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Deutsche Bank Looks To Offload Project Debt

Deutsche Bank has begun sounding out rival lenders about acquiring assets in its non-recourse power loan portfolio. Financiers speculate the bank may be looking to exit the traditional project lending business.

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BOGUS ENRON/MERRILL TRADES REPORTEDLY LED TO ALLEGHENY DISMISSAL

A series of sham electricity option trades Merrill Lynch entered with Enron in late 1999 that allowed the latter to book a fictitious \$60 million profit have come home to roost, reportedly resulting in the termination two weeks ago of **Dan Gordon**, **Allegheny Energy's** president of energy trading, according to an official familiar with the situation at Allegheny. The deal, which was first reported by *The New York Times* last month, apparently infuriated Allegheny's management because it raised awkward questions over the valuation of two acquisitions: the three Midwest peakers Allegheny bought from

(continued on page 11)

EXELON PUTS FOUR MIDWEST UTILITIES ON ITS SHOPPING LIST, SAY BANKERS

Exelon has put four energy concerns, **Cinergy**, **DQE**, **NSTAR** and **CMS Energy**, on its shopping list as it looks to acquire a second Midwest utility, according to New York investment bankers familiar with its expansion strategy. Wall Street bankers and analysts claim that each target would fit in nicely next to Exelon's other assets, and note that Cinergy may be the easiest to execute a deal with as it is actively looking for a partner. **Linda Marsicano**, a spokeswoman at Exelon, and **Oliver Kingsley**, senior executive v.p., did not return calls.

(continued on page 2)

NRG SEEN WALKING A TIGHTROPE AS CREDITORS CIRCLE

Financiers tracking **NRG Energy's** frantic efforts to restructure its roughly \$13 billion debt mountain and stave off bankruptcy say its survival is in the balance, particularly after the embattled power generator missed bond payments of \$72.3 million last week. Lenders, who are receiving daily financial updates from NRG's restructuring advisor **Lazard**, say bondholders may press the situation and force some form of bankruptcy. "It's hard to say what the chances are for a work-out of the debt. If it was just the banks, I'd say yes [a restructuring would be agreed]," notes one lender. **Mary Sandok**,

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RELIANT ENERGY PLANS \$1B BOND ISSUE

Reliant Energy is looking to issue in the region of \$1 billion in bonds as part of a financial restructuring covering \$4.7 billion in credit facilities expiring next month, according to market officials. The Houston-based company, soon to be known as **CenterPoint Energy** after it spins off its non-utility wholesale and retail energy operation **Reliant Resources**, is working toward an Oct. 10 deadline to refinance its debt. Banks granted a 90-day extension on the facilities in July, according to company filings, which

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

End Of The Line?

Deutsche Bank Looks To Offload Project Finance Paper

Deutsche Bank is looking to sell-off some of its power project finance portfolio and has been talking to a number of other lenders about buying some of its Latin American and Mexican project debt in particular.

Some bankers see the move as another step in the bank's long-held plan to exit the traditional power project finance lending business. "It is an indication of a change of strategy," says one banker, who explains that while many players would like to dump low quality paper, Deutsche Bank is offering some high quality project loans. The bank also has been cutting staff that cover power project finance over the course of this year (PFR, 9/8). Calls to **Craig Orchant**, head of project finance, were not returned and **Ted Meyer**, spokesman, did not provide comment by press time.

One financier characterizes Deutsche Bank as appearing to be a "motivated seller," but at the same time adds the paper covers some solid projects and so it isn't being off-loaded at fire sale prices.

Deutsche Bank's strategy is similar to that adopted by **J.P. Morgan** and **Bank of America**, which also once had very active power project finance teams, but have since reined in their enthusiasm. They will lend capital to a client where it sees the prospect of more lucrative advisory assignments as part of its relationship, explains one banker. In contrast **Dresdner Kleinwort Wasserstein** recently completely pulled the plug on its project lending business (PFR, 9/16).

The precise names and size of the sell-off could not be determined. Bankers note secondary trading of project loans

remains a rarity and as such sale information isn't widely circulated but conducted on a one-to-one basis.

EXELON PUTS

(continued from page 1)

Kingsley told *PFR* earlier this month it plans to acquire an integrated utility in the Northwest or Midwest while valuations remain depressed (PFR, 9/9).

John Gavin, a spokesman at **NSTAR**, **John Laudenslager**, a spokesman at **DQE**, and **Kelly Farr**, a spokesman at **CMS**, did not return calls. **Steve Brash**, a spokesman at **Cinergy** decline comment.

Exelon already owns two large utilities. It distributes energy to more than 3.4 million electricity customers in northern Illinois through **ComEd** and 1.5 million electricity and 430,000 natural gas customers in southeastern Pennsylvania through **PECO Energy**. Its Midwest presence also includes assets in Ohio, Indiana, and Kentucky.

All four targets would be easy for Exelon to digest given its far larger \$14.4 billion market capitalization. As of late last week, **Cinergy** had a \$5.4 billion stock market valuation and **NSTAR**, **CMS** and **DQE** had a market capitalization of \$2.1 billion, \$1.4 billion and \$1.1 billion, respectively.

Exelon's acquisitive strategy makes sense right now because many power companies are distressed and need to raise cash fast because of their heavy debt loads, says **Joan Goodman**, a utility analyst at **Credit Suisse First Boston** in Chicago. "Exelon has wanted to expand in the Northwest and Midwest for quite some time to become a national player and with prices being extraordinarily good, this is certainly one way to do it," she adds.

—Amanda Levin

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EDITORIAL

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

PRODUCTION

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LYNETTE STOCK, DEBORAH ZAKEN Managers
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MARIA JODICE Advertising Production Manager
 (212) 224-3267

PUBLISHING

GUY CROSSLEY Group Publisher
ELAYNE GLICK Director of Marketing & Circulation
 (212) 224-3069
RAMON MONTES Associate Marketing Manager
 (212) 224-3010

ADVERTISING

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JENNIFER FIGUEROA Media Kits (212) 224-3895

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THOMAS GANNAGE-STEWART (London) (44-20) 7779-8998
ADI HELLER (Hong Kong) (852) 28426929,
 Account Executives

GROUP SUBSCRIPTIONS/ELECTRONIC LICENSES

DAN LALOR Director (212) 224-3045

REPRINTS

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

CUSTOMER AND SUBSCRIBER SERVICES

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 Circulation Offices: 225 Park Avenue South, New York, NY 10003. Tel: (212) 224-3800. Fax: (212) 224-3491.

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

GdF Employs Morgan Stanley For German Push

Gaz de France reportedly has retained Morgan Stanley to advise it on buying **E.on** and **Ruhrigas**' 50% combined stake in eastern German gas distributor **VNG Verbundnetzgas**, which they must offload as part of their controversial tie up. While GdF has been much touted in the German press as a likely buyer of VNG, its decision to appoint an investment bank well before the E.on/Ruhrigas deal received approval reveals how seriously GdF is taking the expansion opportunity, notes a London banker. A Morgan Stanley banker declined to comment and calls to **Sabine Wacquez**, a GdF spokeswoman in Paris, were not returned.

VNG has until now criticized any change in its ownership structure, but will have to accept the move following a German government decision last Thursday to approve E.on's EUR10.7 billion (\$10.5 billion) acquisition of Ruhrigas, Germany's largest gas supplier. E.on and Ruhrigas own 25% each of VNG, while GdF already has a 5.3% stake.

Duke Exits European Markets

Duke Energy International (DEI) last Wednesday pulled the plug on the bulk of its mainland European energy trading and marketing operations in a move designed to cut overhead and preserve cash. The London-based energy merchant has decided to exit the Italian, German and Nordpool markets and will instead focus its trading efforts on the U.K. and French markets.

"Duke will focus on markets where there is healthy liquidity and it has a strong position," notes a senior official at DEI in London. He adds it will also continue to operate its **MEGAS** gas marketing business in the Netherlands.

Rivals say up to 20 traders and marketers have been told their positions are being terminated, including **Arman Mohii**, director and head of European power trading. Mohii joined DEI last summer from **Aquila Energy** (PFR, 6/28/01). The DEI official declined to reveal which or how many other traders had been released. **Alistair Hutson**, head of U.K. trading, remains at the firm.

Unlike most other U.S. power players that expanded across the pond in the late 1990s, Duke Energy has not built up a sizable portfolio of European generation assets, and as such has not been hit hard by the downturn in wholesale power prices and plant valuations, say rival traders. However, the need for its Charlotte-based parent to cut costs across the board, combined with a weak trading environment in Europe, has prompted Duke Energy to slash costs in Europe.

DEI bought its first European power plant just two months back, purchasing a 103 MW natural gas-fired combined heat and power plant located near Rouen, France, from

Sechilienne-Sidec. "While the French market is not liquid, its cross-Channel interconnector with the U.K. makes it an important market for Duke," explains the official.

Fortis Preps Meeting For AEP Wind Deal

Fortis Capital is due to hold a bank meeting tomorrow to launch syndication of a \$120 million non-recourse facility for **American Electric Power's** Desert Sky wind facility near Stockton, Texas. With thin project finance flows in the wider generation sector, the deal is generating what some think is a disproportionate amount of interest, says one banker. However, he adds it is the first U.S. wind deal for some time and a number of banks will look to take part because they want to be known as wind players when more renewable deals eventually materialize. "A lot of banks say they are wind experts, but who has actually done any U.S. deals?" questions the banker. Calls to Fortis were not returned by press time.

Bankers say **Dexia Cr dit Local** and **Royal Bank of Canada** already have signed up for senior slots (PFR, 9/2). AEP acquired the 160 MW project—then known as Indian Mesa—from **Enron Wind** last year. Details of pricing and maturity could not be ascertained.

Orion Refinancing Unlikely To Feel Rating Dwindraft

Plans to extend the tenor of **Orion Power's** \$1.5 billion of mini-perm debt falling due shortly are unlikely to be derailed by project sponsor **Reliant Resources'** recent downgrade to junk status. "You're not relying on Reliant Resources in these deals. There is no off-take with the company," notes one banker involved in the loan restructuring talks. Reliant is looking to refinance its maturing Orion New York and Orion Midwest non-recourse mini-perm loans into one cross-collateralized facility with a three-year extension (PFR, 8/29).

According to one banker **Standard & Poor's** decision to downgrade Reliant to BB plus does not alter the big question hanging over the refinancing; namely, can Reliant count on all the banks in the original deals to sign up for the new loan? Without unanimous support the deal cannot fly.

"I'd be surprised if someone doesn't try to squeeze more out of the deal, but if it's an isolated bank they'll be getting a lot of pressure from the other banks," says another financier. The target for commitments was last Friday, but bankers say that is more of a wish, as it's unlikely every firm will have the paperwork inked by then. The true final deadline is when the first of the two mini-perms matures next month.

Hedge Fund Enters Scandinavian Market

Tudor Investment, the New York-based hedge fund manager, reportedly has begun trading the European energy markets. London traders say the company recently began trading electricity options in the Scandinavian market. It makes sense for Tudor to enter this market first as it's liquid and the contracts are financially settled, notes one power trader.

Tudor hired **Morgan Stanley** energy trader **Andrew McMillan** this spring to lead its push into commodity trading out of its Epsom, England, office (PFR, 5/27). McMillan declined to comment.

AES Eyes TXU Toll On Ailing Welsh Plant

AES and TXU Europe are reportedly looking to ink a tolling agreement on Barry, AES' 250 MW merchant power plant in Wales, whose economic viability has been hit hard by plummeting U.K. wholesale power prices.

Officials familiar with the matter say Ipswich-based TXU Europe, which already has a natural gas supply agreement in place with the gas-fired power plant, has agreed to structure a six-year toll with the plant. *PFR* was unable to ascertain whether the new toll would be part of a broader restructuring of TXU Europe's portfolio of energy contracts with AES, which include a monster-sized off-take agreement tied to the 3.6 GW DRAX plant (PFR, 9/9). **Christian Judge**, a spokesman at TXU Europe, declined comment and **Naveed Ismail**, managing director at AES in Richmond, England, did not return calls.

While the addition of a toll would put a floor on Barry bleeding ever more cash, it would also lock in weak spark spreads and limit any upside if wholesale generation prices rebound, worries one banker in Barry's bank loan syndicate. Locking in a lower cashflow would also slow down the debt amortization rate and therefore require the banks to extend the tenor of Barry's roughly GBP100 million of project debt, adds the banker. All members of the syndicate need to approve the toll for it to go ahead.

Any deal also would mark a second restructuring of Barry in recent months, notes another banker. He says AES and its banks altered the terms of Barry this spring after threadbare margins saw the project break its financial covenants.

AES arranged a GBP122 million (\$198 million) non-recourse loan in 1999 to refinance 90% of Barry's construction costs. **Industrial Bank of Japan** led the deal and is leading the restructuring talks. Calls to **Mike Smith**, head of power at the Japanese bank, did not return calls.

NRG Banks Form Steering Committee

The banking syndicate involved in financing **NRG Energy's** 680 MW Killingholme A gas-fired power plant in the U.K. has formed a steering committee to look at ways of restructuring the non-recourse loan and leave it better positioned to withstand NRG's departure from the U.K. market. "The plant is operationally excellent. Our concern is that NRG could sell the plant at a loss and force the lenders to take a haircut on the loan," says one financier.

NRG put its entire European power plant portfolio on the block this summer and hired **Goldman Sachs** to execute a sale (PFR, 3/18).

Bank of America arranged a GBP235 million non-recourse loan two years ago to fund NRG's GBP417 million acquisition of Killingholme from **National Power**. Calls to BofA financiers late last week were not returned.

Reinsurer Taps Aquila For Weather Start-Up

PartnerRe, a Bermuda-headquartered reinsurer, has hired three Aquila staffers to build a weather trading operation. The outline plan is for the team to leverage off the firm's strong balance sheet to build end-user business, says a spokeswoman. She adds there will be no speculative position taking.

The team is made up of **Ryan Ricker**, a former director of global trading at Aquila, **Edgar Bautista**, director of quantitative analysis, and **Brian Tobben**, v.p. business development. They all started at the reinsurer's Greenwich, Conn., office last Wednesday, says the spokeswoman. The specific titles and remit for the desk are still being formulated, she adds.

Tobben and Bautista joined straight from Aquila, which last month announced it was pulling the plug on its trading operations (PFR, 8/19). Ricker decided to take a break from the market well before Aquila exited the business, say market officials.

Market watchers are, as ever, excited about a new entrant to the market, but were unsure of how or why the \$2.7 billion capitalized reinsurer plans to enter the weather market. One rival says the company was in the market a few years back, but couldn't recall seeing it in any deals for some time. The PartnerRe spokeswoman says this is the firm's first dedicated weather effort, though it is possible some deals may have been done in the past in connection with other business lines, such as agriculture.

Ravi Nathan, head of the Aquila weather team, has been working on moving the 18-strong team, or part of it, to a new home. Rivals were unsure of the status of that effort and Nathan declined to comment.

TransCanada Plots More Plant Acquisitions

Calgary-based **TransCanada PipeLines** is on the acquisition trail for more U.S. power plants, after recently signing a \$127 million deal to acquire the 300 MW **ManChief** power plant from **El Paso**. The company does not have a specific megawatt target for expanding its 2,550 MW generation portfolio, says spokesman **Glen Herchak**, but it does envisage the possibility that within five years its power revenues may equal those from its pipeline business. He adds that the current split is around 20-25% toward power, with the rest coming from pipes. In the six months to June this year, TransCanada had revenues of CAD2.64 billion (\$1.67 billion).

The acquisition of the Brush, Colo., facility, which will be funded via internally generated cash flow, is in line with TransCanada's focus on deals in what it calls the "northern tier," which covers roughly the northern half of the U.S. and Canada. Herchak says there is a particular focus on the Pacific Northwest, the Midwest and the Northeast. The company is keen on assets that have contracted off-takers and can meet its criteria of a 12-14%

return on investment. **ManChief**, a simple-cycle, dual-turbine facility, has a long-term tolling contract inked with **Public Service Co. of Colorado** that runs until 2012, he says.

Buyers Market Seen Hitting Enel Auction

Enel's third and perhaps final auction of Italian power plants next month is unlikely to garner the rich returns of the previous two auctions because of the lack of bidders and a shift in market sentiment away from expanding at breakneck pace, predict market watchers.

London bankers say two serious bidders have emerged for **Interpower**, a 2.6 GW portfolio of power plants, **International Power** and a consortium comprising **Electrabel**, **Energia** and Rome utility **Acea**. International Power, like other IPPs is looking financially constrained, so the Electrabel consortium may have a free run, predicts one banker.

The auctions of **Elettrogen** (5.4 GW) and **Eurogen** (7 GW) raised EUR3.7 billion and EUR4.55 billion, respectively. Final bids on **Interpower** are due to be submitted around Oct. 16, says a banker advising the Italian utility.

Corporate Strategies

PECO Refinances Three Maturing Issues

PECO Energy, a subsidiary of Chicago-based electric utility holding company **Exelon**, tapped the bond market last week with \$225 million of 10-year first-mortgage notes to refund three series of maturing bonds. The new deal pays 4.75% and was priced at 99.244 to yield 4.85%, according to spokeswoman **Linda Marsicano**. The debt being refunded is a \$175 million issue of 7.1250% notes, \$5.28 million of 7.5% bonds and a \$41.64 million offering of 8% bonds. All three series were issued in 1992 and fell due this year.

Co-bookrunners for the deal, **BankOne** and **Salomon Smith Barney**, were selected in line with Exelon's strategy of rotating assignments among its relationship banks, Marsicano says. Banks get into the rotation by supporting the company in credit facilities and demonstrating capital markets expertise, she adds.

One banker unconnected with the deal notes there is solid demand for highly-rated energy paper right now and PECO has a solid A2/A rating. Sister company **Commonwealth Edison** this summer tapped the market to refinance first-mortgage bonds and scored a 2.35% coupon saving (PFR, 7/1). PECO Energy is an energy services utility that delivers electricity to

1.5 million customers and natural gas to 430,000 customers in Southeastern Pennsylvania.

Santee Cooper Ponders Rate Swap

The **South Carolina Public Service Authority** (Santee Cooper) is considering entering its first interest-rate swap to turn part of a recent \$440 million fixed-rate electric revenue bond offering into a synthetic floating-rate note.

Rod Murchinson, treasurer at the Moncks Corners, S.C.-based municipal utility, says Santee Cooper is weighing up executing the derivative contract to allow it to benefit if rates fall over the life of the bond deal. "We have never used swaps, but it's not something we've rejected and we could do something if the circumstances were right," says Murchinson.

The bond deal was split into a variety of tranches and was upsized from a \$325 million offering because of attractive financing costs (PFR, 9/2).

Murchinson says it would likely enter swaps on the longest dated tranche, an 18-year series, that was priced at roughly 4.60%.

The bulk of the proceeds from the bond offering were used to refinance some \$322 million of bonds issued in 1993. **Bear Stearns** led the offering.



Latin America

RWE Seeks Bank For Mexican Foray

German utility RWE is seeking a bank to advise on financing its debut power plant development project in Mexico, says a New York project financier. He adds RWE is looking to build a \$75-\$100 million 100 MW gas-fired co-generation plant in the state of Puebla and is mulling over a variety of funding options, including a combination of equity and debt.

Eugenio Laris Alanis, director for new projects at Mexico's **Comision Federal De Electricidad**, told *PFR* in March that the CFE was seeing strong interest coming from the German utility industry (*PFR*, 3/3). According to Alanis, the CFE had spoken with RWE, among other German utilities, about developing projects in Mexico. Calls to **Bill McAndrews**, a spokesman at RWE, and Alanis at the CFE last week were not returned.

Unisource Readies \$70M Mexico-Tucson Transmission Line

UniSource Energy, the parent company of **Tucson Electric Power**, is looking to develop a \$70 million, 60-mile 345 KV transmission line from Tucson to Mexico. **Jim Pignatelli**, chairman, president and ceo, says the line will likely be completed in 2005 and will have the capacity to transmit approximately 400 MW of power.

"The project is important in that it will increase service reliability in southern Arizona," he says. "It will also represent a significant energy link between the U.S. and Mexico."

In terms of financing, Pignatelli says that it will likely finance the construction of the line with equity, adding this strategy could change as talks are at an early stage. He adds that Unisource is currently waiting for approval from the U.S. **Department of Energy** and the U.S. **Forest Service** for construction to begin.

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SEPTEMBER 2, 2002

Crown Jewel?

NEG SEEN COURTING POTENTIAL ACQUIRERS

PG&E National Energy Group (NEG) reportedly has begun sounding out potential suitors to acquire it, having been told by parent **PG&E Corp.** that it will listen to offers for its unregulated power generation and trading unit.

PG&E began considering cutting ties with its unregulated generation and trading unit following NEG's downgrade to junk status at the tail end of July. In making that move **Standard & Poor's** noted the Bethesda, Md., IPP would face trading collateral calls and also substantial commitments under financings that are tied to creditworthiness. One ex-staffer characterizes the shop as being one of the toughest and more sophisticated in terms of handling the credit quality of counterparties. The flipside of that is that those counterparties will have demanded reciprocal terms, and these will be biting

WALL STREET JOURNAL

SEPTEMBER 17, 2002

PG&E Is Seeking Buyer For NEG, Unregulated Unit

PG&E Corp., the San Francisco electricity and natural-gas company whose regulated utility is already operating under bankruptcy-law protection, is looking for a buyer for all or part of its once-prized unregulated energy and natural-gas unit to resolve a looming debt crisis, people familiar with the matter say.

The **National Energy Group** unit, which has been struggling to restructure part of its \$4.4 billion in bank and bond debt, has a book value of 2.3 billion. Because the value of power plants and pipelines has declined sharply in recent months, people familiar with the PG&E unit say it is unclear whether it will be able to attract high enough bids even to cover its existing debt. If the bids are too low, then bank holders and bondholders

Fenosa Inks Bridge Loan To Meet Mexican Timetable

Deutsche Bank and Bank of Tokyo-Mitsubishi recently signed an approximately \$150 million bridge loan to provide interim construction financing as they struggle to pull together some \$400 million in non-recourse project debt to fund the construction of two Union Fenosa-sponsored gas-fired power plants in Vera Cruz, Mexico. Repeated calls to Fenosa's press office in Madrid and Doug Johnson and Lewis Hart, project financiers at Deutsche Bank and BoTM, respectively, were not returned.

A banker close to the situation says the project sponsor and its lead banks arranged the loan to prevent any delay to the construction timetable for Tuxpan III and IV. The two projects are scheduled to cost \$600 million to build and should be completed next year. When complete they will have a combined capacity of 938 MW.

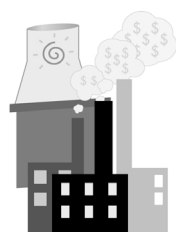
The banker says Union Fenosa has already injected \$120 million of equity capital into the projects and has pledged an additional \$80 million of funds. However, he says two development agencies Japan Bank For International Cooperation and Nippon Export and Investment Insurance, which have offered \$240 million and \$160 million in loans, respectively, are refusing to release the funds just yet. He says they will not grant the loans unless Union Fenosa puts it in writing that it will provide the remaining \$80 million for the projects. He says Fenosa is refusing to guarantee in writing the addition capital.

Financing for the project has already been delayed twice. The deal was originally supposed to close early last year, but was pushed back until this fall due to some outstanding due diligence points (PFR, 5/20). Last month the banker said financing was being pushed back again till next year (PFR, 8/12).

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@iineews.com

Sponsor	Project	Project Type	Size (MW)	Cost (\$mil)	Country	Advisor/Financier	Status	PFR Issue
Alcoa	Santa Isabel	Hydro	1,087	700	Brazil	Citi	Financing delayed till 2003	7/22/02
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 this month.	7/16/02
Electricite de France	Rio Bravo III	Gas-fired	500	290	Mexico	SocGen	Arranging a \$217M project loan	8/26/02
El Paso	-	Gas-fired	200	200	Mexico	-	Expects to bring project on line by 2003	4/16/01
El Paso	Araucaria	Gas-fired	469	340	Brazil	Dresdner	Financing delayed until Q4	7/4/02
El Paso	Macaes	Gas-fired	400	700-800	Brazil	SocGen	Financing due shortly	7/9/02
Elina Suereste	Manuel Moneno Sores	Transmission	-	269	Mexico	BNP	Is arranging a \$236M loan	8/26/02
Iberdrola	Vera Cruz	Gas-fired	800	700	Mexico	-	Will finance with equity	8/26/02
Iberdrola/Petrobras	Termoacu	Gas-fired	340	-	Brazil	IDB	IDB is evaluating the project	7/16/02
InterGen	Carioba	Gas-fired	945	670	Brazil	-	Project delayed until Q1 of 2003	2/25/02
PSEG Global	SAESA	Distribution company	N/A	450	Chile	J.P. Morgan	Considering taking out a \$300M loan to fund the acquisition	9/24/01
PSEG Global	Electroandes	Hydroelectric	183	227	Peru	BBVA Banco Continental/Banco de Credito	Is planning \$100m in loan and bond financing	7/27/01
Sempra Energy Resources	Mexicali	Gas-fired	600	350	Mexico	SocGen	In the process of arranging a corporate loan	3/11/02
Tractebel/Alcoa	Estreito	Hydro	1,087	700	Brazil	Citi	Waiting for enviromental permits	7/22/02
Union Fenosa	La Laguna II		450	-	Mexico	-	-	7/2/01
Union Fenosa	Tuxpan III & IV	Gas-fired	938	600	Mexico	Deutsche Bank/BOTM	Banks have provided bridge loan	9/23/02



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
AES	Yarra Power Station	Australia	510	Gas	-	Has appointed an advisor
	Jeeralang	Australia	449	Gas		
	Mt Stuart	Australia	288	Gas		
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 plant 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 shortly.
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.	1,875			
Enron	Wilton	U.K.	133	Coal/Oil/Gas	Close Brothers	Intention to sell.
Entergy	Damhead Creek	U.K.	800	Gas	N/A	
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		

Continued

Generation Auction & Sale Auction (cont'd)

Seller	Plants	Location	MW	Plant Type	Advisor	Status
NRG	Collinsville	Australia	192 (50% stake)	Coal	ABN AMRO	Awaiting bids.
	TermoRio	Brazil	1040 (50% stake)	Gas	Deutsche Bank	Awaiting bids.
	COBEE	Bolivia	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	Has already sold two Eastern European plants.
	Enfield	U.K.	380 (25%)	Gas-fired		Awaiting further bids.
	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.
PESG Global	Tanir Bavi	India	220 (74%)	Naphtha	-	-
	Karpatslsm	India	330 (20%)	Naphtha	-	-
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			Is looking to sell an undisclosed number of its coal assets.
	Monticello	Texas	1,900	Coal	Merrill Lynch	
	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

- State-run power monopoly **Korea Electric Power Co.** has announced plans to sell up to 51% of its power-generation affiliate **Korea South-East Power Co.** to another company by January. It will then sell a further 16-25% to the public by the end of next year (*Reuters*, 9/17).
- Plans are being drafted for the break up of **State Power Corp**, China's biggest electricity generator and wires operator, in a move to end its near-monopoly over the sector. Details of the restructuring have not been finalized, according to an official at the State Development Planning Commission, which is overseeing the plan. State Power owns most of China's power grids and 168 GW of generation capacity (*Reuters*, 9/18).

Europe

- **British Energy** in increasing danger of being put into administration, according to U.K. government officials. The full extent of the company's debts, now emerging, has persuaded the government to contemplate allowing it to go under, but administration would carry significant costs for the state, the company has warned (*Financial Times*, 9/17).
- **Dynegy** expects to finalize the sale of its Hornsea gas storage site in northeast England this month. It is also considering selling a minority stake in its Rough offshore site, the U.K.'s biggest gas storage facility. "We've had some excellent bids and expect to sign a deal in September," says spokesman **Alex Parsons**. Analysts have pointed out several European utilities as likely bidders including **Innogy** and **TXU Europe** (*Reuters*, 9/17).
- **Electricité de France**, which owns nuclear capacity in France and has expanded substantially into the U.K. energy market, has ruled out a bid for embattled nuclear generation **British Energy**. Shares in the U.K. company plunged 33% last Tuesday as fears increased that it would be put into administration (*The Times*, 9/18).
- **Jacques Chirac**, the French president is pressing **Electricité de France** to put its accounts in order amid signs that its recent international expansion program will plunge the company into loss this year (*Financial Times*, 9/18).
- The Polish government has cleared the sale of a further stake in the 1.8 GW Polaniec power plant near Krakow to **Electrabel**. The

sale will give the Belgian utility majority control of the plant. It already owns a 38% stake (*Reuters*, 9/18).

U.S. & Canada

- **American International Group**' Highstar private equity fund has signed a deal to buy cash-strapped **Williams Cos'** Central Pipeline for \$380 million. Williams has been looking to sell the 6,000-mile pipeline, which transports natural gas from Kansas, Oklahoma, Texas, Wyoming and Colorado to markets in the mid-continent, as part of a plan to raise more than \$3 billion and strengthen its balance sheet. Highstar will assume \$175 million of debt (*Reuters*, 9/16).
- **Public Utility Commission of Texas** officials have recommended the regulator fine **New Power Co.** \$3.91 million for issuing incomplete electric bills to customers. New Power violated the commission's rules when it sent bills that didn't detail the amount of electricity customers had consumed or the price of that power. New Power filed for bankruptcy protection in June (*Dow Jones*, 9/16).
- Power failures during California's 2000-2001 energy crisis could have been avoided if five independent energy companies had not withheld electricity they were capable of producing, according to a study by the **California Public Utilities Commission**. The report said **Duke Energy**, **Dynegy**, **Mirant**, **Reliant Resources** and **AES/Williams** withheld power from their California plants (*The New York Times*, 9/18).
- Former **Enron** manager **Tim Belden**, who led Enron's wildly profitable power trading operation in Portland, has emerged as a focus of an expanded investigation into alleged electricity price manipulation that may have worsened the Western power crisis of 2000-01. Federal prosecutors opened a criminal investigation of Enron's role in the power crisis in May. They are presenting evidence to a grand jury in San Francisco (*The Oregonian*, 9/17).
- **Merrill Lynch** has fired **Thomas Davis**, vice chairman, and **Schuyler Tilney**, head of its energy banking practice, after they refused to cooperate with a government investigation into **Enron**. Both executives were among a group of bankers who invested their own cash in **IJM2**, an off-balance sheet partnership set up by Enron (*Financial Times*, 9/19).

BOGUS ENRON/MERRILL

(continued from page 1)

Enron in November 2000 and Merrill's energy trading team it purchased in January last year. Gordon, who was terminated as president of Allegheny's energy trading group on Sept. 5, was previously head of Merrill's energy trading team and took the Enron trade to senior Merrill management to get it signed off.

Mike Morrell, president of **Allegheny Energy Supply Co.**, did not return calls. **Debbie Beck**, an Allegheny spokeswoman in Hagerstown, Md., said Gordon was terminated for violating internal corporate policies, declining further comment. Gordon did not respond to repeated messages left with officials at **Daticon**, a computer company in Gales Ferry, Conn., of which he is chairman. At the time of his termination Gordon told *The Day*, in New London, Conn., "I deeply regret and strongly disagree with the various statements that have been made about me." In a statement e-mailed to *PFR*, **Bill Halldin**, a spokesman for Merrill in Sacramento, Calif., said "The trades with Enron were legitimate transactions involving real risk." He declined further comment. Calls to an Enron spokesman were not returned.

In the virtual power transactions conducted in late 1999, *PFR* has learnt that Merrill agreed to buy and sell a series of physical and financially settled options based on the output of Enron's Gleason, Lincoln and Wheatland peakers in the Midwest (see chart below). Although the deals contained some basis risk, they were effectively market neutral, according to a trader. Under the terms of the transaction, Enron agreed to pay Merrill \$430,683 per month for four years, which gave the deal a net present value of \$17 million for Merrill. Enron booked \$60 million in profit from the deal, which helped the Houston company meet its year-end targets and triggered the payments of bonuses to its staff. The deal was signed off for

Enron by **Cliff Baxter**, vice chairman, who committed suicide in January as the Enron scandal unfurled. This trade is believed to have been unwound in the first quarter of 2000, and resulted, according to *The New York Times*, in a net profit of \$8 million for Merrill.

The profits Merrill booked from this transaction would have only added to the perceived value of its energy trading group, which Allegheny subsequently purchased for \$490 million in January 2001, say market officials.

In addition, it is highly likely that Allegheny would have used the Enron/Merrill deal as a reference point to value the three Midwest peakers, which it bought from Enron in November 2000 for approximately \$1.1 billion, according to a former senior risk manager. Since the secondary market for generation assets is not liquid, it would be standard practice to look at capacity deals—such as the Enron/Merrill transaction—to arrive at a valuation for a generation asset, he adds.

Allegheny announced in July that Gordon would step down as head of trading but would stay on as an advisor until 2003, reflecting the general downturn across the U.S. energy markets. In an abrupt about turn it announced Sept. 5 that Gordon had been terminated. Allegheny "threw caution to the wind in seeking a way to get rid of Gordon,"—who had been held in high regard at the company prior to the Enron/Merrill trades becoming public, according to the official familiar with the situation at Allegheny. "They had the veil pulled from their eyes," he adds.

The reverberations of Enron's collapse are still being felt in the energy and banking industries and resulted last week in Merrill dismissing **Schuyler Tilney**, head of energy investment banking, and **Tom Davis**, vice chairman, for refusing to testify on the Houston company's demise.

—Victor Kremer

How The Enron/Merrill Trades Worked

Enron entered a series of back-to-back options with Merrill Lynch in December 1999 based on its Gleason (500 MW), Lincoln (600 MW) and Wheatland (150-450 MW) natural gas-fired peakers. Gas is defined differently for summer/non-summer at each location. The trades contain some basis risk, but mark-to-market risk at inception was close to zero. The trades were unwound in March 2000.

Eg, Gleason summer power into the TVA hub

Merrill buys an option from Enron, giving the firm the right to call TVA physical power at $11.5 \times \text{the price of natural gas} + \2.5 , where gas is defined as inside Ferc ANR Louisiana + 19.5 cents. If physical power cannot be delivered the transaction is financially settled.

ENRON

MERRILL

Enron buys an option from Merrill giving the Houston trader the right to call financial power at $11.5 \times \text{the price of natural gas} + \2.5 , where gas is defined as inside Ferc South Louisiana Henry Hub + 16 cents.

Gas prices at ANR Louisiana and South Louisiana Henry Hub rarely differ by more than a nickel on the monthly indices.

NRG SEEN

(continued from page 1)

spokeswoman at NRG's parent Xcel Energy, did not respond to questions and Evan Flaschen, a partner at Bingham McCutchen, which is representing the bondholders, did not return calls.

Peggy Jones, fixed income utility analyst at ABN AMRO in New York, says the burden of meeting interest payments could force the IPP under. "There is a very high possibility of NRG going bust because a great deal of its generation capacity doesn't have [PPAs] or has contracts that are coming off. I don't think current wholesale power prices either in the forward or spot markets are adequate to support its cost structure."

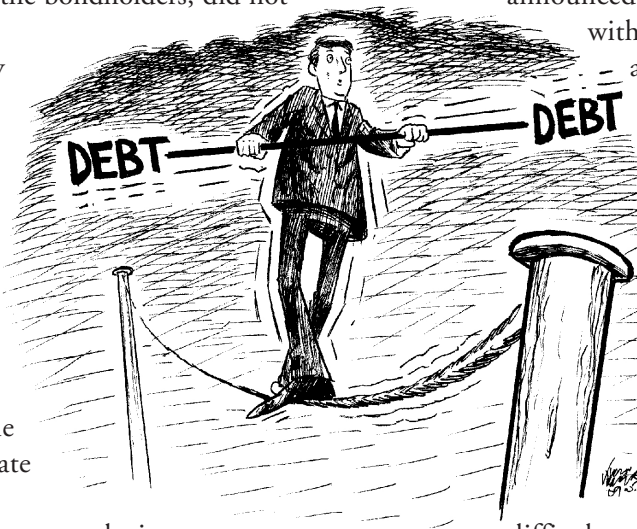
NRG is essentially looking to buy enough time to raise cash by selling assets, or show there is a market for those assets, so that the banks will continue to support the company, one financier explains. Earlier this spring it put its entire international business up for sale (PFR, 3/18). It has also retained Merrill Lynch to sell a large portfolio on plants

in southcentral U.S. (PFR, 9/16). Just last Thursday it also announced a sale of its stake in the Crockett and Mt. Poso cogeneration plants in California for some \$320 million.

NRG has between 15-30 days to make the bond payments before it is declared in default, the company announced last week. It is still in discussions with banks to get another extension allowing for the delayed payment of collateral associated with bank debt of around \$1.1-1.3 billion. Bankers gave an initial extension on those postings last month. One of the central issues in these ongoing talks is that bondholders may fear the posting of collateral as a way for the banks to strengthen their hand to the detriment of the bondholders, says one observer.

A banker notes that it is difficult to pin down a deadline for the reworking because this would in part depend on whether creditors start to press their claims. The collateral call was a deadline, but the extension nullified it, he observes. All of NRG's debt is non-recourse to Excel.

—Peter Thompson



RELIANT ENERGY

(continued from page 1)

make no mention of the bond issue. Leticia Lowe, spokeswoman for Reliant Energy in Houston, did not return calls by press time.

Market officials say the company is looking to get banks lined up for \$4.7 billion by Oct. 8. However, lenders have been told that a \$850 million chunk of those facilities may not close if the company manages to pull the trigger on the bond offering ahead of that deadline. It could not be determined by press time whether leads have been lined up for the bond offering, though one banker notes the lead loan arrangers are likely strong candidates given that they are J.P. Morgan and Citibank/Salomon Smith Barney.

Securing financing for the 'Reliants' has held center stage for lenders and investors since the spin-off of Reliant Resources was hit by the round-trip trading scandal (PFR, 5/19). That delayed loan facilities for both entities and Reliant Resources is still working on securing a financing ticket of north \$6 billion (PFR, 8/26).

—P.T.

Calendar

Risk Waters will hold its *WeatherRisk 2002 Europe* conference at the Hilton London Paddington hotel on Oct. 24-25. Speakers include Michael Corbally, executive v.p. at Element Re Capital and Mark Calloway, director at Entergy-Koch Trading. To register call 44 20 7484-9898.

Quote Of The Week

"With prices being extraordinarily good, this is certainly one way to do it." —Joan Goodman, a utility analyst at Credit Suisse First Boston in Chicago, commenting on Exelon's desire to expand through utility acquisitions (see story, page 1).

One Year Ago In Power Finance & Risk

InterGen was set to send out RFPs for banks to arrange financing for the construction of an 800 MW gas-fired plant in the Netherlands. The IPP was looking to have financing in place by the spring. [InterGen mandated BNP Paribas and Société Générale in May. The French pair launched syndication of a EUR625 million (\$622 million) 18-year loan at the beginning of this month.]