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Ohio Valley Deal Nears

Ohio Valley Electric is close to completing a \$445 million private placement to pay down debt and fund a plant upgrade.

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Duke Delays DENA Bids

Duke Energy has delayed the deadline for second-round **DENA** bids until Dec. 19 to give bidders more time to complete due diligence.

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GOLDMAN TEES UP SALE OF EAST COAST POWER

Goldman Sachs has put on the chopping block **East Coast Power**—a holding entity for a 940 MW cogeneration facility in Linden, N.J. As first reported on *PFR's* Web site on Tuesday, preliminary marketing materials have been handed out with a full-blown marketing effort to follow imminently. Goldman originally acquired the qualifying facility from **El Paso** nearly two years ago (1/19/04). **Timothy Kingston**, managing director in New York, did not return a call.

Goldman bought East Coast Power for \$456 million in cash and the assumption of

(continued on page 8)

CITADEL LANDS DEUTSCHE BANK CREDIT CHIEF

Citadel Investment Group has hired **Mark Stainton**, managing director and global head of credit correlation trading at Deutsche Bank in London, to head its 50-person energy trading business. Stainton will be based in Chicago and report to **Ken Griffin**, founder and ceo of the U.S.-based hedge fund giant which runs \$12 billion. He replaces **Scott Rose**, who left several months ago. Neither a Citadel spokesman nor Stainton would comment.

—*Laura Cochrane*

Guinea Pigs?

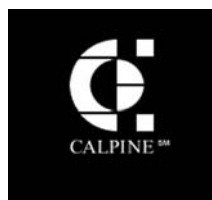
LEHMAN PREPS \$3B IN UTILITY HYBRIDS

Lehman Brothers is preparing to underwrite around \$3 billion in hybrid securities for electric utilities in the first quarter. According to *PFR* sister publication *Corporate Financing Week*, the investment bank is hoping the offerings, which will employ a security it developed this year and used for itself in August, will set the stage for corporate industrial issuers to warm up to the equity-like bonds.

Other Street firms have come up with their own brands of preferreds that get 75% equity treatment from **Moody's Investors Service's** but so far only Lehman and **Citigroup** have

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CALPINE BANKRUPTCY RUMBLINGS SPARK DEBT TRADING WAVE



Calpine's high-wire act to stave off bankruptcy has compelled investors, mainly hedge funds, to make arbitrage plays on the IPP's debt. **Stephen Moyer**, analyst in at Beverly Hills-based boutique investment firm **Imperial Capital**, says his outfit has traded, on behalf of clients, several hundred million dollars of the beleaguered San Jose, Calif., power producer's debt since its announcement that CFO **Bob Kelly** and CEO

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



At Press Time Bankers Close In On Wrap Of Ohio Valley Private Placement

A private placement of \$445 million in 20-year notes to pay down existing debt and fund a power plant upgrade for **Ohio Valley Electric Corp.** is close to being wrapped. Leads **KeyBanc**, **LaSalle Bank** and **WestLB** are expected to complete the offering, which was priced to yield about 5.8% over 4.5-year Treasuries, one banker close to the deal says. The issuance is expected to be completed Dec. 19. Formed in 1952 by 15 sponsoring electric companies in the Ohio Valley, including **American Electric Power** and **FirstEnergy**, the company's unsecured debt is rated BBB- by **Standard & Poor's**. Officials at the banks declined to comment while OVEC officials in Piketon, Ohio, did not return a call for comment.

The offering is intended to replace \$305 million in 5.94% notes led by **ABN AMRO** and **McDonald Investments**, which are set to mature in February. OVEC's two plants are Kyger Creek Plant in Cheshire, Ohio, and Clifty Creek near Madison, Ind., which began operations in 1955 and, are connected by a network of 776 miles of 345-kilovolt transmission lines. Environmental upgrades were launched to put in place scrubbers to reduce the emission of pollutants.

Duke Pushes Back Second Round DENA Bids

Duke Energy has pushed back the deadline for second-round bids on its **Duke Energy North America** assets to Dec. 19 from Dec. 9. Market participants say the company wants to give bidders more time to complete due diligence. The company has signaled a desire to wrap up the auction, which is being managed by **Goldman Sachs** and **Credit Suisse First Boston**, before yearend. The plants up for sale total 6.2 GW.

According to one official whose company is participating in the second round, the staple financing, which is being arranged by Goldman and CSFB has been finalized. CSFB and Goldman have agreed to provide a short-term PPA on the plants up for grabs but details on its contract could not be learned. Duke spokesman **Peter Sheffield**, via email, says Duke has short-listed the interested parties and expects to complete sale of these assets well ahead of a September 2006 deadline.

Names bandied about as bidders by insiders include **Carlyle/Riverstone**, **Warburg Pincus**, **ArcLight Capital Partners**, the private equity arm of **Bear Stearns**, **AIG Financial Products**, **Tenaska Capital Management**, **LS Power/FPL Group** and **International Power** (PFR, 10/28). **Barclays Capital** recently acquired the DENA trading book (PFR, 11/21). Calls to Duke weren't returned, and officials at Goldman Sachs and CSFB declined to comment.

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Do you have questions, comments or criticisms about a story that appeared in *PFR*? Should we be covering more or less of a given area? The staff of *PFR* is committed as ever to evolving with the markets and we welcome your feedback. Feel free to contact **Mark DeCambre**, managing editor, at 212-224-3293 or mdecambre@iineews.com.

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EDITORIAL

TOM LAMONT
Editor

STEVE MURRAY
Deputy Editor

PETER THOMPSON
Executive Editor [Chicago]
(773) 439-1090

MARK DeCambre
Managing Editor
(212) 224-3293

PETER ROTH
Associate Reporter
(212) 224-3226

MARI SLATER
Associate Reporter
(212) 224-3116

STANLEY WILSON
Washington Bureau Chief
(202) 393-0728

JANA BRENNING,
KIERON BLACK
Sketch Artists

PRODUCTION

DANY PEÑA
Director

LYNETTE STOCK, DEBORAH ZAKEN
Managers

MICHELLE TOM, ILIJA MILADINOV,
MELISSA ENSMINGER,
BRIAN STONE, JAMES BAMBARA
Associates

JENNY LO
Web Production & Design Manager

MARIA JODICE
Advertising Production Manager
(212) 224-3267

ADVERTISING

JONATHAN WRIGHT
Advertising Director
(212) 224-3566
jwright@iineews.com

PAT BERTUCCI, ADRIENNE BILLS,
PHILIP COX, MAGGIE DIAZ
Associate Publishers

PUBLISHING

ELAYNE GLICK
Publisher
(212) 224-3069

DAVID HOM
Associate Marketing Manager
(212) 224-3896

VINCENT YESENOSKY
Senior Fulfillment Manager
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Director of Sales (212) 224-3045

TOM GANNAGE-STEWART
Account Executive [London]
(44-20) 7779-8998

SABEENA NAYYAR
Account Executive [Hong Kong]
(852) 2842-6929

GEORGE WITTMAN
Client Development Manager
(212) 224-3019

REPRINTS

DEWEY PALMIERI
Reprint & Permission Manager
(212) 224-3675
dpalmieri@institutionalinvestor.com

CORPORATE

CHRISTOPHER BROWN
Chief Executive Officer

DAVID E. ANTIN
Chief Operating Officer

ROBERT TONCHUK
Director/Central Operations & Fulfillment

Customer Service: PO Box 5016,
Brentwood, TN 37024-5016.
Tel: 1-800-715-9195. Fax: 1-615-377-0525
UK: 44 20 7779 8704
Hong Kong: 852 2842 6950
E-mail: customerservice@iineews.com

Editorial Offices: 225 Park Avenue
South, New York, NY 10003.
Tel: 1-212-224-3293
Email: mdecambre@iineews.com

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**Institutional
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INTELLIGENCE FIRST



Calpine Fallout

Pending Asset Sales May Be In Jeopardy

Planned and pending auctions by Calpine, including a sale of its Riverside Energy Center in the Town of Beloit, Rocky County, Wis., and Rocky Mountain Energy Center to **LS Power**, could be in jeopardy given the potential of a bankruptcy filing by the IPP. Such sales could be voided by a bankruptcy judge, should the company file, even if the dispositions are consummated just prior to a filing. One New York bankruptcy attorney, declining to be identified says purchases completed could be reviewed by a bankruptcy judge in order to re-assess whether or not the company fetched the best possible value. A Calpine spokesman did not return a call for comment.

An official close to LS Power acknowledge that a deal for

Calpine is on shaky ground but would not say more. A deal had been struck in which LS Power would acquire a 45-50% interest in the pair of base-load facilities, which were constructed over the past 12-14 months and was pending **Federal Energy Regulatory Commission** approval but is now on hold, the official says.

Other deals that Calpine had been aiming to do directly, without a formal auction process, likely will also be dropped. Those include natural gas-fired peaker plants constructed between 2000 and 2002 and wholly owned by Calpine (PFR, 8/26). Those include the 116 MW Auburndale Peaking Energy Center in Auburndale, Fla., the 267 MW Tiverton Power Plant in a Rhode Island town of the same name, the 170 MW Dighton Power Plant in Massachusetts and the 538 MW Westbrook Energy Center in Westbrook, Maine. Another Maine plant, a 263 MW facility in Rumford is also under review.

Protection Trades Upfront

Five-year credit-default swap spreads on embattled independent power producer Calpine started trading upfront after its management shakeup Tuesday. The price of protection on Calpine traded Wednesday at a spread of 45 basis points upfront plus 500 bps running. "Usually when it gets this bad, it stops trading," one trader said early in the day. "It's interesting that there's still liquidity—it's something that's been noted." By the afternoon, though, traders said they weren't seeing any trades and some said they expected the San Jose, Calif., company to file for bankruptcy protection within hours or days. Others said it could hold out until Jan. 3, the date the court ordered it to return USD300 million to **Bank of New York**, the trustee for its bondholders.

The shakeup saw **Peter Cartwright**, Calpine founder, chairman, president and chief executive, and **Bob Kelly**, cfo, head out the door.

Traders and analysts interpreted the announcement to mean Calpine is planning to restructure and likely under bankruptcy. "The removal of [the ceo and cfo] signals a greater willingness to pursue restructuring," said **Jeffrey Wolinsky**, analyst at **Standard & Poor's** in New York. "Those two individuals had been opposed to restructuring."

S&P cut its rating two notches Tuesday to CCC from B minus, with negative outlook. **Moody's Investor Service** dropped its rating Tuesday to Caa3 from Caa1. **Fitch Ratings** maintained its CCC minus rating and negative outlook, which was lowered two notches Nov. 4 from CCC plus.

CALPINE BANKRUPTCY

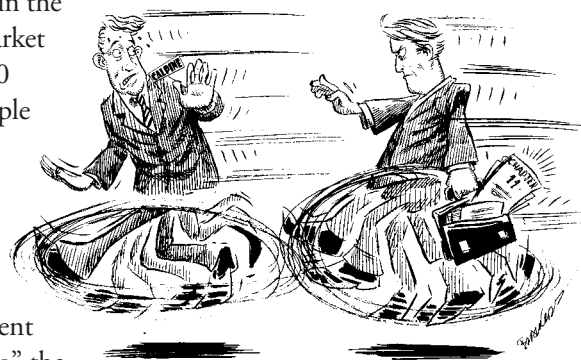
(continued from page 1)

Peter Cartwright had made an exit. Officials at Calpine did not return calls for comment and a spokesman called did not immediately return a call.

"In the last several days we have traded several hundred million in Calpine," Moyer notes. He declined to specify the nature of the trades but one New York hedge fund manager says second-lien notes at the holding company level are being scooped up feverishly in the secondary market in the high-70 context. "People love the second liens because they think it's worth par plus in the event of bankruptcy," the hedge fund manager notes.

The company has a Byzantine capital structure with some \$17 billion in debt set to mature at the holding company over the next few years. Its debt-load includes \$5.6 billion of senior unsecured bonds and some \$12 billion that holds priority, in bankruptcy, over its senior unsecured bonds, including \$642 million of first lien notes and \$3.7 billion of second lien notes.

Richard Meckler, president of Hoboken, N.J. hedge fund



LibertyView Capital Management, which owns Calpine debt, speculates that a lot of investors are making various short and long plays ahead of any possible filing. "Like **Adelphia Corp.**, there are a lot of different ways you can play it," he notes, referring to the Greenwood Village, Colo., communications company, which had a similarly hairy capital structure when it filed for Chapter 11 three years ago. Meckler declined to talk about LibertyView's position in Calpine.

Some watchers speculated that investors might be aiming to buy up Calpine's debt with a view toward taking claim of the more than 100 generation facilities that back some of the debt. Calpine has \$2.4 billion of debt, known as CalGen, tied to some 8.1 GW in plants trading in three liens at or near par, said one hedge fund trader. Holders of third lien paper, the least likely to see much cash recovery, might have an outside shot at taking claim to the plants, he speculates. The IPP also has two liens of outstanding bonds known as CCFC totaling roughly \$800 million. The trader notes that CCFC, backed by 3.3 GW in generation facilities, was also at or near par and likely to see a relatively healthy recovery so getting a hold of those assets seemed unlikely, the trader says.

Plants South Point Energy Center in Bull Head City, Ariz., and Tiverton Power Plant in Tiverton, R.I., have debt

associated with them in the secondary market, in which holders could take the keys, one manager notes. That debt was in the 90 context.

One Manhattan hedge fund official speculated that if Calpine files for bankruptcy at the holding company level, it might also file Chapter 11 for CalGen and others in order to save it from continuing to make interest payments on the debt.

Factoring in to Calpine's woes is the ruling of a Delaware court that said the company violated terms of its bond indentures buy using \$313 million in proceeds from an asset sale to buy natural gas for its facilities. As a result, **Fitch Ratings** last week lowered the company's senior unsecured debt one notch to CC, from CCC-.

Kenneth Derr, appointed as acting chairman and acting CEO replacing Cartwright, has said publicly that filing for Chapter 11 might be an option. Meckler at LibertyView suggested that Calpine has other options including working out an agreement with its bondholders in order to extend the duration of its maturing debt, thereby giving it more time. But he did not hold out hope that such a move would happen. "What is most likely is a pre-packaged bankruptcy filing, which some creditors are already asking for," he says.

—*Mark DeCambre*

Drax £877M Syndication Nears Wrap

The initial syndication stage of **Drax Group Limited's** £877 million (\$1.5 billion) refinancing package is expected to wrap this week. Subsequent rounds will follow with second tier and third tier banks after Drax goes public Dec. 15. The number of banks invited to participate could not be determined. Officials from lead banks **Barclays Capital**, **Commerzbank**, and **ING** declined not comment.

The refinancing includes a five-year £500 million term loan, a seven-year £200 million letter of credit facility, a five-year £100 million revolver and a £77 million bridge loan. Pricing was started at 90 basis points over LIBOR, with pricing for the letter of credit facility stepping up to 110 basis points at years six and seven. Sources close to the deal say it is over-subscribed, but would not elaborate further.

Drax has been courting potential buyout suitors for the past few months, rejecting three separate bids. The last offer to be rejected was the £2.23 billion offered by an U.S. consortium led by Baltimore-based **Constellation Energy** that included hedge fund **Perry Capital** and private equity investors **Hellman & Friedman** and **The Blackstone Group**.

The Selby, North Yorkshire, company is owner and operator of the 4,000 MW Drax Power Station that meets 7% of Britain's electricity needs. **Andrew Jones**, head of corporate affairs in

Selby, did not return phone calls. An official at **Deutsche Bank**, which is advising Drax on its refinancing and listing, declined not comment.

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Colo. Developer Eyes Corp. Debt

Tri-State Generation and Transmission Association is eyeing corporate-level debt to fund a proposed \$4.3 billion development plan, says **Charles Yetzbacher**, cfo in Westminster, Colo., adding that's the co-op's preferred financing method. He would not elaborate further. Tri-State has approved a plan to build of 1.8 GW of coal-fired generation with the final unit to be up and running by 2020, according to **Jim Van Someren**, spokesman.

Last year Tri-State requested proposals from outsiders pitching alternatives to its plan to develop a coal-fired facility in the eastern or southeastern part of Colorado. The co-op received about a dozen proposals and had initially thought a decision of whether to build or buy could be made by March of this year (PFR, 11/22). Van Someren says it was more economical in the long run to build, rather than buy.

The development plan, which is still in its conceptual phase, includes building two 600 MW units at Hays, Kan.-based **Sunflower Electric Cooperative's** Holcomb Power Station and a 600 MW facility in southeastern Colorado, projected to cost about \$2.5 billion and \$1.8 billion, respectively. **Steve Miller**, spokesman for Sunflower, says the Sunflower will be the operator of the plants, but Tri-State will be sole owner.

Goldman, WestLB Kick Off Wolf Hollow B-Loan

Goldman Sachs and WestLB have launched a B-loan deal on behalf of **Stark Investments** and **Sequent Power Partners**, holding a bank meeting at the Westin New York at Times Square. The joint bookrunners are aiming to wrap the deal, which funds the planned purchase of the 730 MW Wolf Hollow plant (PFR, 10/31) in Hood County, Texas, by yearend. The banks are hoping to draw more than 100 participants. Calls to Goldman and WestLB officials were not returned. Officials at Stark and Sequent also did not return calls.

The B-loan package comprises a six-and-a-half year \$130 million term loan B, a \$110 million synthetic letter of credit with a seven-year tenor and a five-year \$50 million working capital revolver. Pricing on the term loan B portion is expected to be in the range of 200 basis points over LIBOR. The revolver likely will be priced about 25 basis points more than the term loan while the letter of credit will be set in the neighborhood of 400 basis points over LIBOR, says one hedge fund exec, eyeing the offering. Pricing and terms may still change as they hinge on demand, the exec says.

About 95% of the combined-cycle, natural-gas fired plant is contracted by Goldman subsidiary **J. Aron & Co.**, which has about half of the capacity for five years. **Exelon** is in two years into a 20-year PPA. Terms of those contracts could not be learned. **KBC Bank** helped originate the construction loan for the gas-fired combined cycle facility for **AES**, which handed the keys back to lender when the plant was completed last year (PFR, 12/26/2004).

Enbridge To Tap Balance Sheet For Wind Project

Enbridge will finance its \$400 million 200 MW wind development project in Bruce County, Ontario, with a revolving line of credit and debt issuances. **Charles Szmurlo**, president of subsidiary **Enbridge Wind Power** in Calgary, says usually the company looks to complete projects on a 60:40 debt to equity ratio, but in this case it did not seem prudent to seek project finance. It would have had to pay all the fees associated with non-recourse debt when it had the financial capacity to fund construction under its own steam. He declined to give a specific timeframe for issuing debt.

In the past, Enbridge has worked with **Banc of America Securities**, **Bank of Montreal** and **Wachovia Bank**. Construction on the project is slated to begin mid-2006 with a scheduled online target of early 2007. **Ontario Power Authority** has signed a 20-year PPA.

The project, the result of a request for proposals from the Ontario government, will be situated on the eastern shore of Lake Huron. Szmurlo says Enbridge will target other development opportunities, including an upcoming RFP in Manitoba, calling for 1,000 MW of wind.

Corporate Strategies

Pay It Forward

WPS Sells Stock To Fund Utility Purchase

WPS Resources has sold just over 4.6 million in common shares at \$53.70, partially via a forward sale agreement, to fund the acquisition of two **Aquila** assets in Michigan and Minnesota. **Joe O'Leary**, cfo, says the Green Bay, Wis.-based holding company, offered 1.9 million in shares publicly because it wanted to abstain from issuing debt in order to maintain its A1 credit rating from **Moody's Investors Services**. "We wanted to signal to the rating agencies that we were going to raise that equity. He adds the credit agencies had put WPS on credit watch resulting from its decision to buy the Aquila utilities.

About 2.7 million shares were sold to **JPMorgan Chase** in a forward sale to mitigate share dilution. O'Leary says under the forward JPMorgan will sell the shares at an agreed upon date at \$53.70, when the company is close to completing its acquisition of the Michigan and Minnesota natural gas distribution operations of Aquila. JPMorgan and **Banc of America Securities**, longstanding banks for the company, served as underwriters on the non-forward part of the deal. The acquisitions are still in the regulatory approval phase and WPS expects to close some time in March.

Although locking in a price now as opposed to waiting

until WPS needs the cash inserts some risk into the deal as the price may be higher in a few months, O' Leary says the benefits of the agreement outweigh the negatives. "When we finally close on the Aquila transactions, then we can issue shares on the equity forward contract to settle that," he explains. "In the meantime, the credit agencies look upon that very favorably because it shows our commitment to using equity instead of debt."

The approximately \$240 million in proceeds, excluding fees from the offering will not cover the entire \$558 million acquisition price tag, says O'Leary. WPS will be seeking about a 50:50 debt to equity ratio when financing those two assets and will consider all of its options, including long-term debt, short-term debt, or combination.

Cleco Taps Bonds For Hurricanes, Plant Development

Cleco Power has sold \$150 million of 30-year, 6.5% bonds in order to pay for restoration costs related to Hurricanes Katrina and Rita. **Mike Sawrie**, corporate finance manager at parent **Cleco**, says funds also will be directed toward paying for siting and permitting costs related to a proposed 600 MW power plant (PFR, 7/15) in Boyce, La., just north of the company's headquarters in Pineville.

Sawrie says the utility was pleased with lead manager **JPMorgan Chase's** ability to get the deal done during the Thanksgiving week. He noted the firm worked hard to get the word out about the offering and wrapped the deal the day after it was launched. About 13 investors bought bonds, he says, declining to name names.

The timing was right to come to market two weeks ago for a number of reasons, says Sawrie: the company needed the money to pay for the proposed plant's costs, long-term rates are historically low, and there weren't any similar deals in the market at the time.

BNY Capital Markets, **Comerica Securities**, **Calyon Securities**, and **Wedbush Morgan Securities** took part in the deal. All the banks involved are part of a consortium that provides a five-year \$150 million revolver at the holding company level, and a five-year \$125 million revolver at the utility level.

Debt will fund a majority of the \$165 million in damages due to the hurricanes via the offering, with the rest to be paid for in cash, says Sawrie. The **Louisiana Public Service Commission** has approved a plan to pass on much of the costs to Cleco's customers. Cleco Power is still considering options for financing the proposed plant and has been meeting with interested banks while it hashes out the details with state regulators.

According to a recent filing, Cleco has \$510 million in long-

term debt and has a debt-to-cap ratio of 53:47. **Moody's Investors Service** rates Cleco Power's senior unsecured debt Baa1.

Carolina Powers Up \$400M Mortgage Offering

Carolina Power & Light has sold \$400 million, 10-year 5.25% first mortgage bonds to help pay down short-term paper and for other general corporate purposes. **Tom Sullivan**, treasurer at parent **Progress Energy** in Raleigh, N.C., says, "We felt timing was appropriate given [low] interest rates and spreads in general." The deal priced at 90 basis points over comparable Treasuries.

Wachovia Securities and **JPMorgan Chase** acted as underwriters. Sullivan says banks were chosen because they have worked with the company on prior deals. **Standard & Poor's** rated the issuance a BBB. According to the company's latest **Securities and Exchange Commission** filings, the company has about \$3 million in long-term debt and a total capitalization of about \$6 million.

Ala. Gas Wraps Debt Housecleaning

Alabama Gas has issued \$80 million of 10-year, 5.368% notes and redeemed others as a part of a larger refinancing effort begun in the summer. The Birmingham, Ala.-based utility has paid down some \$75 million in more expensive debt and replaced it with cheaper financing, says **Walt McMahon**, director of treasury at parent **Energen**. About \$18 million in debt of various tenors was redeemed in July (PFR, 7/22). Five tranches in notes totaling \$57 million, with an aggregate interest rate of 6.67%, were paid down in this go around, he says. The deal should save Alabama Gas in excess of \$1 million a year in interest, he adds.

AG Edwards & Sons was lead underwriter on the offering. Some of the notes were callable as early as September, but McMahon says the company decided to wait until now in order to settle accounting issues that needed **Alabama Public Service Commission** approval.

McMahon says there is strong demand for energy debt, pointing to the fact Alabama went ahead with the offering even though two similar deals, from **San Diego Gas & Electric** (PFR, 11/28) and **Avista**, were in the market on the same day. The remaining \$5 million from the 10-year note offering will be used to repay short-term obligations.

Alabama Gas has debt that becomes callable next year, and McMahon says it will consider a similar deal for next year if it made economic sense. He also says the company has no intention of issuing any new debt in the near future for anything other than refinancings because it has strong of cash flow, unless an attractive acquisition target appears. **Moody's Investors Service** rates Alabama Gas' senior unsecured debt A1.

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.

The Americas

- The prosecution of **Kenneth Lay**, the former chairman of **Enron**, along with **Jeffrey Skilling**, the ex-chief executive, and **Richard Causey**, who was chief accountant, has been dealt a body blow as a key witness may not now give evidence (*The Independent*, 11/27).
- Pennsylvania Gov. **Ed Rendell** hopes to persuade power companies to build cleaner coal-to-gas plants instead of buying equipment to update aging, coal-burning plants as the utilities try to meet toughening federal air quality standards (*Associated Press*, 11/28).
- The U.S. Supreme Court agreed to decide a border clash New Jersey brought against Delaware over plans by energy giant **BP** to build a liquefied natural gas plant on the New Jersey side of the Delaware River (*Associated Press*, 11/28).
- **Calpine Corp.**, struggling to repay \$17 billion in debt, ousted its top two executives. The company's shares and bonds dropped to record lows on concern the power producer will seek bankruptcy protection (*Bloomberg*, 11/29).
- The Alaska Department of Revenue says an all-Alaska natural gas pipeline proposal does not meet requirements of state law. Department officials say the Alaska Gasline Port Authority has not provided proof it possesses the finances to build the project or the ability to market the natural gas (*Associated Press*, 11/29).
- **South Jersey Industries** was named one of the newest members of the **Standard & Poor's** SmallCap 600 Index. Shares of the Folsom, N.J.-based company, which operates **South Jersey Gas Co.**, rose more than 6% after being named (*Associated Press*, 11/29).
- American multinational **ISN** will set up a 2,000 MW thermal power plant in the Sidhi district of Madhya Pradesh, according to the Madhya Pradesh government (*The Business Standard*, 11/30).
- The head of **Reliant Energy's** retail electricity business has stepped down from his post. **Jim Robb**, a former consultant with **McKinsey & Co.** who joined the company in 2003, resigned on Nov. 23. He will continue to be available as a consultant to Reliant until Jan. 1. No replacement has been named (*Houston Chronicle*, 11/30).

Europe

- **Tony Blair** has been told he can rush through plans for a new generation of nuclear power plants without fresh legislation, a step that would head off a clash in Britain's parliament and greatly speed up private investment (*Financial Times*, 11/29).
- British utility **Centrica** may look to take part in a liquefied natural gas project in the Netherlands as part of a strategy to boost its presence in the global liquefied natural gas market. The Netherlands lies on the second biggest gas reserves in Western Europe and hopes to become a key point for the transportation of Russian LNG to the United Kingdom and the United States (*Reuters*, 12/01).
- **Gaz de France** is planning two new combined cycle power plants in France and will take a definitive decision on launching the first project in 2006, according to **Jean-Francois Cirelli**, ceo. He adds the objective of the group will be to have electricity production capacity of 2,000 MW. GDF currently operates an 800 MW French plant jointly with **Arcelor** (*AFX*, 11/30).
- **BP** said it will invest as much as \$8 billion over 10 years in alternative-energy projects through a new business unit, **BP Alternative Energy**. The investment, in projects including solar, wind, hydrogen and carbon-abatement technology, represents a fraction of BP's annual \$14 billion-\$16 billion capital-expenditure program, but it marks as much as an eightfold increase from the \$1 billion spent over the past decade, according to **John Browne**, ceo (*The Wall Street Journal*, 11/29).

Russia

- Russia's **Gazprom** and France's **Gaz de France** have signed a deal under which Gazprom will deliver pipeline gas to GDF in exchange for a shipment of LNG, which Gazprom will sell in the US (*Oil & Gas Journal*, 11/29).
- A second tanker with liquefied natural gas chartered by Russia's **Gazprom** will arrive at the port of Cove point in the United States this week. **Alexander Medvedev**, the company's deputy board chairman, said the company planned to increase its volume of spot deliveries and expand sales of natural gas on the U.S. market to satisfy the growing demand (*RIA Novosti*, 11/30).

GOLDMAN TEES

(continued from page 1)

about \$600 million in non-recourse debt.

The Linden facility has a power purchase agreement with **Consolidated Edison Co. of New York** for 645 MW. It has a PPA that expires in 2017. Market participants believe Goldman will handle the sale internally.

—Peter Roth

LEHMAN PREPS

(continued from page 1)

come up with securities whose interest payments are fully deductible. Earlier this year Moody's updated its methodology on hybrids sparking a flood of issuance geared toward taking advantage of the adjustment. **Standard and Poor's** and **Fitch Ratings** already give 100% equity credit to some preferreds.

Lehman's enhanced capital advantage preferred securities (ECAPS) and other firms' proprietary securities are designed to take advantage of a change this year in Moody's treatment of certain kinds of preferreds. They have been issued by financial firms (CFW, 8/8). Using the hybrids on utilities is Lehman's way to segue into a new pool of issuers that tend to be more cautious. "You need to have some companies give it a try first and set some examples before others jump in," says **Barbara Havlicek**, chair of the new instruments committee at Moody's, adding she's already seen a flurry of interest.

"These [utility deals] will fit right in between the financials and the corporate issuers," says **Erin Callan**, managing director and head of the global finance solutions group at Lehman. "It's

an appealing financing mechanism for utilities because they have capital requirements and having high quality ratings is important for their access to the market." While utilities have issued traditional preferreds in the past, the upcoming issuances will mark the first moves by non-financials to take full advantage of the Moody's change.

Last month, Citigroup also broke new ground with a 144A offering of its new preferreds, called enhanced trust preferred securities (ETRUPS), for **Stanley Works**, which became the first non-financial issuer to raise capital under the new model. Stanley chose 50% equity treatment on its ETRUPS, which although more costly, gives it more financial flexibility.

"Around \$60 billion of traditional trust preferreds will become callable in 2006 and 2007, and bank holding and insurance companies are expected to look to the new generation of enhanced trust preferred securities when it comes time to refinance," says **John Dickey**, head of global new products at Citigroup. He added there are a number of non-financial corporations considering issuing high-equity content hybrids next year, many of whom will look to get out ahead of the second half of the year when the financial sector trust preferreds are redeemable.

This week, Lehman and Citi, along with other firms, hope to price up to \$1 billion of ECAPS for **Zurich Financial Services**, marking their first external use. They have a 60-year maturity with mandatory deferrable dividends and tax deductible interest payments. Lehman is also leading a \$400 million sale for **Reinsurance Group of America** with **Morgan Stanley** and will begin a roadshow for a third issuer this week.

—Dan Shirai

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Quote Of The Week

"We have traded several hundred million in *Calpine*."—**Stephen Moyer**, analyst at **Imperial Capital**, talking about arbitrage plays being made in *Calpine's* debt (see story, page 1).

One Year Ago In Power Finance & Risk

US Power Generation Company was planning on financing its \$220 million acquisition of the 780 MW Lake Road natural gas-fired plant with a combination of debt and equity. According to **Jay Worenklein**, president and ceo, US Power would have assumed about \$180 million in debt and pay about \$42 million in cash. [US Power's bid for Lake Road failed, with a hedge fund affiliate of **Cargill** undercut **US Power Gen's** deal by buying up Lake Road's secondary debt at prices exceeding the implied value of Worenklein's deal (PFR, 12/26). According to hedge fund managers, Cargill and other hedge funds owning non-recourse debt in the plant, are aiming to convert \$40 million in existing debt and convert the remainder into equity (PFR, 10/17).]