy **Enron's** 65% stake in the \$2.9 billion 2.1 GW Dabhol power plant near Bombay (*Reuters*, 7/10).

Europe

- Dutch utility **Essent** is interested in buying certain assets utility **E.on** must relinquish as part of the takeover of German gas supplier **Ruhrgas**. The Arnhem-based company is eyeing raising its 51% stake in Bremen city utility **SWB** and buying shares in north-eastern regional utility **EWE** of Oldenburg, according to an Essent spokesman (*Reuters*, 7/9).

- **Ian Marchant** is to replace **Jim Forbes** as ceo of **Scottish & Southern Energy** when the incumbent retires in October. Marchant, currently finance director, joined S&S in 1992. **Gregor Alexander**, treasurer, will become finance director (*Financial Times*, 7/9).

Latin America

- **AES's Chivor**, the fourth largest electric power generator in Colombia, filed for Chapter 11 bankruptcy in Manhattan's bankruptcy court. Chivor filed for protection to extend the maturity of a senior secured loan over the dissent of two lenders, **Banco Santander Central Hispano Miami Agency**, and an affiliate in Colombia. The other 19 lenders that hold 90% of the loan, have already submitted ballots accepting the proposed loan restructuring (*Dow Jones*, 7/8).
- **Suez Lyonnais Des Eaux** and Mexico's **Penoles** have agreed to pay \$93 million for **Enron's** water assets in Mexico. Under the deal the joint venture will take over an **Azurix** concession in Cancun, a services contract in Mexico City and three build-own-operate projects (*Financial Times*, 7/11).

U.S. & Canada

- **Reliant Energy** said U.S. securities regulators had approved plans to spin off its stake in **Reliant Resources**, its power trading affiliate that erased billions of dollars in revenue connected to bogus electricity trades. Reliant Energy also said the **Securities and Exchange Commission** had authorized it to adopt a new holding company structure, under the name **CenterPoint Energy** (*Reuters*, 7/8).

- A new senate report says **Enron's** former directors knew about the company's risky accounting practices and should have stopped them. The report also faults the board for allowing a drain on cash through excessive compensation and failing to halt abuse by former Chairman **Kenneth Lay** of a company-sponsored personal line of credit (*The Wall Street Journal*, 7/8).
- **Allegheny Energy** warned profits would fall about 30% short of forecasts and said it would cut spending and shed 600 jobs to combat low power prices. The Hagerstown, Ma.-based player is also canceling power projects in Arizona and Indiana earmarked to cost about \$700 million over the next several years (*Reuters*, 7/8).
- **Entergy** will officially close its wholesale merchant power development division within a month, following a cutback of its plant development program. New Orleans-based Entergy last month cut the remaining 130 positions at its Houston-based **Entergy Wholesale Operations** unit, effectively shutting the business down. Some 65 employees have been relocated elsewhere in the company, and the rest will receive severance packages next month (*Dow Jones*, 7/9).
- Democratic supporters of legislation that would regulate energy and metals trading said they may add the proposal to a separate accounting reform bill moving through the Senate. The legislation would close a loophole that allowed energy derivatives deals and off-exchange trading from coming under the scrutiny of federal market regulators (*Reuters*, 7/10).
- **Ontario Power Generation** is boosting capacity of two existing hydro stations by 8.2 MW. The additional capacity from the Healey Falls and McVittie generating stations will make use of excess water now being diverted around the stations (*Dow Jones*, 7/10).
- **CMS Energy**, which has come under fire over its energy trading practices, began a new series of initiatives to reduce annual operating costs by about \$50 million. The company said Chairman and CEO **Ken Whipple's** compensation will be largely deferred and based on the company's stock performance (*The Wall Street Journal*, 7/10).

Landing the government mandate is thought to be a more open race. It will definitely pick one French bank, probably **BNP Paribas**

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

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or **Lazard Freres**, say market watchers, but it is far from clear which international bank or banks will scoop another advisory slot. **UBS Warburg** and **Goldman Sachs** must be highly fancied, according to one banker. **Merrill Lynch** also has a shout, though since it is likely to advise *Gaz de France*, it may be conflicted.

The exact size of the *EdF* IPO has not been determined, but bankers say the company is likely to be valued at between EUR30-60 billion. The wide range reflects uncertainty over whether the government agrees to take on *EdF*'s unfunded pension liabilities and its nuclear clean-up program. *EdF* had sales of EUR40.7 billion in 2001 and profits of EUR841 million. —*Will Ainger*

INTERGEN SWEETENS

(continued from page 1)

Officials at both generators did not return calls.

Financiers say the need to flex *Spalding* highlights the parlous state of the U.K. power project finance market, where a number of existing deals have been hit by falling generation prices. While the *Immingham* loan was always going to prove a tough sell because it is backing a merchant CHP plant, *Spalding* is a "classic textbook deal," says one banker. Most significantly it is supported by a tolling arrangement with **Centrica**, an A rated credit, and the largest utility in the U.K. He adds the lukewarm response reflects the lack of appetite for power generation related paper, rather than any problems specific to the *Spalding* deal.

A financier who has been pitched *InterGen*'s *Spalding* loan says the generator has sweetened the pricing, up-front fees and lender titles in an attempt to entice wavering lenders. He adds the IPP also wants to wrap up syndication quickly so that it can launch another project loan, the 800 MW *Rijnmond* financing in the Netherlands, in quick succession (PFR, 5/6). The banker notes that front-end fees have been increased by 25 basis points across the board and that pricing also has been juiced up by a similar amount. Flexing has adjusted pricing to 135 basis points over LIBOR during construction. The spread then falls to 125 basis points until 2008, then climbs to 140 basis points until 2013, 155 basis points until 2017 and 165 basis points to maturity in 2021. "At these levels it's looking like a true bargain," enthuses the banker.

InterGen has also improved the titles for the four co-arrangers up to mandated lead arrangers. This gives them equal billing, if not payment, with the original deal leaders **Barclays Capital** and **Citibank**. **Abbey National**, **Bank of Tokyo-Mitsubishi**, **Fortis Bank** and **Bank of Scotland**, are the likely four beneficiaries, notes the banker. A financier at **Barclays** declined to comment and calls to **Citi** were not returned.

Earlier this month lead arranger **Royal Bank of Scotland** flexed the pricing on the GBP275 million 20-year *Immingham* loan—also by 25 basis points—when launching the credit into retail syndication. The decision to flex the deal followed a tough four-

month wholesale syndication process where only three of eight banks invited into the deal signed up. **BoTM**, **BoS** and **KBC Bank** took take-and-hold positions rather than the riskier underwriting roles offered by **RBoS**. Repeated calls to **RBoS** officials working on the deal were not returned. —*W.A.*

WESTLB AXES

(continued from page 1)

Their responsibilities have been transferred to **Howard Moseson**, managing director, loan syndication and debt capital markets, who joined from **Société Générale** in May. **Moseson** says the restructuring allows the bank to better coordinate loan and private placement lines, which are increasingly intertwined, particularly given the current state of the power loan market. Integration of distribution and structuring provides for a more efficient set up, he adds. **Slocum** and **Bowler** had already left the firm and could not be reached for comment.

While the German *landesbank* has become an active and aggressive player in the power project finance market, some rivals question whether it has made a success of the business. "They always seemed to win by underbidding," says one rival, who was unaware of the staff cuts, but wasn't surprised by the move. Bankers note **WestLB** is able to undercut other lenders because as a state-affiliated bank it has a lower cost of funding. However, a **WestLB** official brushed aside this criticism as sour grapes. **WestLB** has been climbing the league tables and, "some try to rationalize our success by saying we must have under-priced," he says.

Rival bankers also questioned the success of **WestLB**'s syndication effort, noting the firm often arranged hard-to-sell deals—including **Enron**-related loans and projects in Latin America—and has been left sitting on oversized exposure. The **WestLB** staffer declined to comment on this point.

—*Peter Thompson*

Quote Of The Week

"He doesn't have to concern himself with selling other products or worry about Chinese walls." —**Simon Borrows**, partner at advisory boutique **Greenhill & Co.**, on one of the reasons why **Richard Morse**, U.K. power banking chief at **Goldman Sachs**, elected to join the firm (see story, page 4).

One Year Ago In Power Finance & Risk

Calpine was planning to make its debut in the sterling bond market with a \$520 million offering to finance the acquisition of *Saltend*, a 1,200 MW power plant in the U.K. [*Calpine* tapped the bond market on Oct. 10 with a \$1.6 billion four-currency bond offering led by **Credit Suisse First Boston** and **TD Securities**. The deal included a GBP200 million offering of 9.825% bonds.]