# power finance & risk

**The exclusive source for power financing and trading news**

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### Web Exclusive

London fund **GLG Partners** has hired **Zach Mecelis** of **Zimmer Lucas Partners** and **Rick Shobin** of **Duquesne Capital**, to make a push into the power sector.

For the full story go to *PFR*'s Web site (www.iipower.com)





**Three-Horse Race**

## PRIVATE EQUITY HEAVY HITTERS SLUG IT OUT FOR HOUSTON GENCO

**CenterPoint Energy**'s auction of its 81% stake in the roughly $3 billion Houston power producer **Texas Genco** has reportedly been whittled down to a three-way contest that reads like a *Who's Who* of New York's private equity and investment banking community.

A consortium of **Kohlberg Kravis Roberts**, **Texas Pacific Group**, **The Blackstone Group** and **Hellman & Friedman** is competing against a joint venture between **JP Morgan**

*(continued on page 12)*

## BEAR STEARNS CLOSES IN ON WASH. COGEN FACILITY

**Bear Stearns** is reportedly close to acquiring a 140 MW cogeneration plant near Anacortes, Wash. The March Point Cogen Company Facility is part of the Puget Sound Refinery complex, jointly owned by a partnership that includes subsidiaries of **Texaco** and **Shell Oil Co**. Calls to the March Point facility were referred to **Tom McMaster,** executive director, who was traveling. **David Field**, managing director at Bear Stearns in Houston, declined comment.

*(continued on page 11)*

## MIDWEST BOUTIQUE DITCHES $375M B LOAN

**Primary Energy**, an Oak Brook, Ill.-based investment boutique, has pulled a planned $375 million B loan refinancing after failing to land the pricing and structure it wanted. The move marks one of the first B loan financings in the power sector to fail since the institutional loan market came to the fore last year.

"There was never a meeting of the minds between Primary and the market," says one observer. He adds the word in the market is that **Bill Rockford**, president and coo of Primary and a **Chase Manhattan** alumnus, wasn't happy with the overall parameters of the deal. Calls to Rockford were not returned by press time.

*(continued on page 12)*

## TECO CREDITORS HIRE GOLDMAN FOR PLANT SALES

**Goldman Sachs** has been retained to divest two **TECO Energy** power plants, Union and Gila River, which are set to be foreclosed on by their bank lenders within the next quarter.

Market watchers say the plants' senior creditors, including **Société Générale** and **Citibank**, hired the bulge-bracket firm within the past month after conducting an extensive Wall Street beauty parade.

*(continued on page 12)*

At Press Time

## Japan's UFJ Taps BayerLB For Top NY Slot

**UFJ Bank** has hired **Chris Stolarski** from **Bayerische Landesbank** to kick start its re-entry in to the U.S. non-recourse financing market. Stolarski, who joined last Monday as senior v.p., says the plan is to build up a team of six staffers and develop a sustainable project finance team for the Americas. The focus of the group will be broadly on energy, but it will also opportunistically look at other areas.

UFJ, which was formed in January 2002 by the merger of **Sanwa Bank** and **Tokai Bank**, has been looking to hire a new head for several months with the aim of ratcheting up its operations (PFR, 4/19). UFJ was sidelined by balance sheet constraints at the parent level, but it is now over those issues, says a financier.

Stolarski's team includes **Junji Hasegawa**, v.p., who transferred from Japan and will liaise with head office and also market to Japanese clients.

## Jumbo Hedge Fund Makes Push Into Utilities

**Highbridge Capital Management**, a mammoth multi-strategy hedge fund, is venturing into the power and utility sphere for the first time and has hired a pair of well, regarded utility investors to manage the push. **James Thalacker** and **Rob Mullin**, two traders at rival New York hedge fund **Silcap**, recently joined Highbridge to run a utility long/short investment segment in its $6 billion *Highbridge Capital* fund.

"We will focus on exploiting the relative value spread between seemingly similar utilities, especially companies trading at a discount due to regulatory uncertainty," says **Ron Resnick**, managing director and chief administrative officer at Highbridge. Thalacker, Mullin and Silcap officials did not return calls.

## TNP Splits Sale Process To Bolster Interest

**Goldman Sachs** has reportedly divided the sale of **TNP Enterprises** into two separate auctions, in a move designed to reignite a faltering sale process, according to bankers. Goldman Sachs officials did not return calls.

Goldman is selling **Texas-New Mexico Power Co.**, TNP's regulated wires utility business in Texas and New Mexico, separately from **First Choice**, its Texas supply business, say bankers.

Although the sale had initially attracted quite a bit of interest, with as many as 60 potential bidders requesting the asset sales memorandum (PFR, 5/17), the sale process has since slowed down, say bankers. The sale wasn't attracting the value the company was looking for, says one banker, because cash flow at TNP doesn't justify a big price. Now, with the split, the process can attract smaller bidders.

Last week, **Fitch Ratings** downgraded TNP and TNMP's credit ratings after the **Public Utility Commission of Texas** rejected TNP's proposals for a stranded-cost recovery program at TNMP. The company had requested recovery of $266 million, however a PUCT draft order acknowledges only $87-98 million in cost recovery entitlement. Fitch downgraded TNP's senior secured facility to B plus from BB and its senior subordinated notes to B from BB minus, and TNMP's senior unsecured notes to BB from BB plus, according to Fitch analyst **Ellen Lapson.**


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## Shell Trader Joins Sempra

**Matt Lenhart**, a natural gas trader at **Shell**'s energy trading affiliate, **Coral Energy**, has joined **Sempra Energy** in its Stamford, Conn., office. Lenhart was between jobs last week and could not be reached for comment. **Jennifer Andrews**, Sempra spokeswoman, confirmed that Lenhart is joining as v.p. A spokesman at Coral Energy did not return calls.

## Ameren Wraps Upsized Bank Deal

**Ameren Corp.** has closed a new loan facility and upsized the deal by $200 million in the face of a strong showing during syndication. The St. Louis-based utility holding company drew 17 banks into the financing and raised $700 million, versus an original target of $500 million, say industry officials. The deal's robust showing highlights lenders' healthy appetite for highly rated utility paper and also the utility's strong banking relationships, they add.

The loan is split equally between a three-year and a five-year deal and replaces a 364-day $235 million loan and a $130 million three-year package. **J.P. Morgan** and **Barclays Capital** co-led the financing.

## WPS Divests Wis. Wires Biz To Transmission Co.

Midwest wires operator **American Transmission Co**. is set to acquire a transmission network from **Wisconsin Public Service Corp**. for around $2.9 million, and will likely pay cash or offer an additional ownership share in itself to WPS, says **Maripat Blankenheim**, spokeswoman for ATC. WPS was one of several utilities in Wisconsin and parts of Illinois and Michigan to set up ATC in 2001.

The divestiture is part of an agreement between ATC's backers to transfer transmission lines above 65 KV to the new company, explains **William Bourbonnais**, assistant v.p. of transmission at WPS.

The lines to be transferred span the Pine and Eastom substations in WPS' northern service territory, says Bourbonnais, where a rebuilding of the lines to increase capacity from 46 KV to 115 KV precipitates the transfer.

Blankenheim says the acquisition will improve reliability in the Rhinelander Loop area of northern Wisconsin, which is desperately in need of additions and upgrades to its transmission lines.

ATC is a $1 billion company jointly owned by WPS, **Wisconsin Power & Light** and **Madison Gas & Electric** among other utilities, electric cooperatives and municipalities. It owns approximately $700 million in transmission assets and 8,900 miles of transmission lines.

## Merrill Loses Nat Gas Trading Chief

**Jake Goldberg**, head of natural gas trading at **Merrill Lynch** in New York, left the firm earlier this month. A Merrill spokesman, confirmed that Goldberg had left the firm. Goldberg could not be reached and it could not be ascertained if he has already lined up another position.

Goldberg joined Merrill from **Allegheny Energy** in the spring of 2003 along with **Kuljinder Chase**, head of Merrill's natural gas and oil trading business, when Merrill relaunched it energy trading operation that it had previously sold to Allegheny (PFR, 4/21/03). Chase did not return calls.

## Exelon Finds Takers For $1B Credit

**Exelon** has closed a new $1 billion loan facility after hitting the $1.7 billion mark during syndication. The showing was in line with expectations as the Chicago-based player has a wealth of strong investment-banking relationships that it can call on to join its lending syndicate (PFR, 7/12). One banker says 23 banks ended up signing on for the deal.

**J.P. Morgan**, originally in the guise of **Bank One**, and **Barclays Capital**, led the five-year deal (PFR, 6/21). **ABN AMRO**, **Citigroup** and **Wachovia** came in for senior slots as co-documentation agents. In addition to the five-year deal, a three-year facility of $500 million is in the mix. The latter financing effectively replaces a $750 million three-year deal inked last year.

## Sempra, Carlyle Acquisition Loan Has Pricing Pared Back

The lead banks have pared back pricing on a portion of the $460 million financing for **Sempra Energy Partners** and **Carlyle/Riverstone**'s acquisition of generation assets from **American Electric Power**. Financiers say the loan is close to being wrapped, barely a week after being launched (PFR, 7/12). The strong profile of the acquirors combined with the robust credit rating of counterparties that recently inked power purchase agreements with the 632 MW Coleto plant—which is the main power plant being acquired—drove the strong interest, they add.

The margin on the $205 million seven-year first-lien term loan was pared back to 225 basis points over LIBOR, from an initial spread of 250 basis points. A riskier $150 million second-lien facility remains priced at LIBOR plus 350 basis points, says bankers. The financing also has a $105 million pro-rata tranche.

**Citigroup**, **Goldman Sachs** and **J.P. Morgan** are leading the financing. Goldman, **Morgan Stanley** and **Sempra Energy Solutions** have signed offtake contracts for the coal-fired Coleto facility, which is located in Texas.

## Middle East & North Africa

### Banks Prep El Ezzel Syndicate

Mandated lead arrangers **HSBC** and **Société Générale** have begun building a lending group to provide roughly $500 million in non-recourse bank loan financing for the 1 GW El Ezzel greenfield project in Bahrain. Market watchers say the pair has approached close to a dozen lenders about either forming a club-style group or a senior lending syndicate.

An HSBC banker says the plan, for now at least, is to form a senior group and then launch a retail syndication round this September. The banker declined comment on pricing for the 20-year deal.

Bahrain's **Ministry of Finance & National Economy** selected a joint venture between Belgian utility **Tractebel** and regional investment fund **Gulf Investment Corp.** to develop El Ezzel, a roughly $600 million combined-cycle gas-turbine project near Manama, Bahrain (PFR, 6/28).

### Marubeni, BTU Take Pole Position On $3B Taweelah Financing

A joint venture comprising Tokyo-based **Marubeni** allied with Boston investment fund **BTU** and Malaysian IPP **Powertek Berhad** has emerged as the front runner to win the $3 billion Taweelah B & C acquisition and expansion mandate after bidding some $100 million more than its nearest rivals in a three-horse auction. The **Abu Dhabi Water & Electricity Authority** and its financial advisor **HSBC** are looking to appoint a winning bid during the third quarter.

Market watchers who attended the opening of sealed bids early last week say the J.V. bid $1.69 billion to acquire the existing 1,067 MW and 99 million gallons per day Taweelah B power and water desalination facility. A rival outfit comprising Brussels-headquartered **Tractebel** teamed up with London IPP **International Power** bid $1.59 billion. Paris-based **TotalFinaElf** working with **Tokyo Electric Power Co.** bid $1.33 billion.

As part of the mandate, the winning bidder is also being offered a predetermined offtake contract to support the development of Taweelah C, an adjacent 1 GW and 65 million gallon per day facility.

The Marubeni/BTU consortia had retained **BNP Paribas**, **KfW** and **ANZ Investment Bank** to advise on financing and to underwrite a quarter of its bid. Market watchers say these banks will now begin looking to build a large mandated lead arranger roster to arrange up to $1.75 billion of non-recourse debt to fund the Taweelah project. The inclusion of Marubeni means that they'll be targeting Japanese lenders including **Mizuho** and **Sumitomo**, say syndicate bankers.

A further $800 million will likely be raised in the Middle East bank and bond markets (PFR, 5/10).

### Tractebel To Ink Omani Contract

A **Tractebel**-led consortium is set to ink a long-term power and water purchase agreement with the government of Oman tomorrow that will underpin the development of a roughly $400 million, 500 MW power project at Sohar.

The signing of the contracts will pave the way for mandated lead arrangers **BNP Paribas** and **Standard Chartered Bank** and a syndicate of six other banks (PFR, 7/12) to ink a project loan funding the development of the project.

## Corporate Strategy

### Connecticut Utility Redeems High Interest Notes

**Connecticut Light & Power**, a regulated unit of **Northeast Utilities** and Connecticut's largest electric utility, is exploiting the low interest-rate environment by calling a series of high-yield notes some 20 years early and will look to finance the redemption later this year with another long-dated bond offering.

The utility is redeeming the $59 million outstanding on a $115 million issue of 8.5% notes due June 2024, and will initially finance the redemption with short-term debt or internal borrowings, says **Jeff Kotkin**, v.p. of investor relations.

CL&P will redeem the 20-year bonds with a $300 million credit line or through internal borrowing from other Northeast Utilities companies, says Kotkin. CL&P expects to issue $280 million of longer term debt by the end of the fourth quarter that will also refinance other short-term borrowings, he notes. CL&P has already received regulatory approval for the issue, he adds.

CL&P was unable to redeem the 8.5% notes until this June, some 10 years after the notes were issued.

# Weekly Recap

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

## Europe & Middle East

• **Endesa** will invest EUR500 million to build a 1,200 MW gas-fired combined-cycle plant to provide power to Madrid. Endesa is looking to strengthen its position in Madrid relative to rivals **Iberdrola** and **Union Fenosa** (*Bloomberg*, 7/13).

• **Enel**, Italy's largest utility, will invest EUR106 million to install 71 wind-powered generators in Italy by next year. The new power will increase wind turbine generated electricity supply by 10% (*Bloomberg*, 7/13).

• Bulgaria is expected to announce the winners of its tender for state holdings in seven regional power distributors this month. Bidders for the 67% stakes in all seven regional distributors are **CEZ**, **Public Power Corp**. **of Greece**, **Enel**, and **E.On Energie** (*Bloomberg*, 7/14).

• **Gamesa Corporacion Tecnologica** won a mandate from **Endesa** to supply EUR300 million in wind turbines for 18 wind parks in Valencia. The total investment for the parks will be EUR450 million (*Bloomberg*, 7/14).

• **Deutsche Bank** has made a GBP200 million bet on the revival of **British Energy**, paying a 25% premium for a package of bonds and shares in the ailing nuclear generator, showing a vote of confidence in the U.K. government's ability to get approval from the European Commission for its GBP5 billion rescue package for the generator, which came close to folding when wholesale power prices crashed in 2001. British Energy generates just under a fifth of the U.K.'s electricity (*Sunday Business*, 7/12).

## Latin America

• Mexico's state-owned power utility, the **Federal Electricity Commission**, or CFE, will seek bids this year to build a 100 MW wind facility plant in southern Mexico. La Venta II project, in southern Oaxaca state, is expected to go into operation in 2006. The site already has a token 1.5 MW of wind power capacity, called La Venta I, which has been in operation since 1994 (*Dow Jones*, 7/13).

## U.S. & Canada

• Dynegy has reached agreements to exit four long-term gas transportation contracts, continuing the wind-down of the company's third-party marketing and trading businesses. In exchange for exiting the contracts from April 1 of next year, Dynegy paid $20 million last month and will pay $42 million in the first quarter 2005. These payments eliminate about $295 million in aggregate fixed capacity payments through 2014 (*Dow Jones*, 7/14).

• **Lea Fastow**, the wife of ex-**Enron** CFO **Andrew Fastow**, reported to a federal prison to begin serving a year-long sentence for a misdemeanor tax crime. The 42-year-old real estate and grocery heiress pleaded guilty in May, admitting to helping her husband hide money generated by financial schemes that fueled the one-time energy giant's December 2001 failure (*AP*, 7/12).

• **NRG Energy** gave CEO **David Crane** restricted stock units valued at $4.17 million last year. Crane also received 632,751 stock options last year under NRG Energy's long-term incentive plan. The company emerged from bankruptcy protection in December and its plan of reorganization resulted in a new board and the appointment of Crane as president and CEO (*Dow Jones,* 7/12).

• The attorneys general of Oregon and Washington state sent letters to the chairman of the **Federal Energy Regulatory Commission**, criticizing the agency for its investigation of alleged **Enron** market manipulation and calling for immediate enforcement action to protect Western ratepayers. Recent developments in the Enron case, including the indictment of former Enron CEO **Kenneth Lay**, add to evidence the bankrupt energy trading company helped send prices soaring during the Western energy crisis of 2001, they argued (*AP,* 7/12).

• **AmerenUE** will begin construction in September of two 170 MW natural gas-fired generators in Venice, Mo. to replace a total of 343 MW from two units destroyed in August 2000 in a fire and explosion. The cost of the project has not been determined (*St. Louis Post-Dispatch*, July 12).

• **Duke Energy** has reached a settlement with federal regulators to pay $207.5 million in cash and credits to settle claims stemming from inflated power prices during the western U.S. energy crisis of 2000 and 2001 (*Bloomberg*, 7/13).

Viewpoint

# Investment Risk and the Economics of Capacity

Much has been written about the collapse of the merchant power industry. Up until now, consultants, advisors and bankers have all zeroed in on overcapacity as the primary cause for collapse. Much of the critique suggests that "overcapacity" was the result of some form of irrational exuberance. Perceiving high prices, everyone piled on – utilities, bankers and investors—until the bust part of the boom cycle happened. The implication is that too much new capacity was built. The issue, however, is not simply that the new capacity was built, but rather that the inefficient capacity did not go away. This is a subtle but important distinction.

Either directly or indirectly, the financial analysis of wholesale power has been underpinned by a belief that the wholesale power industry responds to a set of defined economic principles, which determine prices, costs and the operating profiles of production assets. These principles are incorporated in the conventional financial modeling tool known as the production cost model.

The production cost model has been (and continues to be) used by banks, market analysts, utilities, government regulators and consultants, etc. to estimate financial performance of production assets within those markets. This article suggests that this tool is in need of revision because it produces unrealistic information on actual investment risk. This unrealistic information is material. Recent history has demonstrated that unrealistic information translates into billions of dollars of lost investment capital.

## Production Cost Models & the Principles Of Market Behavior

In the context of the assumptions of the production cost model, overcapacity refers specifically to inefficient producers, who, in principle, will operate at such low utilization that retirement becomes the only option. Utilities, however, will retire a total of 5,200 MW in inefficient production by 2005, compared to an estimated 280,000 MW of new efficient capacity to be completed by the same date, according to the U.S. Energy Information Administration. With project cancellations, not all of this planned capacity will be completed. Regardless, additions outweigh retirements by an order of magnitude. Ironically, overcapacity is a problem not because too many efficient units were built, but because inefficient assets are still operating.

The wholesale markets have not worked the way that the production cost model suggests. Asset utilization and related cash flows are not necessarily tied to production economics. An example of such economic inefficiency is evident in the New England markets, which is probably one of the highest functioning of the regional electricity markets. The recent market survey conducted by the Independent System Operator revealed that one quarter of fossil fuel production capacity is routinely utilized "out of merit order" (i.e. regardless of marginal production cost), primarily as a result of unplanned outages. Some 25% is a substantial piece of productive capacity and competes directly with new production. Moreover, this is likely a low estimate of uneconomic utilization since it is attributable only to grid stability.

## Modifying the Production Cost Model

Adjusting financial forecasts for market inefficiency using conventional modeling techniques is theoretically possible but in practice is impossible. The markets are too complex and too many variables need to be accurately quantified. It can be done empirically, however, using capacity utilization rates (also known in power vocabulary as capacity factors). Asset utilization rates are observable measurements of asset operating performance. When compared to performance predicted by a production cost model, they offer valuable insight into deviation from the expected result. Moreover, these deviations have key (and sometimes counterintuitive) implications for asset financial performance and related investment risk.

## Applying Capacity Utilization To Investment Analysis

In order to illustrate the impact of capacity utilization on investment analysis, we will look at utilization for "new" wholesale power assets in the New England power markets from 2000 to 2002, both from a backcast forecasting (production cost model) and an actual performance perspective. New England was selected as the example market since it has a relatively high functioning wholesale power market. The New England market is also an appropriate case since almost all of the capacity underlying the data has been placed in service within the past three years. It is new and presumably efficient. If production cost model forecasting is relatively free from distortion, it should be evident in

| Year | Market Clearing Price (MWh) | Average Margin (MWh) | | Actual Utilization | Economic Utilization | Difference |
|---|---|---|---|---|---|---|
| 2000 | $43.37 | $9.08 | | 50.3% | 75.0% | -24.7% |
| 2001 | $40.97 | $14.58 | | 59.8% | 100.0% | -40.2% |
| 2002 | $35.77 | $0.97 | | 60.9% | 41.7% | 19.2% |

Source: Energy Information Administration, ISO New England

New England. All data is sourced from the U.S. Department of Energy Information Administration and ISO New England.

## Gas-Fired Wholesale Production Assets In New England

As seen in the chart above, there are significant differences between actual asset utilization and economic utilization. In 2000 and 2001, the production cost model overestimated utilization by 25 and 40 percentage points, respectively. In 2002, the model underestimated utilization by 19 percentage points. Differences like this accounted for an average of $12 million in cash flows per year for a new 500 MW combined cycle asset.

It is important to note that actual utilization tended to be *lower* than forecast in higher price environments (over $40/MWh) and *higher* than forecast in lower price environments ($35/MWh). In addition, the variability in year-on year utilization is significantly lower. This indicates that the wholesale power assets are relatively "sticky", meaning that they will not necessarily operate according to price signals, as assumed by production cost models:

## The implications of this specific example are:

- Efficient capacity can wind up operating "on the margin": Utilization of uneconomic generation implies the economic generation is displaced. This will depress wholesale power prices (and cash flows) until, and only until, inefficient capacity is retired. In view of the structural inefficiencies in wholesale power, retirement is not self-evident.
- **Operating rates are not likely to be as low as forecast:** Since productive capacity is "sticky", marginal units (even if in overcapacity) should be able to operate at higher levels than would be suggested by production economics (however, at likely lower margins).
- **Market volatility can improve financial performance:** Weather, outages and transmission constraints should accrue to new wholesale power generation. Sticky supply implies that cash flows from demand shifts will go to the new assets.
- **Leverage risk likely outweighs market risk:** Higher potential operating rates plus cash flow bonuses from market volatility should allow moderately leveraged assets to get by, even if their market position is not favorable. On the other hand, highly leveraged assets cannot get enough extra mileage from higher operating rates plus periodic windfalls to cover their fixed obligations on a predictable basis. It is the opinion of the author that this leverage risk also pertains to contracted assets. Contracted assets are subject to the same inefficient market conditions if the contract is compromised (recent market experience has demonstrated that this does happen). Indeed, contracted assets may be more at risk because of the initial reliance on the certainty of the contract.

Unfortunately most new wholesale power assets took on considerable leverage (80% and sometimes more) in anticipation of high forecasted margins and operating rates. At the time, there was not sufficient experience with the semi-regulated wholesale power markets to suggest that this was based on flawed forecasting. The models made sense and were based on long-standing economic conventions. It has only been in the past few years that anecdotal experience and market information show that the wholesale power markets do not work according to conventional wisdom.

The disconnect between utilization and production economics can be attributed to the highly complex inefficiencies which are evident in the markets, but are difficult to anticipate (or often merely difficult to measure). Grid stability is certainly a prominent physical contributor to uneconomic utilization. So are unexpected "outages" of facilities. There are also many other non-physical variables. For example, identifying the true cost of production (on which utilization would be determined) is not as straightforward as it may seem. While producers, in principle, face the same market fuel *price*, their actual fuel *cost* will vary widely depending on the terms of the purchase contract and the timing of their fuel purchases.

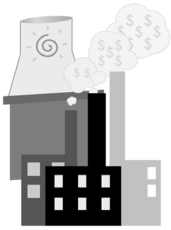
In short, there are many complex variables (or inefficiencies) that actually shape wholesale power markets. It is relatively easy to be right in principle and wrong in practice.

## Conclusion

The point of this discussion is not to criticize how markets were viewed, but to suggest that, based on recent history and new information, these markets need to be viewed differently. Overcapacity is not a straightforward phenomenon that will disappear on its own. More specifically, a simple focus on overcapacity masks a fundamental issue. The wholesale power markets do not necessarily work as expected.

The production cost model, while a useful starting point, is based on economic assumptions that can provide misleading investment information, particularly related to individual assets. Assets will not necessarily perform in the way that the production cost model says they will. Comparable utilization rates provide insight into likely operating performance, which is not evident in production cost models, by adjusting the supply curve to reflect actual market behavior. Put another way, utilization rates provide insight into a credible way to adjust "stacking orders". This, of course, implies more accurate estimates of asset profit margins, utilization, debt capacity and, finally, valuation.

*This week's Viewpoint was written by* ***William Klun****, a corporate finance consultant with* ***Windsor Pacific****, a boutique interim management firm. He can be reached at: (winpac@att.net).*



# 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 |
|---|---|---|---|---|---|---|
| AEP | Fiddler's Ferry | U.K. | 2,000 | Coal | Lexicon | Intention to sell. |
| | Ferry Bridge | U.K. | 2,000 | Coal | Lexicon | |
| | El Bajio | Mexico | 600 (50%) | Gas | WestLB | |
| AES | Wolf Hollow | Texas | 730 | Gas | N/A | Ongoing. |
| | Granite Ridge | N.H. | 720 | Gas | | |
| | Termomamonal | Colombia | 90 | Gas | | |
| | Ottana | Italy | 140 | Gas | None | Ongoing |
| AES Fifoots Point | Fifoots Point | U.K. | 363 | Coal | KPMG (Administrator) | Looking to sell plant. |
| Allegheny Energy Supply | Armstrong | Penn. | 356 | Coal | J.P. Morgan | Ongoing. |
| | Hatfield | Penn. | 1,600 (75%) | Coal | Citibank | |
| | Mitchell | Penn. | 442 | Coal | J.P. Morgan | |
| BP | Great Yarmouth | U.K. | 400 | Gas | J.P. Morgan | Intention to sell. |
| Black Hills Energy | Pepperell | Mass. | 40 | Gas | - | Intention to sell. |
| CenterPointEnergy | Texas Genco portfolio (12 plants) | Texas | 14,175 | Variety | - | Reliant has passed up option to purchase portfolio. |
| CMS Energy | Ensenada | Argentina | 128 | Gas | Not chosen | Announced intention to sell. |
| | CT Mendoza | Argentina | 520 | Gas | J.P. Morgan | |
| | El Chocon | Argentina | 1,320 | Hydro | J.P. Morgan | |
| Citi-led bank group (NEG developed plants) | Lake Road | Conn. | 840 | Gas | Lehman Bros. | Seperate auction for each plant. |
| | La Paloma | Calif. | 1,121 | Gas | Lehman Bros. | |
| ConocoPhilips | Ingleside | Texas | 440 (50%) | Gas | None | Looking to sell stake by June. |
| Damhead Power | Damhead | U.K. | 800 | Gas | E&Y | Has agreed sale to ScottishPower. |
| Delta Power | Lowell Power | Mass. | 82 | Gas | None | Actively pursuing a sale. |
| Duke Energy North America | Hot Spring Energy Facility | Ark. | 620 | Gas | CSFB | Has agreed sale with MatlinPatterson. |
| | Murray Energy | Ga. | 1,240 | Gas | | |
| | Sandersville Energy | Ga. | 640 | Gas | | |
| | Marshall Energy | Kty. | 640 | Gas/oil | | |
| | Hinds Energy Facility | Miss. | 520 | Gas | | |
| | Southhaven Energy | Miss. | 640 | Gas | | |
| | Enterprise Energy | Miss. | 640 | Gas | | |
| | New Albany Energy | Miss. | 385 | Gas | | |
| | Lee Energy | Ill. | 640 | Gas | J.P. Morgan | - |
| | Bridgeport Energy | Conn. | 480 (67%) | Gas | | |
| | Grays Harbor (in construction) | Wash. | 650 | Gas | | |
| | Deming Energy (in construction) | N.M. | 570 | Gas | | |
| | Griffith Energy (50%) | Ariz. | 600 | Gas | | |
| | Maine Independence | Maine | 520 | Gas | | |
| Dynegy | Oyster Creek | Texas | 424 (50%) | Gas | N/A | Ongoing. |
| | Hartwell | Ga. | 300 (50%) | Gas | | |
| | Michigan Power | Mich. | 123 (50%) | Gas | | |
| | Commonwealth | Va. | 340 (50%) | Gas | | |
| El Paso Europe | Enfield | U.K. | 396 (25%) | Gas | No Advisor | Looking to exit Europe. |
| | EMA Power | Hungary | 70 | Coal | | |
| | Kladna | Czech Rep. | 350 | Coal | | |

# Generation Auction & Sale Calendar (cont'd)

| Seller | Plants | Location | MW | Plant Type | Advisor | Status |
|---|---|---|---|---|---|---|
| El Paso North America (Merchant assets) | Bayonne | N.J. | 186 | Gas | | Final bids due. |
| | Berkshire | Mass. | 261 (56.41%) | Gas | | |
| | Camden | N.J. | 149 | Gas | | |
| | CDECCA | Conn. | 62 | Gas | | |
| | Eagle Point | N.J. | 233 | Gas | | |
| | Fulton | N.Y. | 45 | Gas | | |
| | Milford | Conn. | 540 (45%) | Gas | | |
| | Newark Bay | N.J. | 147 | Gas | | |
| | Pawtucket | R.I. | 67 | Gas | | |
| | Rensselaer | N.Y. | 79 | Gas | | |
| | San Joaquin | Calif | 48 | Gas | | |
| El Paso North America (Contracted assets) | Midland Cogen | Miss. | 1,500 (44%) | Gas | Citigroup | Set to sell majority of QF portfolio to AIG. |
| | Prime | N.J. | 66 (50%) | Gas | | |
| Edison Mission Energy | Derwent | U.K. | 214 (33%) | Gas | CSFB/Lehman | Has received initial non-binding bids. |
| | Dinorwig | U.K. | 1,728 | Pumped-storage | | |
| | Ffestiniog | U.K. | 360 | Pumped-storage | | |
| | ISAB Energy | Italy | 512 (50%) | Waste | | |
| | ICPV4 | Italy | 312 (50%) | Wind | | |
| | Spanish Hydro | Spain | 86 | Hydro | | |
| | Doga Energy | Turkey | 180 (80%) | Gas | | |
| | CBK | Philipinnes | 728 (50%) | Pumped-storage | | |
| | Clyde | N.Z. | 432 (51% | Hydro | | |
| | Kwinana | Australia | 116 (70%) | Gas | | |
| | Loy Yang B | Australia | 1,000 | Gas | | |
| | New Plymouth | N.Z. | 464 (51%) | Gas | | |
| | Oakey | Australia | 300 (12%) | Gas | | |
| | Ohaaki | N.Z. | 104 (51%) | Gas | | |
| | Otahuhu A | N.Z. | 45 (51%) | Gas | | |
| | Otahuhu B | N.Z. | 372 (51%) | Gas | | |
| | Poihipi | N.Z. | 55 (51%) | Steam | | |
| | Roxburgh | N.Z. | 320 (51%) | Hydro | | |
| | Te Rapa | N.Z. | 45 (51%) | Gas | | |
| | Valley Power | Australia | 300 (60%) | Gas | | |
| | Wairekei | N.Z. | 165 (51%) | Steam | | |
| | Paiton | Indonesia | 1,230 (40%) | Coal | | |
| | Tri Energy | Thailand | 700 (25%) | Gas | | |
| Endesa | Conatillor | Chile | 172 | Hydro | N/A | Ongoing. |
| EnCana | Cavalier | Alberta | 106 | Gas | HSBC | Launched sale in April. Looking to exit generation business. |
| | Balzac | Alberta | 106 | Gas | HSBC | |
| | Kingston | Ontario | 110 (25%) | Gas | HSBC | |
| Energy Investors Fund | Multitrade | Va. | 79.5 (60%) | Biomass | None | Intention to sell. |
| | Crockett | Calif. | 240 (24%) | Gas | None | |
| Entergy Asset Management | Crete | Ill. | 320 | Gas | Deutsche Bank | ArcLight is set to acquire Entergy's 50% stake. Launched sale in September. |
| | Robert Ritchie | Ark. | 544 | Gas/oil | | |
| | Warren Power | Miss. | 314 | Gas | | |
| | Top of Iowa | Iowa | 80 | Wind | | |
| | RS Cogen | La. | 425 (49%) | CHP | | |
| | Roy S. Nelson | La. | 550 (20%) | Coal | | |
| | Harrison County | Texas | 550 (70%) | Gas | | |
| | Independence | Ark. | 842 (15%) | Coal | | |
| Ernst & Young Corporate Finance (representing secured creditors) | Bear Swamp | Mass. | 599 | Hydro | E&Y | Exploring sale. |
| Exelon | Mystic 8 | Mass. | 800 | Gas | Lehman Bros. | Has shortlisted bidders. |
| | Mystic 9 | Mass. | 800 | Gas | | |
| | Fore River | Mass. | 800 | Gas | | |
| Fife Power | Fife | U.K. | 115 | Coal | E&Y (Administrator) | El Paso placed plant in administration. |
| HSBC-led creditor group | Attala | Miss. | 526 | Gas | HSBC | Ongoing. |
| InterGen | El Bajio | Mexico | 600 (50%) | Gas | No Advisor | Ongoing. |

# Generation Auction & Sale Calendar (cont'd)

| Seller | Plants | Location | MW | Plant Type | Advisor | Status |
|---|---|---|---|---|---|---|
| Killingholme Power | Killingholme B | U.K. | 800 | Gas | N/A | Has agreed sale to Centrica. |
| LG&E Power | Roanoke Valley | N.C. | 178 (50%) | Coal | N/A | Ongoing. |
| | Gregory Power | Texas | 550 (50%) | Gas | | |
| | Palm Springs | Calif. | 42 (50%) | Wind | | |
| | Tyler | Minn. | 27 (50%) | Wind | | |
| | Van Horn | Texas | 41 (33%) | Wind | N/A | Sent out RFP in April. |
| | Tarifa | Spain | 30 (46%) | Wind | | |
| Mirant | Kendall | Mass. | 270 | Oil | CSFB | Ongoing. |
| | Shady Hills | Fla. | 474 | Gas | BofA | |
| | West Georgia | Ga. | 640 | Gas | | |
| | Bosque County | Texas | 538 | Gas | | |
| | Wichita Falls | Texas | 77 | Gas | | |
| Morrow Power | Boardman | Ore. | 28 | Gas | Marathon Capital | Looking to select bidder by June. |
| National Energy Gas & Transmission | Cedar Bay | Fla. | 258 (64%) | Coal | Lazard | Ongoing. |
| | Panther Creek | Penn. | 80 (55%) | Coal | | |
| | Logan | N.J. | 226 (50%) | Coal | | |
| | Northampton | Penn. | 110 (50%) | Coal | | |
| | Indiantown | Fla. | 330 (51%) | Coal | | |
| | Carneys Point | N.J. | 245 (51%) | Coal | | |
| | Selkirk | N.Y. | 345 (42%) | Gas | | |
| | Altresco Pittsfield | Mass. | 173 (89%) | Gas | | |
| | Masspower | Mass. | 267 (13%) | Gas | | |
| | Scrubgrass | Penn. | 87 (51%) | Coal | | |
| | Colstrip Energy | Mont. | 40 (17%) | Coal | | |
| | Hermiston | Ore. | 474 (25%) | Gas | | |
| | Salem Harbor | Mass. | 745 | Coal & Oil | | |
| | Pittsfield | Mass. | 173 | Gas | | |
| | Brayton Point Station | Mass. | 1,599 | Coal | | |
| | Manchester Street Station | R.I. | 495 | Gas | | |
| Nations Energy | Bayport | Texas | 80 | N/A | | Considering liquiditing the company. |
| | Mungo Junction | Ohio | 32 | | | |
| | Southbridge | Mass. | 7 | | | |
| Oman (Ministry of Housing, Electricity & Water) | Rusail | Oman | 730 | Gas | CSFB | - |
| | Ghubratt | Oman | 507 | CHP | | |
| | Wad AlJazzi | Oman | 350 | Gas | | |
| Reliant Energy | Carr Street | N.Y. | 95 | Oil | Goldman | Ongoing. |
| | Astoria | N.Y. | 1,276 | Gas | | |
| | Gowanus | N.Y. | 549 | Gas | | |
| | Narrows | N.Y. | 281 | Gas | | |
| SG-led bank group (NEG developed plants) | Athens | N.Y. | 1,080 | Gas | Blackstone | Assessing bids. |
| | Covert | Mich. | 1,170 | Gas | | |
| | Harquahala | Ariz. | 1,092 | Gas | | |
| | Millennium | Mass. | 360 | Gas | | |
| STEAG | Iskenderun | Turkey | 1,320 | Gas | Morgan Stanley | Ongoing. |
| | Termopaipa IV | Philippines | 185 | Gas | | |
| TECO Energy | Gila River Power Station | Ariz. | 2,300 | Gas | N/A | Considering exiting the merchant energy business. |
| | Odessa Power Station | Texas | 1,000 | Gas | | |
| | Guadalupe Power Station | Texas | 1,000 | Gas | | |
| | Frontera Power Station | Texas | 477 | Gas | | |
| | Dell Power Station | Ark. | 540 | Gas | | |
| | Union Power Station | Ark. | 2,200 | Gas | | |
| | McAdams Power Station | La. | 599 | Gas | | |
| | Commonwealth Chesapeake | Va. | 315 | Gas | | |
| Tractebel North America | Chehalis | Wash. | 520 | Gas | N/A | Looking to sell or swap. |
| United Utilities | Landfill Generation Portolio | U.K. | 50 MW | Landfill | RBC Capital Markets | Set to launch sale in May. |

## BEAR STEARNS

*(continued from page 1)*

The deal was privately negotiated between Bear Stearns and the plant's owners, rather than via a public auction, according to an official familiar with the transaction.

The Puget Sound Refinery is owned by **San Juan Energy Co.**, **Equilon Enterprises** and **Texaco March Point Holdings**. Officials at the companies could not be reached by press time.

*—Victor Kremer*

# Financing Record (JULY 9 - JULY 15)

## Bonds

| Issue Date | Maturity | Issuer | Amount ($ mil) | Offer Price | Coupon (%) | Type of Security | Spread to benchmark | Moody's | S&P | Bookrunner(s) |
|---|---|---|---|---|---|---|---|---|---|---|
| 7/8/04 | 8/1/14 | Detroit Edison | 200 | 99.951 | 5.4 | Bonds | 93 | A3 | A- | Barclays/UBS |
| 7/8/04 | 2/15/13 | Star Gas Partners | 30 | 106.25 | 10.25 | Senior Notes | 505 | B3 | B | Wachovia |
| 7/9/04 | 7/17/06 | TXU Energy | 1,500.00 | 100 | Floats | Float Rate Nts | - | Baa2 | BBB | CSFB |

## M&A

| Date Effective | Date Announced | Target Name | Target Advisors | Target Country | Acquiror Name | Acquiror Advisors | Acquiror Nation | Value ($mil) |
|---|---|---|---|---|---|---|---|---|
| - | 7/1/04 | Noverco | - | Canada | Investor Group | - | Canada | 676.184 |
| - | 7/5/04 | Forbrukerkraft | - | Norway | Agder Energi | - | Norway | - |
| - | 7/6/04 | Commonwealth Power Generation | - | U.S. | Dominion Virginia Power | - | U.S. | 15 |
| - | 7/6/04 | Hubei Qingjiang-Gaobeizhou | - | China | Sinopec Wuhan Phoenix | Hantang Securities | China | 77.647 |
| 7/7/04 | 7/7/04 | Catamount Energy Corp-Gas | - | U.S. | Texas American Power | - | U.S. | - |
| 7/7/04 | 7/7/04 | Chesapeake Generation Facility | - | U.S. | Dominion Virginia Power | - | U.S. | - |
| 7/7/04 | 7/7/04 | Hurt Generation Facility | - | U.S. | Dominion Virginia Power | - | U.S. | 197 |
| - | 7/7/04 | Williams-Onshore Pipeline Assets | - | U.S. | Crosstex Energy | - | U.S. | 30 |

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

## MIDWEST BOUTIQUE

*(continued from page 1)*

Lead **Credit Suisse First Boston** is telling investors the deal has been shelved, but it may re-appear in another form at some point. Officials at CSFB declined comment. The seven-year deal would have refinanced some 444 MW of inside-the-fence cogeneration assets tied to steel mills in Northern Indiana (PFR, 6/7).

In its original guise, the financing would have allowed the sponsor to pocket $100 million in upstreamed equity. It was also split between a $175 million amortizing first-lien term loan priced around LIBOR plus 600 basis points, and a $200 million, bullet-maturity second-lien term loan priced at LIBOR plus 9%, with a 2% LIBOR floor. One financier says the loan morphed in to a $235 million deal, split between $200 million in first-lien and $125 million in second lien. There were also additional cash sweeps structured in to the deal.

There has been a string of ultimately successful B loan deals for generation players, one banker says. But he adds the fluid nature of the market means many have been tweaked from the terms originally floated. In this instance, Primary is refinancing debt so it may have a little more leverage than a shop looking to wrap an acquisition.

*—Peter Thompson*

## TECO CREDITORS

*(continued from page 1)*

TECO announced plans to walk away from the plants, which cost some $2 billion to build, in February. At the time many of the plants' lenders predicted they would have to retain the assets well into 2005 or longer given the assets' weak performance and sluggish wholesale power forward curve (PFR, 2/9). Last month TECO said it expects to relinquish ownership of the plants by Sept. 30.

Both the 2.2 GW Union project in El Dorado, Ark., and the 2.3 GW Gila River facility in Gila Bend, Ariz., failed to meet expected revenue projections, following the collapse in spark spreads in 2001. Goldman officials, TECO spokeswoman **Laura Plumb** and an official from restructuring shop **Kroll Zolfo Cooper**, advisor to TECO's bank group, did not return calls.

The Union facility is disadvantaged by its location, says one banker, but the transmission problems that have bedeviled Gila River should be alleviated over the next few years, allowing it to transmit power to the southern California market.

*—A.S.*

## PRIVATE EQUITY

*(continued from page 1)*

**Partners, Warburg Pincus** and Omaha, Neb.-based IPP **Tenaska**, say advisors involved in the process. Some existing shareholders in Texas Gencos's free float, including hedge funds **Perry Capital** and **Seneca Capital**, are also thought to remain in the hunt, say bankers. The bidders either declined comment or did not return calls.

The KKR group is reportedly being advised by **Goldman Sachs, Morgan Stanley** and **Deutsche Bank**. **Banc of America Securities** is advising the JPM group and **Credit Suisse First Boston** and **Lazard Freres** are advising the hedge funds. **Citibank** is representing CenterPoint.

Market watchers say CenterPoint's board of directors met twice last week to evaluate the competing offers. Assuming any of the bids hits CenterPoint's asking price, a sale could be announced as early as this week, says one financier.

CenterPoint spokesman **Floyd LeBlanc** says the auction is likely to be concluded within the next several weeks, declining further comment.

Texas Genco is the second largest generator in U.S. with some 14,153 MW of capacity. It owns and operates 11 coal, lignite, natural gas and oil-fired power plants as well as a 30.8% interest in the South Texas Project nuclear station (PFR, 2/9).

*—Angela Salvucci & Will Ainger*

### Calendar

**The Edison Electric Institute** will hold its 39th annual Financial Conference on Oct. 24-27 at the *Sheraton San Diego Hotel & Marin.* Visit www.eei.org for further information.

### Quote Of The Week

*"We will focus on exploiting the relative value spread between seemingly similar utilities,"*—**Ron Resnick**, *managing director at* ***Highbridge Capital Management****, on the hedge fund's push into utilities (see story, page 2).*

### One Year Ago In Power Finance & Risk

**Trigen Energy**, a subsidiary of **Tractebel North America**, hired **Banc of America Securities** to sell a portfolio of district heating plants serving buildings in Philadelphia, Baltimore, St. Louis, Trenton and other U.S. cities. [Boston-based venture **Thermal North America**, backed by an investment subsidiary of **Harvard University**, acquired the plants in May.]