

# power finance & risk

The exclusive source for power financing and trading news

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## Industry Takes \$150B Investment Hit

**Cinergy** CEO **James Rogers** told delegates at **Infocast's** annual energy conference in New York that the U.S. energy market's crisis has cost the industry some \$150 billion of investments. Meanwhile, attendees rounded on a **Standard & Poor's** speaker for exacerbating the industry's predicament through credit downgrades.

*See pages 6-7 for full conference coverage*

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## AES GAUGES APPETITE ON REFINANCING \$850M REVOLVER

Arlington, Va.-based AES is putting out feelers on what it will take for banks to convert an \$850 million revolver coming due shortly into a longer-term facility. Renegotiating the bank line, which matures in the first quarter, is seen as a key in the company's battle for survival because the revolver is largely drawn down. "It's make or break with this facility," says one market official. Calls to **Barry Sharp**, cfo, were referred to investor relations staffers who did not return calls by press time.

AES' opening pitch to its lenders is that the new loan will have a three-year maturity

*(continued on page 2)*

## MERRILL REPORTEDLY WANTED OUT OF TRADING EVEN BEFORE SALE TO ALLEGHENY

**Merrill Lynch** reportedly viewed the sale of its Global Energy Markets (GEM) commodity trading group to **Allegheny Energy** for \$490 million last year (PFR, 9/23) as a convenient and lucrative way to exit a business that it did not fully understand, according to an official familiar with the workings of GEM. Moreover, **Dan Gordon**, head of trading, either on his own or because he knew the firm was looking to get out, reportedly had been shopping the business to potential buyers without Merrill's knowledge.

*(continued on page 11)*

## GOLDMAN'S GORDON RETURNS STATESIDE TO AIG

**Tony Gordon**, a managing director at **Goldman Sachs** in London, has crossed to the pond to join **AIG Trading** in Stamford, Conn., a securities arm of New York insurance giant **American International Group**. Gordon says he began working at AIG last week, but declined to provide details of AIG's plans or his role at the company ahead of a formal announcement.

A market watcher familiar with the situation says Gordon and AIG are eyeing a number of investment strategies in the energy market, including trading power and gas, buying up assets while prices remain depressed and providing capital to the cash-starved power sector. With

*(continued on page 11)*

## SPANISH GIANT PREPS 1 GW OF WIND FARM FINANCING

**Grupo Dragados**, Spain's largest industrial conglomerate, is prepping a roughly EUR500 million non-recourse bank loan to fund the development of an ambitious wind farm program across Spain. Repeated calls to **Lorenzo Cooklin Diaz**, director of communications at Dragados, were not returned.

Officials close to the Madrid-based company say it is close to retaining **Westdeutsche Landesbank**, Barcelona-based **La Caixa** and **Dexia Cr dit Local** to arrange the project loan. Dragados has yet to ink a deal with these banks but it has been in exclusive talks with them

*(continued on page 12)*

Check [www.iipower.com](http://www.iipower.com) during the week for breaking news and updates.

## Private Equity Boutique Taps BofA For Wires Securitization

CVC Capital Partners, a London-based private equity firm, has retained **Bank of America** to provide long-term asset-backed bond market financing to fund its acquisition of **Iberdrola's** transmission business, say market watchers. A BofA official declined to comment and CVC officials could not be reached.

CVC is presently awaiting Spanish regulatory approval for the EUR577 million (\$571 million) acquisition of Iberdrola's 3,500 mile high-voltage power network, before proceeding with its financing plans, says one banker, noting a regulatory decision is due by the end of October. The deal was announced in July.

While **Deutsche Bank** and **Morgan Stanley** advised CVC on the acquisition, the investment boutique has retained BofA to arrange the ABS deal because the latter was already working with Iberdrola towards a securitization of its wires business (PFR, 6/10) before CVC stepped into acquire the transmission network.

## S&P Sees Flaw In Some Project Structures

Faulty deal structures, often put together on the cheap at the height of the energy bull market, are one reason for **Standard & Poor's'** slew of non-recourse project financing downgrades. While the deteriorating credit quality of some off-take contracts have prompted many of the negative rating calls, weak structures that didn't leave the projects fully bankruptcy remote from their sponsors, also played a part, according to a recent S&P report.

Analyst **Pete Rigby** says when these financings were set up parent sponsors may have had a higher rating than the projects, so completely ring fencing projects didn't seem worth

the effort for some companies. However, the overall weakening of credit means the rating of some parents are hitting their projects, he says, citing the example of **NRG Energy**.

Making projects completely bankruptcy remote involves a series of technical measures, such as installing a director who is independent of the parent company. Some companies felt the intensive legal work wasn't worth the effort, says Rigby, adding that there isn't any financing advantage to not having a project fully ring fenced.

## AES GAUGES

(continued from page 1)

with no term-out provision, says a financier. Price talk is said to be slightly north of 400 basis points over LIBOR with an upfront fee of 1½%. The facility also will likely be secured in some way. The idea behind floating the terms is to see whether banks will bite well ahead of time. "It sounds doable, but definitely with security. That's what banks want now," says one lender, who drew a parallel with the \$1.6 billion loan facility **Calpine** set up earlier this year. The San Jose, Calif.-based IPP had to ditch plans for an unsecured facility when pressed by lenders to guarantee some prime assets against the loan (PFR, 3/18). If AES has to provide security, asset quality will be an issue given some of the emerging markets the company operates in, adds another observer.

AES has been buffeted for much of the year by a decline in global power prices, economic crises in Latin America and increased rating agency and investor scrutiny in the wake of Enron's collapse. Against a backdrop of a swooning share price this summer, the company's co-founder and ceo **Dennis Bakke** stepped down (PFR, 6/24).

—Peter Thompson

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## AEP Launches Lone Star Wind Syndication...

American Electric Power has launched syndication of a \$120.7 million 15-year non-recourse financing for its Desert wind facility. Lead **Fortis Capital** wrapped the underwritten term-loan with **Dexia Crédit Local**, **Rabobank** and **Royal Bank of Canada** and is now looking to place participant tickets of \$20 million and \$15 million, say bankers. They will bag fees of 65 basis points and 50 basis points, respectively. Fortis officials declined comment.

The deal is being pitched on the basis of the quality of the sponsor and also the fact that technology now falls under the bailiwick of **GE Wind Energy**. One banker says the commitment of a player the size of GE is likely to assuage concerns about technology, which have traditionally been a hurdle for wind financings in the U.S. GE entered the sector earlier this year by acquiring assets from **Enron**. The 160.5 MW facility, near Stockton, Texas, is already operational and sells the majority of its output through a 20-year offtake agreement with **City Public Service of San Antonio**. The small amount not covered in that agreement is covered by a 15-year PPA with the same counterparty, says a banker.

Pricing on the deal starts at a spread over LIBOR of 1 5/8% in years one to three, 175 basis points in years four to seven, 187.5 basis points in years eight to 10 and 2% in years 11 to 15. The leads are looking to wrap syndication by the end of next month.

## ...As It Looks To Expand Portfolio

Columbus, Ohio-based **American Electric Power** is looking to develop new wind farms in Texas, Oklahoma and West Virginia, partly to take advantage of a federal tax credit that offers breaks to companies building wind parks. **Dale Heydlauff**, senior v.p. of environmental affairs, says the plan is a win-win situation for both AEP and the environment. As well as providing clean renewable energy, AEP's crop of wind projects have also proved to be profitable investments, says Heydlauff.

However, Heydlauff expressed concern over the need to expand the current transmission system to meet the growth of wind projects. "Wind development is outpacing wind transmission so we have to be careful not to build too many projects too quickly," he says. Heydlauff declined to comment on a time frame for the expansion, the number of megawatts it intends to add or the cash it has earmarked to roll out its plans.

According to Heydlauff, some 2%—or 900 MW—of AEP's generation business comprises wind, hydro and other renewable sources. Coal-fired plants account for 66% of business and natural gas (24%), and nuclear power (9%) round out the mix.

## FirstEnergy Eyes \$1.25B In Loans

Akron, Ohio-based **FirstEnergy** is marketing a renewal of a \$1 billion 364-day revolver and also seeking a \$250 million letter of credit facility for its **Ohio Edison** unit. One banker who is in the current deal and will likely renew says the deal should place with little fuss, despite the difficulties some power players have had over recent months. The company has little merchant flavor as it is a registered public utility holding company. Calls to **Thomas Navin**, treasurer, were not returned by press time.

The deal launched on Sept. 19 with a bank meeting in Akron and leads **Barclays Capital** and **Citibank** are looking to close the facilities today. One banker notes that depending on the level of demand the revolver can be increased to \$1.25 billion. Fully drawn pricing is 1 3/8% over LIBOR.

## MidAmerican Readies Roadshow

**MidAmerican Energy Holdings**, the privately owned energy arm of **Warren Buffett's Berkshire Hathaway** empire, is prepping a roadshow for this week with lead **Credit Suisse First Boston** for a planned \$600 million 144a issue, according to financiers. Further details on the structure of the offering could not be ascertained by press time, but market officials say the deal will likely find strong support given the traditional fan club Buffett deals attract. Calls to **Kevin Waetke**, spokesman at MidAmerican in Des Moines, Iowa, were not returned and officials at CSFB declined comment.

MidAmerican has polished its image as a shrewd energy player this year by pocketing pipelines at bargain-basement prices. The last was its \$1.8 billion acquisition of the **Northern Natural Gas** pipeline business from **Dynegy** (PFR, 8/26). One banker says the new deal is part of the NNG financing.

## DTE Gives Repeat Business To Banking Trio

**DTE Energy** last week launched syndication of \$1.2 billion in loan facilities and tapped the troika that led its revolver last year to run the show. Leads **Barclays Capital**, **Bank One** and **Citibank** are arranging a \$700 million loan for DTE itself, a \$200 million deal for **Detroit Edison** and a \$300 million financing piece for **Michigan Consolidated Gas**. The facilities are split two-thirds as a 364-day revolver and one-third as a three-year term loan, says a banker close to the deal. Calls to **Nick Khouri**, DTE treasurer in Detroit, were not returned by press time.

Ticket sizes pitched at a meeting in Detroit last week were \$25 million, \$50 million, \$75 million and \$100 million, the banker says, and fully drawn pricing is around 1 1/8% over LIBOR. Last year's deal bagged a robust 28 bank roster (PFR, 11/9).



## Iberdrola Preps Retail Securitization

Iberdrola is looking to securitize the future cashflow from domestic retail customers' electricity bills, in a deal that would likely mark the first power sector trade receivable securitization in Spain, and one of the first in mainland Europe, say bankers. As of last Thursday the mandate to structure and arrange the debt financing was still up for grabs, according to bankers pitching for the deal. Calls to officials at Iberdrola in Madrid were not returned. The size of the debt offering could not be determined by press time.

The deal marks at least the second time that Iberdrola, Spain's second largest power company, has eyed securitization as a way to book future revenue streams up front. Iberdrola is becoming much more focused on cleaning up its balance sheet and managing its debt, says one banker. Earlier this year the Madrid utility mulled securitizing cashflow from its transmission business. It ultimately nixed the deal in favor of selling the high-voltage wires network to **CVC Capital Partners**, a private equity firm (see story, page 2).

However, one London banker played down the chances of Iberdrola executing the new deal. He notes that the laws underpinning the Spanish asset-backed securities market make a future flow securitization hard, if not impossible, to achieve.

## CMS Hires Merrill For Panhandle Sale

**CMS Panhandle Pipeline Co.** retained **Merrill Lynch** last week to advise on either the sale of the entire company or on individual assets within the business and hopes to close a sale by year-end. **Christopher Helms**, president and ceo, told *PFR* it plans to hold an approximately month-long sales effort next month in which it will open its confidential books to interested buyers.

"We're not having a fire sale, which is why we can take our time," says Helms. "Also, our preference is to sell the entire business instead of selling individual assets and I think that with the process we've put in motion, it will be very possible to do this." However, Helms notes the company has not yet decided whether it will go forward with a sale as it is simply "exploring" the possibility.

CMS announced in August that it was mulling the sale of its gas assets, which together come under the CMS Panhandle umbrella. The unit includes the Trunkline pipeline network, a 4,100-mile pipeline that delivers up to 1.7 billion cubic feet per day of natural gas throughout the Midwest and East Coast markets. In addition, it has the Panhandle Eastern Pipe Line unit, which operates a 6,300-mile pipeline network, an LNG terminal at Lake Charles, La., CMS Field Services' gas gathering

and processing assets and its stake in the **Guardian Pipeline**.

**TransCanada**, a Calgary, Alberta-based natural gas pipeline business, and **Warren Buffett's Berkshire Hathaway**, the parent of Des Moines, Iowa-based **MidAmerican Energy**, are said to be separately courting CMS to purchase its Panhandle Eastern Pipe Line unit. **Dominion Resources** is also seen weighing up a bid for the business (*PFR*, 9/2). Helms declined to discuss potential buyers.

## NRG Looks For Nov. Extension On Collateral Waiver

**NRG Energy** is looking to extend a waiver on collateral postings covering \$1.1-1.3 billion in bank debt through to Nov. 15, to give the embattled IPP more time to restructure its \$13 billion debt. One banker with exposure to the **Xcel Energy** unit says if the extension is granted, the company would then present a business plan at the end of October that would form the basis of a longer term refinancing. The fate of NRG has held center stage for many lenders for a while and missed bond payments earlier this month have only sharpened this interest (*PFR*, 9/23). "This is the focus for a lot of banks now," the banker reflects, adding that he expects the extension to be granted. **Lesa Bader**, spokeswoman at NRG, says the company is still in negotiations with its bankers, declining further comment.

## Pinnacle Arm Looks To Renew Pollution Backstop

**Arizona Public Service Co.**, the main operating arm of Phoenix-based **Pinnacle West Capital**, is looking to renew a 364-day letter of credit facility backstopping pollution control bonds. **Barbara Gomez**, treasurer at Pinnacle, says the \$150 million facility backs letters of credit that are used to enhance the liquidity and credit quality of the bonds. She explains the tax-exempt bonds are multi-modal in that APS can choose the interest rate setting. It currently has opted for a daily reset rate, but at the other extreme it could use a fixed rate over the life of the bonds. The letter of credit backing is favored by investors in these types of notes, she adds.

The loan, priced at 100 basis points over LIBOR, is led by **Barclays Capital** and was launched with a conference call last Tuesday. Solid upfront fees and good bank relationships should be a draw for the deal, but one banker reflects that in the current market there are no certainties. Gomez says APS is optimistic about the deal, adding the strategy is to market the deal among existing bank lenders. Barclays is looking for \$20 million and \$10 million tickets by Oct. 9, says a banker.

## Weather Players Hope For Uptick As Summer Trades Expire

Lackluster weather derivative flows covering this year's winter hedging season may start to turn around this week when summer hedges expire, predict some market officials. The market has been squeezed more than ever by credit concerns about trading counterparties, says one market veteran, explaining that this has meant many players have capped exposures. Summer hedges normally expire Sept. 30 so space under those caps will be freed up, he explains.

While agreeing with the argument, another official notes

that a further drag on winter activity has simply been the sky-high premiums being charged. The market is positioning for a warm winter, which means it is skewed towards buyers such as energy companies that are looking to hedge against lower revenues. The flipside of that is sellers are demanding hefty premiums to take on the risk.

Another weather veteran takes a different tack, noting that liquidity has been squashed because the number of counterparties—in what is a small market—has fallen. He notes the vacuum created by the exit of players such as **Aquila** (PFR, 8/19) and **Exelon** (PFR, 9/16) is not being filled by new entrants.

## Corporate Strategies

### Texas Cooperative Preps Bond Refinancing

Johnson City, Texas-based **Pedernales Electric Cooperative** plans to use the proceeds from an upcoming \$450 million offering of first-mortgage bonds partly to call \$227 million of notes that have staggered maturities until 2037. **Bennie Fuelberg**, general manager and ceo, says, "We decided to refinance the notes at this time because we will see a saving of \$10 million in present value [terms]."

The PEC plans to use the remainder of the proceeds to finance approximately one-half of its distribution and transmission capital expenditures through 2007, says

Fuelberg. He says that over the past several years the cooperative has been growing at a rate of 7.5% annually and at an even higher rate with regard to its energy usage.

The bonds are expected to price the week of Oct. 7 and **Morgan Stanley** is the sole manager, according to Fuelberg. Although the exact terms of the deal were unavailable by press time, the offering will likely be divided into three tranches with maturities of 10, 20 and 30 years, he says.

"All of the bond deals we've done in the past have been for 35 years and longer. But we thought we'd construct the deal this way because of the good interest-rate environment in the shorter years," says Fuelberg.

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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

**WALL STREET JOURNAL**

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#### 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

## Investor Policy & Regulation Conference

*Infocast held its Energy Investor Policy & Regulation Conference at Le Parker Meridien Hotel in New York City on Sept. 23-24. The 100 executives, analysts, bankers and regulators in attendance primarily focused on the latest Federal Energy Regulatory Commission's policies, and the recent scandals that have plagued the industry. Reporter Amanda Levin filed the following stories:*

### Attendees Wade Into S&P

Attendees gave **Standard & Poor's** panelist **Tobias Hsieh** a tongue lashing for the rating agency's multiple downgrade of power companies in recent months. Following a speech to the floor, Hsieh, director of corporate and government ratings, came in for prolonged flak for S&P's perceived knee-jerk credit calls following **Enron's** demise.

One investor in the audience summed up the ill will. "You are too fast at triggering downgrades and you should be taken to task for it as you've destroyed a lot of companies. For the rating agencies to have all of a sudden downgraded these companies overnight because of the Enron and round trip-trading scandals is unconscionable."

Tobias responded that the criticism was unwarranted as the rating agencies were initially blamed for acting too slowly in downgrading Enron and now are getting blamed for acting too

quickly. He noted that investors should evaluate a company beyond its credit rating, adding, "To a large extent, we still rely on the companies to tell us what is going on. There is still a limit to how much we know about companies."

In defending the rating agencies, **Ray Wood**, managing director in **Credit Suisse First Boston's** energy group, said in retrospect it is easy to lay all of the blame on the agencies. However, many market watchers weren't aware of what was really going on in the industry. "CSFB, as a big institution, had an inside view, but we didn't get it right either. In the rearview mirror, we could say that everyone was complacent."

Another attendee said she was concerned that the bulk power producers wouldn't survive the onslaught of credit downgrades. But Tobias said it is not the responsibility of rating agencies to make sure there are enough credit-worthy generators. "We need to call it like it is and our actions reflect the current uncertainty of the industry," he said.

### Scandals Hit Sector For \$150B, Claims Cinergy Chief

The energy sector has lost approximately \$150 billion of investment dollars because of general uncertainty stemming from the recent scandals such as the California crisis, the **Enron** debacle and, most recently, bogus round-trip trading, estimates **Cinergy** Chairman and CEO **James Rogers**. "Our industry is a cash intensive business and we desperately need capital to survive," he said.

While the risk profile of the industry is forever changed it is important to note that companies are taking decisive actions by cleaning up their balance sheets and restoring credit ratings, said Rogers. He added that in the 1990s companies were trying to grow at any cost, but they've abandoned that strategy and have become much more conservative.

However, Wall Street bankers and analysts said the financial community is taking a time-out from the energy sector while it continues to lurch from crisis to crisis. **Raymond Wood**, managing director at **Credit Suisse First Boston**, said, "Until some stability returns, the bank and capital markets will remain closed because there is a fear of what lies beneath a lot of energy companies, especially those with trading and marketing operations."

Wood cited a ruling by a judge at the **Federal Energy**

**Regulatory Commission** last week that **El Paso** conspired to spike gas and electricity prices in California during the Golden State energy crisis. The ruling caused **El Paso's** shares to plummet amidst fears that it might be forced to pay billions of dollars in compensation. Shares of **Williams** and **Dynegy**, which are also under scrutiny for their dealings during the California power crisis, also dropped by 15%. "This ruling shows that we still aren't seeing a recovery yet. Investors keep getting whipped around as the scandals unfold," said Wood.

**Michael Worms**, a utility analyst at **Gerard Klauer Mattison**, agreed that the chief concern among financial institutions is that the energy industry has not bottomed out yet. "Companies are selling their less desirable assets and until we start to see them part with their most attractive assets I don't think we will have seen the worst. Investment dollars will continue to leave the sector," he said.

The bottom line is that Wall Street is tired of losing money, tired of the high risk and is looking for a reward, said **Edward Tirello**, managing director and senior power strategist at **Berenson Minella**, an M&A advisory boutique in New York. "The instability in the marketplace has never been worse. So until companies can pay down debt, increase liquidity and get good credits ratings, the financial community is going to keep its distance."

## Investor Policy & Regulation Conference (cont'd)

### **Poisoned Chalice?**

### **Energy Executives Fear Financial Investors**

Despite their injection of much needed cash into the sector, attendees expressed grave misgivings over financial players newfound interest in the energy industry, fearing they neither have the know-how to manage the assets nor the desire to uphold their long-term financial health.

One attendee questioned whether financial players would have the expertise to run a pipeline business. She noted, by way of example, that **Warren Buffett's** Iowa-based energy unit **MidAmerican Energy** has experience operating a utility, but not a pipeline. Panelist **Christopher Helms**, president and ceo of **CMS Pandhandle Pipeline Co** agreed. "The business model for a utility is much different than for a natural gas pipeline. It requires a different set of skills."

Helms said the value of acquiring **Dynegy's Northern Natural Gas** pipeline and **Williams Cos' Kern River** gas pipeline would largely depend on whether Buffett can find competent management teams that can hit the ground running.

Another attendee expressed unease about financial players' commitment to the long-term health of the assets they're buying. Helms noted that financial buyers tend to focus on short-term gains, noting they typically look to acquire and sell assets at a profit within three to seven years. "I suspect we are going to see financial players come in and out of our industry for quite some time," he said.

### **Coal-Fired Generators React To Emission Controls Timetable**

Energy companies are divided over the feasibility of meeting a new Bush administration timetable for reducing emissions from coal-fired power plants. The new rules are part of the proposed Clear Skies Act, which aims to cut emissions of sulfur dioxide by 73%, nitrogen oxide by 67% and mercury by 69%. **Lowell Miller**, director at the **U.S. Department of Energy** says the law will create a 10-year window from 2008-2018 to achieve the proposed reductions,

**James Rogers**, chairman and ceo of **Cinergy**, told conference attendees that the government's plan to reduce emissions 18% by 2012 is a workable proposal that allows coal to remain a significant source of power in the country's fuel mix. "It's a good proposal that is spread out over a timeframe that is manageable."

**Ray Harry**, director of environmental affairs at **Southern Co.** took a less sanguine stance, arguing that the president's initiative is too challenging a task and too expensive to be implemented. "We

know the landscape is changing with air regulation becoming more stringent, but we look at air issues more in the short-term."

**Deck Slone**, v.p. investor relations of **Arch Coal**, agreed with Rogers that the new legislation would not destroy the coal-fired power industry. "Although we don't see a growing market share [for] coal, we also don't see it decreasing over the next 10-20 years." Coal can continue to be part of the fuel mix in the U.S. because technology advancements have made coal a much cleaner fuel, he added.

The Bush administration plans to make a push for Clear Skies in early 2003, according to **Brian McLean**, acting office director at the **U.S. Environmental Protection Agency**, adding that the annual cost of the initiative is projected to be \$3.7 billion in 2010 and \$6.5 billion by 2020.

### **Trans-Elect Upbeat On Landing Network**

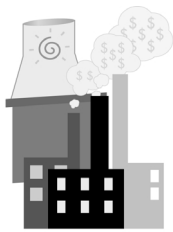
**Trans-Elect** Chairman and CEO **Frederick Buckman** is confident the wires company will land its third transmission business within the next three months. While Buckman concedes that Trans-Elect has been less successful than anticipated at acquiring rival's high-voltage wires networks since its inception three years ago, he argues the investment landscape has improved markedly recently, with a number of utilities now looking to sell their transmission assets to shore up fragile balance sheets. Trans-Elect is the only for-profit independent transmission outfit in the U.S.

Speaking on the sidelines of the conference, Buckman told *PFR* Trans-Elect will announce a transmission acquisition before year-end and hopes to either acquire or develop an additional North American transmission business within a year. He declined to elaborate on the deals.

"Since our inception we have found acquiring transmission businesses to be much more difficult than we originally thought," says Buckman. "We assumed that with transmission systems typically accounting for only 10-15% of utilities' businesses, as opposed to generation assets, which make up about 50% of their businesses, it wouldn't be as difficult to get these deals done. But it wasn't as easy as we thought." The recent downturn in the energy sector, however, has opened the door to a variety of opportunities because so many utilities are desperately looking to clean up their balance sheets and raise capital, he explains.

**Dave Meador**, cfo at **DTE Energy**, told *PFR* earlier this month that DTE is locked in discussions with three companies, including Trans-Elect, to divest its Michigan-based wires unit, **International Transmission System** and hopes to finalize a preferred bidder this month.





## 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	-	-
	Karpataism	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			
	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.*

### Europe & Middle East

- Embattled nuclear power producer **British Energy** has chosen **Schroder Salomon Smith Barney** to help it negotiate with the government and avoid financial collapse (*Reuters*, 9/23).
- Houston-based **Reliant Resources** is closing its London office as it withdraws from London gas and power trading markets. The move will eliminate 12 jobs. The company will continue to buy fuel and hedge sales from its Dutch power plants (*Houston Chronicle*, 9/24).
- **Roy Gardner**, ceo of U.K. utility **Centrica**, has warned E.U. competition commissioner **Mario Monti** that mergers between large European energy companies are threatening liberalization in the region (*Financial Times*, 9/26).
- **Electricité de France** and **Gaz de France** want their stock market floatations to be accompanied by substantial capital-raising exercises. **Francois Roussely**, ceo of EdF says it needs the extra capital to fund investments. "Replacing the state with another shareholder has no financial virtue, even if it has managerial ones," said Roussely (*Financial Times*, 9/26).

### U.S. & Canada

- **ScottishPower** is weighing up a GBP1.2 billion bid for U.S. utility **Portland General Electric**, one of the largest remaining assets owned by **Enron**. Analysts said it would provide a strategic fit with ScottishPower's existing U.S. subsidiary, **Pacificorp**. The company denied a bid is imminent, but advisers are now combing Enron's books in Houston (*The Business*, 9/22).
- **El Paso** helped drive California natural gas and electricity prices to record levels during that state's energy crisis by withholding gas supplies, according to the chief administrative law judge at the **Federal Energy Regulatory Commission**. **Curtis Wagner** said in a 23-page decision that El Paso's interstate gas pipelines withheld capacity from California delivery points. The judge's findings are subject to approval of the agency commissioners. He recommended that El Paso be forced to pay penalties for its behavior, which took place during California's 13-month energy crisis. The ruling sent El Paso shares plummeting 36% (*The Wall Street Journal*, 9/24).

- **Portland General Electric** sent a \$27 million non-cash dividend to its bankrupt parent **Enron** earlier this summer, a move that state utility regulators are now questioning. The dividend has prompted a series of recent meetings among staffers at the Public Utility Commission, state lawyers and PGE about the utility's handling of the transaction (*Knight Ridder*, 9/22).
- A **California Public Utilities Commission** judge has proposed that **San Diego Gas & Electric** use part of the proceeds from profitable power purchase contracts to reduce debt incurred during the Golden State power crisis. SDG&E says it should be allowed to keep the money from the profitable contracts and bill customers for any money-losing contracts. Those losses are expected to stand at \$222 million by year-end (*The San Diego Union-Tribune*, 9/25).
- So many people turned out for Wednesday's auction of **Enron** leftovers that many couldn't even get into the Astrodome hotel in Houston where the former trading high-flyer was auctioning off 15,000 items. Among the items up for grabs were Enron souvenirs such as beer mugs, golf tees and fake pistols the company used to give away at trade shows (*Houston Chronicle*, 9/25).
- **Merrill Lynch** is suing **Allegheny Energy** for refusing to pay \$115 million as part of an agreement to buy the investment bank's energy trading business last year. Allegheny responded by saying it is likely to file its own lawsuit against Merrill, citing reports of improprieties in the dealings of Merrill's energy trading business with **Enron** prior to the sale. Allegheny paid Merrill \$490 million for the unit, along with a 2.0% equity interest in Allegheny Energy Supply, but promised to buy out that stake for \$115 million if generating capacity targets were not met within 18 months. Since the unit did not achieve that level, Merrill has told Allegheny it wanted to liquidate its interest (*Reuters*, 9/24).
- At least three companies are expected to submit bids to buy U.S. nuclear power generator **AmerGen Energy**, which is jointly owned by **British Energy** and **Exelon**. **Entergy**, **Constellation Energy** and **Florida Power & Light** have expressed strong interest and are expected to put in bids over the next few days, says sources (*Reuters*, 9/26).

## Financing Record (SEPTEMBER 19 - SEPTEMBER 26)

### Bonds

Maturity	Issue Date	Issuer	Amount (\$ mil)	Offer Price	Type of Security	Coupon (%)	Spread to Treasuries	Standard & Poor's	Moody's	Book Manager(s)
09/19/02	04/20/06	RWE Finance	155.0	102.752	Fxd/Straight Bd	5.250	-	Aa3	A+	JP Morgan
09/20/02	09/20/22	Three Gorges Dvlp	604.0	100.000	Fxd/Straight Bd	4.760	-	NR	NR	CITINS
09/20/02	09/25/12	UGI Utilities	20.0	100.000	Medium-Term Nts	5.530	-	A3	BBB+	Wachovia
09/20/02	09/25/12	UGI Utilities	20.0	100.000	Medium-Term Nts	5.530	171	A3	BBB+	Wachovia
09/23/02	03/22/03	Cia de Electricidade da Bahia	17.0	Market	Promissory Nts	Zero	-	NR	NR	Bnk Boston Brazil
09/23/02	10/01/32	Otter Tail	25.0	100.000	Notes	6.800	204	A2	A	A.G. Edwards
09/23/02	10/01/17	Otter Tail	40.0	100.000	Notes	5.625	87	Aaa	AAA	A.G. Edwards

### M&A

Date Announced	Date Effective	Target Name	Target Country	Acquiror	Acquiror Country	Value (\$mil)
09/19/02	-	Crockett Cogeneration	U.S.	Undisclosed Acquiror	Unknown	82.000
09/19/02	-	WattPlus	Belgium	Essent	Netherlands	-
09/20/02	-	Miramar Con Mine-Bluefish	Canada	Northwest Territories Power	Canada	6.352
09/23/02	-	Natural Gas Corp.	New Zealand	Genesis Power	New Zealand	-
09/24/02	09/24/02	Jilin Electricity Power	China	China Fund Management	China	-
09/24/02	09/24/02	Jilin Electricity Power	China	Boshi Fund Management	China	-

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

## GOLDMAN'S GORDON

(continued from page 1)

banks cutting their ties to the industry it sees great opportunities as a capital provider. However, the official stresses that AIG is not in a hurry to set out its stall just yet as it's still evaluating a raft of ideas. "The only thing that is clear is that Gordon wants to bring on board a number of experienced industry players."

Other market watchers speculate that Gordon likely is charged with building an asset-focused power and gas trading business as this is his area of expertise. He was handed a similar task at Goldman in London before leaving the bulge bracket firm this summer (PFR, 6/30). Prior to that Gordon was widely credited with building up Goldman's IPP business with Constellation Energy.

AIG's newfound appetite for acquiring energy assets was highlighted earlier this month through its acquisition of Williams Cos' Central Pipeline for \$380 million. AIG purchased the pipeline through its Highstar private equity fund (PFR, 9/17).

AIG Trading began eyeing a return to the energy markets at least as early as the turn of this year when it hired David Jones from Statoil to develop the strategy. At the time Jones said AIG was looking for a senior manager to fire up and run the team. Rival traders say AIG has made negligible headway in building a presence since then, but were unsure as to why it had kept its powder dry.

Its renewed appetite for the power market follows a four-year hiatus. AIG has been out of the market since selling its 90-strong energy trading operations to predecessors of Sempra Energy. Along with the \$190 million price tag it pocketed when the deal was completed at the end of 1997, AIG became subject to a non-compete clause, which expired last year. —Will Angier

## MERRILL REPORTEDLY

(continued from page 1)

Bill Halldin, a spokesman for Merrill in Sacramento, Calif., says reports that Gordon was trying to shop the unit are "absolutely false," adding that Merrill decided in 2000 to exit the energy trading business because it was not prepared to own generation plants. Debbie Beck, an Allegheny spokeswoman in Hagerstown, Md., declined to comment.

Merrill and Allegheny slapped lawsuits on each other last week relating to the sale in January 2001. Merrill is suing Allegheny for breach of contract over \$115 million the investment bank says it is owed as a result of the sale. Allegheny is suing Merrill for fraud. Allegheny announced earlier this year it would scale back the trading business because of the downturn in the energy markets and that Gordon would step down as head of trading but continue in an advisory capacity until next year. Gordon's position was abruptly terminated early this month for violating corporate policies, according to Allegheny. Merrill alleges that Allegheny has failed to make the final payment associated with the sale of GEM.

According to Allegheny's suit, Merrill artificially inflated the trading volume and revenue of GEM in disclosure schedules provided to the utility. The suit claims that: "...GEM's net operating revenues increased dramatically in December 1999 - from \$700,000 in November 1999 to \$3,000,000 in December 1999." In an article in early August, *The New York Times* reported that Merrill entered sham electricity transactions with Enron in December 1999 designed to help the Houston trader meet year-end profit targets. The suit also claims that "...Merrill Lynch also knew or should have known that...Daniel Gordon was very difficult to control or supervise."

Stanley Arkin, Allegheny's counsel, declined comment. Calls to Shearman & Sterling, a law firm representing Merrill, were referred to Mark Herr, a Merrill spokesman in New York. Herr described Allegheny's allegations as "baseless and untrue."

One senior energy lawyer believes the suits likely will be settled out of court, but not before attorneys have made a killing. "Merrill is pulling on the head of the cow and Allegheny is pulling on the tail [while the] lawyers are busy milking it," he quipped.

—Victor Kremer

## SPANISH GIANT

(continued from page 1)

since the end of July, notes one financier. The deal is being held up by uncertainty over whether Dragados will bring on board another sponsor. "Naturally, the banks want to know the identity of any new sponsor before they sign a deal," he explains. Financiers involved in the deal either declined to comment or did not return calls.

Dragados will use the proceeds to fund the construction of 1 GW of wind farm generation capacity around Castilla La Mancha, Leon and Madrid. Dragados' renewable energy arm Urbaenergia is developing the wind parks.

The loan likely will mark the second largest wind project loan to date. Last year WestLB, Banco Bilbao Vizcaya Argentaria, Banco Espanol de Credito, Ahorro Corp. and Credit Agricole Idosuez arranged an \$862 million project loan for Energias Eolicas Europeas (EEE), to fund the development of 31 wind farms in Castilla La Mancha with a 1,173 MW combined capacity (PFR, 4/16).

—W.A.

## Events

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

"CSFB, as a big institution, had an inside view, but we didn't get it right either. In the rearview mirror, we could say that everyone was complacent." —Ray Wood, managing director in Credit Suisse First Boston's energy group, reflecting on the firm's limited grasp on the potential troubles that were brewing in the power industry prior to Enron's collapse (see story, page 6).

## One Year Ago In Power Finance & Risk

Endesa, Spain's largest utility, was setting up a business development unit in New York and was planning to transfer three executives from its Madrid headquarters to seek out investment opportunities in the U.S. Endesa was looking to spend \$2-\$3 billion to enter the U.S. market, according to one analyst. [Endesa is no longer looking for investments in the U.S. and has sent two executives back to Madrid and the third to Chile. An official says that rather than expand into the U.S., Endesa has decided to focus on improving its current businesses and strengthening its balance sheet. He adds that the move reflects the uncertainties of the U.S. and Latin American energy markets, as well as an overall downturn in economic conditions worldwide.]

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