

power finance & risk

The exclusive source for power financing and trading news

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Web Exclusives

Golden State developer **Earth Tech** is looking to tap the Mexican bank loan market to fund two transmission projects.

CoBank and London-based **Abbey National Treasury Services** are edging towards non-recourse financing for **Tractebel North America's** 343 MW Ennis plant.

Atlantic City Electric Co., a wholly owned subsidiary of **Conectiv**, is set to issue \$440 million in rate reduction bonds.

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

In The News

Tractebel Readies Portfolio Deal	2
Merrill Lands Debt Analyst	3
Enel Holds Plant Auction	3
Shell Nabs Power Financier	4

Corporate Strategies

Boston Utility Taps Bond Mart	4
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Latin America

Fenosa Seeks Partners	4
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Departments

Generation Auction & Sale Calendar	6
Weekly Recap	9

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DYNEGY REPORTEDLY LOOKS TO EXIT MERCHANT GENERATION BIZ

Dynegy is looking to divest its 13,100 MW merchant generation portfolio and over the past two weeks has begun sounding out a number of investment banks over handling the sale process, say Wall Street players in touch with the company. The move implies a far more significant retrenchment at the once high-flying energy merchant than suggested by its announcement last Wednesday that it would exit energy trading.

Art Shannon, a spokesman at Dynegy, declined comment on a possible sale, but says,

(continued on page 12)

AEP SEEN TURNING TO BALANCE SHEET FOR \$1B U.K. REFINANCING

AEP Corp. is likely to have to refinance the GBP650 million (\$940 million) acquisition cost of two U.K. coal-fired plants on its balance sheet, after European project financiers balked at replacing a similarly sized bridge loan with a long-dated non-recourse deal.

Financing difficulties at its U.K. operations could unnerve some investors given the damage inflicted on TXU Corp. by its U.K. generation and trading business over the past two weeks, suggests one banker. "Everyone's liquidity is tight these days and that's a

(continued on page 12)

CHICAGO HEDGE FUND BEEFS UP WITH AQUILA HIRES

Citadel Investment Group, the Windy City hedge fund with some \$6-7 billion in assets, has begun expanding its nascent energy trading operation with a couple of senior hires from Aquila.

Rusty Smith, until recently head of Aquila's London trading operation, and Sanjay Jacobs, a gas/power spread trader at Aquila in Kansas City, have both joined the effort, say market officials. Both have reputations as aggressive deal makers, comments one

(continued on page 11)

TRANS-ELECT PICKS LEADS FOR ILLINOIS POWER WIRES FINANCING

Trans-Elect, the first for-profit independent transmission company in North America, has signed up Westdeutsche Landesbank and Société Générale to lead the financing for its \$239 million acquisition of Illinois Power's high-voltage electric transmission system. The latest deal comes just a few months after Trans-Elect acquired the Consumers Energy transmission system and the quickening flow is leading some project financiers to see the Reston, Va.-company as a potentially lucrative new client. Calls to Martin Walicki, senior v.p. finance at the company, were not returned. Bankers at SocGen

(continued on page 11)

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

U.K. Power Jumps On TXU Concerns

Wholesale power prices in the U.K. spiked sharply early last week on fears that an imminent bankruptcy at **TXU Europe** could send a number of generators to the wall. Baseload power prices for winter delivery spiked from GBP17.50 (\$27.40) per MWh to GBP19.50 on Monday on concerns that TXU would default on five or so offtake agreements, but primarily a GBP250 million annual capacity facility with the 4 GW DRAX power station.

"This will offer some temporary respite to merchant generators, but the forward market suggests that prices will fall back again shortly," notes one London broker.

Deutsche Bank Nabs Goldman MD

Deutsche Bank has hired **Frank Kinney**, a managing director in **Goldman Sachs'** global natural resources group in New York with a focus on power, to cover mergers and acquisitions and corporate finance for unregulated energy concerns. Kinney is currently on gardening leave and will join the German bank in late November, says a banker. Kinney will report to **Rob Gray**, global head of utilities and energy, and will work alongside **Michael Johnson**, head of utilities, and **James Denaut**, head of oil and gas. Kinney could not be reached immediately and Johnson declined to comment. Calls to **Chansoo Jung**, Goldman's global head of natural resources, were not returned.

Deutsche Bank's hire of Kinney ends a two-year search to fill the position. The banker told *PFR* in May that finding the new hire was proving an onerous task because as a prerequisite the individual needed a tremendous Rolodex of industry contacts (*PFR*, 5/20). He says, "Kinney fits the bill because he was at Goldman for more than 14 years."

Tractebel Readies Portfolio Launch

Tractebel North America's long-awaited \$1.6 billion program financing for four U.S. power plants was set to go live late last week, but while out-of-the-box pricing is still set at a thin 1 3/8% basis points over LIBOR it could be flexed higher if enough potential lenders push for it. Lead arranger **Credit Suisse First Boston** and the sponsor have been getting feedback from some banks that the initial pricing is too tight given the jittery market (*PFR*, 9/2). Rather than pushing the pricing issue directly, CSFB has been encouraging banks to voice their concerns directly with the sponsor, say market officials. CSFB officials declined comment.

The financing is structured as a program with four separate deals to follow the process of signing up banks for program membership. CSFB is offering nine arranger slots during syndication and below that a number of co-arranger and senior managing agent positions. Each title has a maximum program commitment level, and a maximum commitment per project (see table below).

The deals have long-term tolling agreements backed by the company's well-heeled Belgian parent. Because of the secure toll and Tractebel's belief that it has strong relationships to call on, particularly with European banks, the company may stick with pricing at the 1 3/8% level.

Title	Max. Program Commitment (\$mil)	Max. Ticket Size Per Plant (\$mil)	Commitment Fees	Allocation Fees
Arranger	100	30	50bps	50bps
Co-arranger	80	24	45bps	35bps
Snr Managing Agents	60	18	40bps	25bps

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Under The Weather

LIFFE Struggles In Weather Mart

Since launching weather derivative contracts nearly a year ago the **London International Financial Futures Exchange** has brokered only a single trade, a contract between **Aquila** and **Accord Energy**, the trading arm of **Centrica**.

Malcolm Wall Morris, weather derivative manager at LIFFE, admits the lack of interest has been disappointing, but blames external circumstances. "While we recognized the market was at an embryonic stage, no one could have anticipated the demise of **Enron** and the withdrawal of a number of energy players." He adds, "We are in regular contact with the market and the general consensus is that we're offering the right products. It's just a question of time until the market picks up."

Merrill Snags TD Debt Analyst

Merrill Lynch has hired **David Silverstein**, a high-yield fixed-income power analyst at **TD Securities** in New York, as director overseeing the coverage of power, oil and gas companies. Silverstein covers approximately 30 companies in total including **AES**, **Mirant**, **Calpine** and **TXU** on the power side.

Silverstein replaces **Christy Parsons**, who has joined **CIBC World Markets** in a similar position. Silverstein's spot at TD has not yet been filled. While at TD, Silverstein reported to **Edward Siegel**, head of fixed-income research. At Merrill he now reports to **Marc Pinto**, head of credit research. Siegel, Pinto and Parsons either did not return phone calls or declined comment. Silverstein declined to be interviewed.

TXU Selects Advisors

TXU Corp. and **TXU Europe** have appointed **Merrill Lynch** and **NM Rothschild**, respectively, to advise on a potential sale and restructuring at the embattled European energy player, according to City investment bankers. Officials at both banks declined to comment, as did **Carol Peters**, a TXU spokeswoman.

Market watchers say the decision to hire different investment banks is unusual, given that TXU Corp. still retains full ownership of TXU Europe. They argue the move probably reflects a growing realization that TXU Europe could be put into administration. If TXU walks away from its troubled subsidiary—as is looking increasingly likely—then it and TXU Europe would have very different aims and needs, notes one City banker. The official argues that Merrill will focus on advising the parent on how much money to inject

into Europe, work toward mitigating the parent's exposure to Europe and managing its liquidity needs. Rothschild will advise on restructuring TXU Europe's operations and divesting assets.

Enel Holds Third Generation Sale

Italian utility **Enel** held its third and likely final auction of domestic generation assets last Thursday and is expected to announce a winner of the 2.6 GW business early this week. Ahead of the sale bankers said **International Power**, a consortium comprising **Tractebel** unit **Electrabel**, **Energia** and Rome utility **Acea**, and an SPV dubbed **Gemina** were all due to submit sealed bids for Interpower. Officials at all three bidders did not return calls.

The auction marks the first of two encounters between the Belgian power utility and the British IPP. On Nov. 18 the pair will slug it out again, this time alongside French oil giant **TotalFinaElf** for the rights to build own and operate **Um Al Nar**, a 1.7 GW power and water project in Abu Dhabi, being auctioned by the **Abu Dhabi Water & Electricity Authority**.

One London investment banker predicts that Tractebel's deeper pockets will allow it to outbid International Power in both auctions. However, a weakening IPP sector and the withdrawal of a number of U.S. generators from the European and Middle Eastern markets is expected to reduce the eventual price tags. Enel has set a price floor of EUR1 billion (\$986 million) for the Interpower auction.

Goldman Releases London Banker

Isabelle Hayen, an investment banker within **Goldman Sachs'** European power and energy group, left the firm two weeks back as part of wide-ranging cutbacks at the bank, say market watchers. Press reports earlier this month reported that Goldman was about to embark on a 10% cull of its global investment banking staff to offset the impact of minimal equity underwriting and merger and acquisition opportunities. Calls to another energy banker, **Paul Shapiro**, were referred to spokesman **Scott Eaton**, who did not return calls.

Rival bankers say the loss of Hayen leaves Goldman's power franchise looking increasingly threadbare. Earlier this summer **Richard Morse**, head of the European power group left the firm (PFR, 7/14). Goldman has yet to replace Morse despite charging recruitment consultant **Armstrong International** to find a successor, note bankers. Calls to **Aden Kennedy**, a consultant at Armstrong in London, were not returned.

Hayen joined Goldman's power investment banking group at the turn of this year. Previously, she was a European utility equity analyst at the bulge bracket outfit (PFR, 1/21).

InterGen Financier Joins Shell

Charlie Seymour, v.p. covering project finance at InterGen in London, moved earlier this month to the IPP's joint owner **Shell** to work on power and water desalination projects in Saudi Arabia. Seymour says he will be involved in non-recourse financing related to power projects associated with Core Venture 3, a Saudi gas initiative that involves bringing in international oil and gas companies to open up the country's gas reserves. He declined further comment on the projects.

Seymour says he left InterGen partly because of plans at the **Shell/Bechtel** joint venture to scale back new projects and relocate staff to Edinburgh. The Burlington, Mass.-based IPP decided to close its roughly 50-strong London operation earlier this summer as part of plans to shift its regional focus away from developing generation projects to consolidating its portfolio of European and Middle Eastern power plants (PFR, 7/28).

Seymour most recently was involved in arranging GBP429 million (\$633 million) of non-recourse debt financing for InterGen's Spalding CCGT project in the U.K. The **Citibank/Barclays Capital**-led loan closed late summer after a rocky syndication process (PFR, 7/15). Earlier, he was involved in financing InterGen's Turkish projects. Seymour joined InterGen in 1999 from **Warburg Dillon Read** (PFR, 9/7/99).

Corporate Strategy

Boston Utility Taps Bond Market, Refinances CP

Boston Edison, a regulated utility business of **Nstar**, issued \$500 million in floating and fixed-rate notes on Oct. 15 in order to take advantage of the low interest-rate environment and help pay down outstanding commercial paper at both the subsidiary and the parent level.

Donna DiDonato, an analyst at **Fitch Ratings** in New York, says the agency assigned the bond offering an AA minus rating to reflect the favorable regulatory environment and a service territory that benefits from a diverse economy. The rating also takes into account Boston Edison's operations with affiliated utility subsidiaries, but at the same time its clear separation from them, she says.

The A1/A/AA- rated deal was divided into two tranches of \$400 million of fixed-rate notes and \$100 million of floating-rate notes. The larger tranche has a 10-year maturity, a coupon of 4.78% and was priced at 99.297. The smaller piece has a three-year maturity, pays an initial yield of 2.275% and pays a spread of 50 basis points over LIBOR. The underwriters included **Bank One Capital Markets**, **Credit Suisse First Boston** and **Salomon Smith Barney**.

Repeated calls to officials at Boston Edison were not returned by press time.



Latin America

Union Fenosa Seeks Partner For Mexican Projects

Union Fenosa is seeking a strategic partner to inject equity capital into four power projects in Mexico that have struggled to seal non-recourse debt financing. A New York project financier who has spoken to the company says Fenosa is uncomfortable about injecting more equity capital in the Naco Nogales (300 MW), Tuxpan III and IV (938 MW), and Hermosillo (250 MW) projects. Yet de-leveraging the projects may prove necessary to bring project lenders on board. The banker adds the move is indicative of the difficulty companies are facing in financing projects in Mexico and Latin America and their trepidation over investing equity whilst political and economic uncertainties plague the region.

The financier says Union Fenosa has faced trouble pulling together financing for all of the aforementioned projects. Financing of the \$600 million Tuxpan III and IV gas-fired power plants in Vera Cruz state has proved particularly tough.

Most recently, lead banks **Deutsche Bank** and **Bank of Tokyo-Mitsubishi** signed an approximately \$150 million bridge loan to provide interim construction financing as they looked to pull together some \$400 million in non-recourse project debt financing.

Non-recourse financing for the Tuxpan projects has already been delayed twice. The deal was originally supposed to close early last year, but subsequently was pushed back until this fall, says a banker. In August the timetable was again altered, with financing delayed until next year (PFR, 8/12).

Union Fenosa also has faced delays with the financing for the construction of Naco Nogales, a \$200 million 300 MW gas-fired plant that is scheduled to come on line next April (PFR, 4/1). Lead arranger **Citibank** has not yet been able to pull together a non-recourse loan for the project. *PFR* was unable to ascertain details on the Hermosillo project.

Bankers at Citibank, Deutsche Bank and BoTM either declined to comment or did not return calls. Repeated calls to Union Fenosa's press office in Madrid were not returned.

BNP Closes Mexican Financing

BNP Paribas closed financing last month on a \$236 million, two-year non-recourse loan funding the construction of four transmission lines and two substations in Mexico. **Mark Wisniewski**, a BNP spokesman, says that during syndication **Credit Lyonnais** and **Fortis Bank** signed on as arrangers at the \$50 million level, **Credit Agricole Indosuez** inked a \$25 million co-arranger slot and **KBC Bank**, **Landesbank Badens-Wurtemberg** and **Landesbank Schleswig-Holstein Girozentrale** bought \$10 million senior managing agent tickets. Wisniewski adds that additional banks are looking to sign on to the transaction, but declined to provide further

comment.

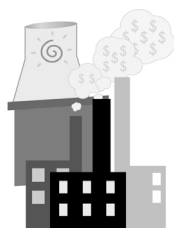
The **Comision Federal de Electricidad**, Mexico's national power company, awarded the rights to build the Manuel Moreno Torres wires project to **Elina Sureste**, a special-purpose company sponsored by **ABB Solutions**, a Swiss contractor and **Techint Group**, a construction outfit based in Buenos Aires (PFR, 8/26). They in turn awarded BNP the mandate to arrange debt financing in May.

The transmission lines span across the Mexican states of Chiapas, Oaxaca, Vera Cruz and Tlaxcala and include 797 kilometers of wires. The entire project will cost \$269 million to build and is expected to be operational in 2004.

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	Has wrapped up syndication.	10/7/02
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	Macaé	Gas-fired	400	700-800	Brazil	SocGen	Financing due shortly	7/9/02
Elina Sureste	Manuel Moneno Sores	Transmission	-	269	Mexico	BNP	Has closed financing	10/21/02
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	Naco Nogales	Gas-fired	300	-	Mexico	Citi	Seeking equity partner	10/21/02
Union Fenosa	Tuxpan III & IV	Gas-fired	938	600	Mexico	Deutsche Bank/BOTM	Banks have provided bridge loan	10/21/02



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	-	-
	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)			

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www.iipower.com - OCTOBER 4

TXU SET TO REIN IN EUROPEAN BUSINESS

TXU Europe is set to announce significant job losses and a corporate restructuring imminently to stop bleeding cash and shore up its balance sheet. The job losses reportedly will result in redundancies from its trading, marketing and retail divisions, according to two officials who have spoken to TXU. The company likely will shut satellite offices across Europe, they added. Christian Judge, a spokesman in Ipswich, U.K., declined to comment.

The move follows falling prices in the U.K. wholesale

THE TIMES

October 5
2002

TXU Europe sheds staff

TXU Europe, the energy company, plans to cut about 200 jobs to reduce costs after TXU Corp. its US parent, issued a warning on profits, blaming low UK power prices. About 2,000 people work for TXU in the UK, with another 2,000 employed in mainland Europe. UK wholesale power prices have slumped about 40 per cent since 1998 in the lead up to, and after, the launch last year of new, more competitive electricity trading arrangements. TXU Europe's largest power purchase contract is with the Drax power station, the largest plant in the UK.

PFR - SEPTEMBER 2

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

THE 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

PFR - JUNE 24

BofA REPORTEDLY READIES POWER TRADING; HIRES ENRON QUARTET

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

REUTERS

June 28
2002

Bank of America gets OK to trade electric derivatives

WASHINGTON, June 28 (Reuters) -

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

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

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

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

"It's an obvious next step. We've been in the commodities derivatives business for some time," including crude oil and natural gas, the spokesman said. The move is a response to a request from wholesale energy buyers and sellers, he said.

Derivatives are private transactions between companies and financial firms used to manage risks in interest rates, currencies and commodity prices.

Enron previously dominated the market for over-the-counter electricity derivatives, after it spearheaded a heavy congressional lobbying effort to leave that market unregulated by the Commodity Futures Trading Commission (CFTC).

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

- **Ofgem**, the U.K. energy regulator, is prepared to see a raft of struggling power stations either close or go bust rather than reform the country's recently installed trading infrastructure, the New Electricity Trading Arrangements, which have caused prices to plummet by 40% (*The Sunday Telegraph*, 10/13).
- **TXU Europe** is axing 60% of the staff at its Geneva energy-trading unit in an attempt to slash costs at the ailing power company. A source at TXU says 80 out of 135 employees had been told they were losing their jobs (*Reuters*, 10/14).
- U.S. utility **American Electric Power** is pulling out of the German and Nordic power trading markets as part of a global cutback in energy trading. Rival traders said the company had informed counterparties that it would withdraw from the German power market immediately (*Reuters*, 10/13).
- The Russian Parliament has approved a long-delayed set of bills to overhaul the country's power sector and break up the state monopoly **RAO Unified Energy System**. President **Vladimir Putin** has made the overhaul of Russia's electricity and gas monopolies a centerpiece of his drive to overhaul Russia's economy. But restructuring UES has become one of the country's most contentious issues, with ministers, management, minority shareholders and regional governors all vying to put their stamp on the blueprint (*Dow Jones*, 10/13).
- The Polish government has agreed to sell Warsaw utility **STOEN** to **RWE**. The acquisitive German power and water group will pay \$363 million for an 85% stake, giving it control of business covering 780,000-plus customers and over 5% Poland's power distribution market. The state treasury said RWE would invest an additional \$100 million in the Warsaw group over the next three years (*Reuters*, 10/16).
- **Aquila** has sold Hole House Farm, a natural gas storage facility near Crewe, U.K., to an undisclosed U.K. energy trader for \$34.9 million. The sale is part of Aquila's \$1 billion asset sale program. The company already has agreed to sell \$911 million in assets, of which \$731 million have been completed (*Dow Jones*, 10/16).

- Cash-strapped **TXU Europe** is understood to have failed to make a GBP20 million payment due last Monday for electricity supplied by **AES Drax**, the U.K.'s largest power plant. "It can come as a surprise to nobody that while contracts renegotiations are on-going, prescheduled payments are subject to that same renegotiation," said **Martin Stanley**, managing director at TXU Europe (*Financial Times*, 10/16).
- Spain's largest bank **Santander Central Hispano** says it has no plans to sell its 20.4% stake in **Union Fenosa**. Early last week Spanish media had reported that **Electricidade de Portugal** Italy's **Enel** and Germany's **RWE** had sounded out **SCH** about whether it was prepared to sell its stake in Spain's number three power company (*Reuters*, 10/15).
- The European Commission is to take action against **Electricité de France** over concerns that tax breaks and bond guarantees from the French government gave it an unfair advantage over rivals utilities. These benefits amounted to some \$989 million of state aid (*Financial Times*, 10/16).
- **Peter Giller**, ceo of **International Power**, has been replaced at the helm by COO **David Crane**. Giller will stay on at the London-based IPP as deputy chairman. Crane denied that the board-room reshuffle was due to the company's poor performance this year, noting International Power was keen to retain the services of Giller (*Financial Times*, 10/17).

Latin America

- Argentina's government will likely allow some utility tariff hikes by year's end. There should be a change in tariffs within two months, said a source at Argentina's utility watchdog. The government has kept utility prices flat throughout this year, even while inflation in the first nine months of this year reached almost 40% (*Dow Jones*, 10/15).
- Spanish utility **Iberdrola** is considering reducing its investments in Mexico and Brazil over the next four years. "It's possible that some of the investments, like those in Brazil, are cut back," said CEO **Sanchez Galan**. Iberdrola had planned to invest EUR2.6 billion in Mexico and EUR1.1 billion in Brazil as part of an overall EUR12 billion global investment plan in the 2002-2006 period (*Cinco Dias*, 10/15).

U.S. & Canada

- **TXU** has slashed its third-quarter dividend by 80% and put its European businesses up for sale. The Dallas-based energy-services company is offering for sale all or portions of **TXU Europe** to help ensure its credit and liquidity position remains strong, and has decided to limit investments in its European operations to minimal levels (*The Wall Street Journal*, 10/15).
- **Platts**, an energy research-and-information provider, has received a subpoena from the **Commodity Futures Trading Commission** seeking documents, employee information, customer lists and policies related to its energy-price indexes. The move comes after **American Electric Power** and **Dynegy** disclosed that some of their traders provided inaccurate pricing information to Platts and other publishers of price data (*The Wall Street Journal*, 10/14).
- **Exelon** has named **Robert Shapard** as its new cfo, taking over from **Ruth Ann Gillis**. Shapard, **Covanta Energy's** cfo, will takeover early next month and Gillis will become president of **Exelon Business Services** (*Dow Jones*, 10/14).
- **Duke Power** will likely lay off hundreds of workers in the next few months, because of a deteriorating economy in the Carolinas, improvements in technology and centralization of work practices within the company. Duke hasn't said exactly how many cuts will be made, but it will be in the hundreds. It currently employs 10,300 people (*Associated Press*, 10/15).
- Castle Rock, Colo. based **Nathaniel Energy** plans to build a \$25 million, 25 MW tire-fueled power plant in Tonopah, Nev. The generator will have a capacity to burn up to 20 million tires a year. Despite environmental opposition to tire burning, Nathaniel Energy claims its proprietary system avoids pollution because it burns tires at such high temperatures — 3,800 to 4,000 degrees Fahrenheit — that virtually all toxins and pollutants are combusted (*The Denver Post*, 10/15).
- **Morgan Stanley's** trading unit has received a subpoena from the **Commodities Futures Trading Commission** as part of the regulator's ongoing investigation of trading by energy and power-marketing firms. The investment bank says the CFTC has requested trading information and the firm is cooperating (*Dow Jones*, 10/16).
- **Dynegy** will be exiting the marketing and trading business in the U.S., Canada and Europe as part of a restructuring plan unveiled last week. In connection with the plan, President **Steven Bergstrom** will resign (*Dow Jones*, 10/16).
- The **Federal Energy Regulatory Commission** says it would rule late next month on **El Paso's** concerns about receiving a fair hearing of allegations that it helped **Enron** sidestep trading rules during the California energy crisis. El Paso Electric, a small Texas-based utility, has complained that its due process rights would be violated if FERC continues with a broad investigation into energy trading practices at the same time FERC lawyers pursue a case (*Reuters*, 10/15).
- **Enron** has asked a federal judge in Houston to prevent the public release of documents for shareholder lawsuits. The Houston-based company argues it had no time to mark out or cull proprietary information in the millions of pages provided to the government. The company is looking to protect the confidentiality of documents provided to government agencies and Congress (*Houston Chronicle*, 10/15).
- **Enron CEO Stephen Cooper** said it should take another year to complete the company's bankruptcy proceedings. Speaking to business students at **Rice University**, Cooper said it is unclear whether a semblance of Enron will emerge from bankruptcy, or whether the company will be sold piece by piece (*Houston Chronicle*, 10/15).
- The U.S. **Federal Energy Regulatory Commission** said it would allow generating companies selling electricity in California to exceed a \$250 per MWh price cap as long as the firms could justify the higher price (*Reuters*, 10/15).
- Despite delivering total returns of about 600% since its inception in 1997, market watchers are starting to wonder whether **Kinder Morgan Energy Partners** and other master limited partnerships are beginning to lose steam. The key to past success has been an ability to use acquisitions to boost dividends, which attract new investors and provide cheap currency for yet more acquisitions. Now, ornery capital markets and heightened concern from rating agencies about debt are making acquisitions more difficult (*The Wall Street Journal*, 10/16).
- Tennessee utility **Memphis Light, Gas & Water** says it will ask the U.S. Treasury for approval to sell \$1.5 billion in tax-free bonds to finance a PPA with the **Tennessee Valley Authority**. Approval from Washington would pave the way for Memphis utility to finalize a prepayment plan with the TVA to secure lower rates. Under that deal, the utility would receive a roughly 4% discount on its power bill by paying a lump sum up front to cover 15 years of service (*Reuters*, 10/16).

CHICAGO HEDGE

(continued from page 1)

trading official. Smith declined comment and calls to Jacobs were referred to **Scott Rafferty**, an investor relations official, who also declined comment.

The secretive fund underlined its commitment to launching an energy trading operation earlier this year with the hire of **Vince Kaminski**, founder and head of **Enron's** research group (PFR, 5/5). "Don't bet against Kaminski," says one market watcher about the prospects for his foundling operation. Another adds that trading likely will be based upon rigorous quant models established by Kaminski.

Smith was head of the cross-commodities desk in Kansas City prior to heading to London, and both staffers are well versed in option trading across asset classes, says an ex-Aquila staffer.

Aquila signaled earlier this year that it was axing its considerable merchant trading operation after failing to seal a deal with potential partners, which reportedly included Citadel.

A market official says Citadel was interested in a particular type of staffer, "They were interested in young trading studs who've racked up big books," he says. A spokesman at Aquila says the company has not been keeping a formal record of who has gone to Citadel because it is not involved in the offers.

—Peter Thompson

TRANS-ELECT

(continued from page 1)

referred calls to officials at WestLB, sole bookrunner, who declined comment.

The financing is some way off as the deal has to pass muster with various regulatory authorities, says a banker. In its official announcement of the plan, the company says it expects the deal to close in the first half of next year. The format of the financing will likely include some debt at the operating company and holding company level. The bank loan, term loan B and private placement markets may also form part of the mix. One project financier, who says he has pretty much shut the book on new generation deals at the moment, says when the paper arrives it should attract a high level of interest because of its rarity value and the fact it is regulated.

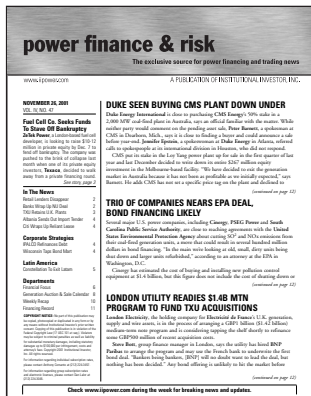
Although formed in 1999 to acquire transmission assets, it is only really this year that deals have started to flow for Trans-Elect. "They have started to get a higher profile this year," says one banker.

The facilities in the Illinois Power acquisition include 1,700 miles of transmission lines. After the deal closes, Illinois Power will contract for use of the transmission facilities on the same basis as other transmission customers. Trans-Elect will participate in a regional transmission organization under the same conditions that would have applied to Illinois Power.

—P.T.

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DYNEGY

(continued from page 1)

"At the right price, though, anything is for sale."

The Houston concern plans to focus the business on hard assets, says Shannon. These include its natural gas liquid assets, a utility with some 650,000 natural gas and electricity customers across Illinois, and its portfolio of power plants.

A New York utility analyst familiar with the matter says Dynegy is going to look like a completely different company once it dismantles the trading business and sells off some generation. He quips, "It'll be like Macy's department store getting out of the retail business." He says, however, that it makes sense for Dynegy to sell off much of its generation because the company's strategy has historically been to have a strong trading business backed up by generation. The generation component of the business is no longer necessary if there isn't any trading going on, he says.

Meanwhile, one investment banker who has spoken to ChevronTexaco's management about its plans says Dynegy's latest move has caused the oil giant to distance itself further from its affiliate, as a strong factor in their relationship was Dynegy's ability to market ChevronTexaco's gas output. The banker adds ChevronTexaco does not intend to pump any more capital into Dynegy. David O'Reilly, chairman and ceo of ChevronTexaco did not return calls by press time, and Fred Gorell, a spokesman, declined comment.

—Amanda Levin

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AEP SEEN

(continued from page 1)

substantial amount of refinancing," notes David Burks, a utility analyst at J.J.B. Hilliard W. L. Lyons in Louisville, Ky. Tom Ayers, an AEP spokesman in Columbus, Ohio, says it is currently talking to banks to replace the original loan, but declined further comment on the structure or timeline.

The refinancing relates to AEP's acquisition of Fiddler's Ferry (2,000 MW) and Ferrybridge (2,000 MW) last winter from Edison Mission Energy. A quartet of banks, Barclays Capital, CIBC Capital Markets, Commerzbank and Westdeutsche Landesbank, arranged interim financing through a GBP650 million bridge loan, under the expectation that the bulk of this could be taken out in short order through a GBP400 million 10-year non recourse facility (PFR, 2/18). The quartet originally planned to launch the project loan last spring, but then pushed the date back to the fall. After sounding out banks in recent weeks about their willingness to commit funds to the deal, AEP and its lenders decided to scrap the project loan idea, notes one financier involved in the transaction. He adds the interim financing expires at the end of this year.

While refinancing the bridge at the corporate level is unlikely to please AEP's creditors, market watchers say the utility has the financial clout and liquidity cushion to digest the deal. Denise Furey, an analyst at Fitch in New York, says, "It's a very large company that has easy access to the capital markets. If it wants to fund [the plants] on its balance sheet, it can." She adds that any comparisons between TXU and AEP are largely erroneous. "TXU is large, but AEP is larger."

A sharp downturn in U.K. energy prices over the past year has undermined AEP's access to the U.K. project loan market. The plants are largely run on a merchant basis, except for a small toll with AEP, so getting lenders comfortable with a project loan was nigh on impossible, explains one London financier.

—Will Ainger

Calendar

Energy Business Watch is holding its *Changing Wholesale Power Markets* conference at The Sutton Place Hotel in Chicago on Oct. 22-24. To register call 202-944-4144.

Quote Of The Week

"TXU is large, but AEP is larger."—Denise Furey, an analyst at Fitch in New York, reflecting on AEP Corp.'s relative strength compared to TXU Corp. and better scope for withstanding problems in the U.K. market (see story, page 1).