

# power finance & risk

The exclusive source for power financing and trading news

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## Banks Squeeze KKR On Covanta Price Tag

Kohlberg Kravis Roberts' offer to buy Covanta Energy after it emerges from bankruptcy is irking some banks that characterize the \$225 million approach as a low-ball offer.

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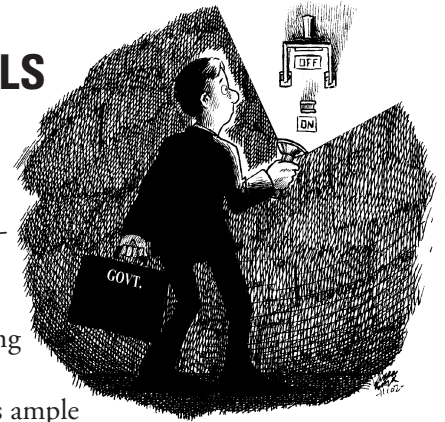
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## Lights Out?

### U.K. MART LURCHES TOWARD POWER CRISIS, WARN OFFICIALS

The arrival of a sharp and unexpected cold snap across much of England early last week has underscored a growing unease among some market watchers that the U.K. is veering toward a California-style power crisis. Yet a flat forward wholesale power curve is driving generators to cut capacity, which could result in further problems next winter, according to market officials.

While the country's temperate climate means it has ample



(continued on page 8)

### PETROBRAS PLANS TO EXIT POWER GENERATION

Brazilian oil concern Petrobras is looking to divest its 1,000 MW stake in 11 virtually new thermal-power plants in Brazil because of the economic and regulatory turmoil in the country. The plants have a total capacity of 3,519 MW.

Ted Helms, general manager in Petrobras' New York office, says it's selling the plants to get out of power and focus exclusively on oil and gas. It will continue to build and finance those projects it already has under construction (see story, page 5).

David Soucar, a Latin American utility analyst at Morgan Stanley in New York, says Petrobras originally made the investment in these plants in order to utilize the Brazil-Bolivia pipeline it built in 2001 that pumps gas from Bolivia's gas fields. However, the strategy has not proved a success because of the regulatory uncertainty in Brazil's power industry and weak power prices.

(continued on page 2)

### AEP DITCHES U.K. NON-RECOURSE PLAN FOR \$425M LOAN

AEP Corp. has iced a planned foray into the U.K. non-recourse loan market because of stratospheric pricing and instead has set up a \$425 million corporate facility to refinance its acquisition of 4,000 MW of coal-fired plants from Edison Mission Energy. As the dollar amount is short of the GBP400 million (\$632 million) project loan originally on the drawing board (PFR, 10/21), AEP has funded the difference via internal funds and by drawing down on some of its euro facilities, explains David Hagelin, an AEP spokesman in Columbus, Ohio.

A banker explains, "AEP decided if it couldn't get a good non-recourse deal, it'd do it on balance sheet." The loan was set up without a syndication meeting and was driven by AEP on the basis of previous banking relationships during a three-week turnaround.

(continued on page 8)

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

## WestLB Dips Back Into The CSFB Well

Westdeutsche Landesbank has added another senior **Credit Suisse First Boston** staffer to its New York team covering power private placements among other sectors. **Manish Taneji** joins today as a managing director in the syndication and distribution team headed up by **Howard Moseson**. Moseson confirmed the hire, but declined further comment. Taneji was between posts last week and could not be reached for comment.

The German bank recently hired **Tom Murray**, CSFB's former point man on loan project finance (PFR, 11/18). Murray and Taneji's hiring are part of WestLB's effort to juice up its distribution capabilities in private placements and loans, explains a WestLB staffer. Calls to CSFB were not returned by press time.

## Banks Seen Blocking KKR Bid

**Kohlberg Kravis Roberts'** offer to step in and purchase **Covanta Energy** after it emerges from bankruptcy protection reportedly is about to stumble because Covanta's bank creditors want the private equity boutique to sharply improve its \$225 million offer.

The creditors believe Covanta is worth some \$600-\$700 million and will not agree to a sale unless KKR raises its offer, explains a financier involved in the negotiations. "KKR's offer is still on the table, but the reality of the situation is that the deal is dead in the water because neither side seems willing to budge," he says.

Covanta filed for Chapter 11 bankruptcy protection and entered a non-binding agreement with KKR in April after announcing it would be unable to meet its debt

requirements. Covanta's debt load includes about \$1.7 billion of long-term loans and bonds that come due in 2005.

**Ruth Pachman**, a spokeswoman at KKR in New York, declined comment and **Kent Burton**, a spokesman for Covanta in Fairfax, Va., did not return phone calls.

## Prebon Adds London Traders

**Prebon Energy** has beefed up its recently relaunched London-based power brokering effort with the hire of two former U.K. power traders.

The **Prebon Yamane** unit earlier this month hired **Alan Bannister**, a former long-dated U.K. power trader at **El Paso** in London, and **Rich Acton**, formerly head U.K. prompt trader at **Dynegy Europe**, says **Mitch Feirstein**, head of energy.

The hiring of former traders reflects Prebon's belief that power brokering will become an ever more sophisticated market now that investment banks have entered the fray, explains Feirstein.

Feirstein, who joined Prebon in September to rebuild the broker's power franchise, says he has already hired seven brokers and is looking to add at least a few more.

## PETROBRAS PLANS

(continued from page 1)

"It will be tough since there are a number of assets on the block, Soucar says, adding, "But everything has a price."

For a full list of the plants up for sale go to *PFR's* Web site ([www.iipower.com](http://www.iipower.com)).

—Amanda Levin

### power finance & risk

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## Powergen Keeps Plants On Line

Powergen has delayed plans to mothball some 1.8 GW of U.K. generation capacity. **Jonathan Smith**, a spokesman at the **E.on** subsidiary in Coventry, says the utility will continue to operate the 1.3 GW oil-fired Isle of Grain power station and the 450 MW natural gas-run Killingholme plants over the winter to meet peak demand, but will likely mothball the units in the spring.

News of the mothballing made it to the front page of *The Financial Times* and other media outlets amid concerns that low wholesale power prices were driving generators to the wall (PFR, 10/14).

Smith says power prices have firmed marginally since the plant closure announcement, which in turn has left generation marginally profitable. But the main reason in keeping the capacity on line is the need to meet the power demands of some five million new customers that E.on recently acquired from TXU Europe. Powergen also is keeping TXU Europe's Ironbrigde, High Marnham and Drakelow plants operational for the winter, says Smith.

Since announcing the plant closure two months back baseload power for winter '03 has risen from GBP18 to GBP18.55 last Tuesday, notes a London broker.

## Power Risk Group To Tackle Capital Adequacy

The Committee of Chief Risk Officers, the energy industry group formed earlier this year to bolster confidence in trading, is looking to tackle capital adequacy requirements (CAR) for trading operations, after it wraps its immediate objective of developing best practices for creating energy market price indices.

**Mike Smith**, executive director, notes that CAR has been an issue with the rating agencies this year and the work on capital adequacy levels will involve liaising with the agencies. There is no detailed outline for the work, he adds, but explains one area that could be tackled is operational risk. The group may decide to look at how to determine the level of operational risk and then how to determine the amount of capital needed to cover it. There is no definite timeframe for developing proposals.

The Committee hopes to release proposals on price indices next month. The Committee's Market Price Indices Working Group began developing best practice recommendations amid questions about how price indices for natural gas and electricity transactions have been tabulated. The Committee is aiming to produce a white paper summarising its recommendations by the end of January.

CCRO, founded in March, doesn't have any regulatory role, but Smith says it has been talking with bodies such as the **Federal Energy Regulatory Commission** and the **Department**

of Energy, which have indicated they think the group is a good forum to tackle energy trading issues. Thirty-one companies are now members of the group.

## Project Loan Mart To Remain Grim

New power project-based financing opportunities are expected to remain scarce in 2003, offering no respite from this year's sluggish primary market, argued the vast majority of bankers at **Euromoney's Global Energy Finance Summit** in New York earlier this month.

With power plant construction on the backburner for most IPPs, financiers had been pinning their hopes on a wave of power plant sales to inject life in the project loan market, but these hopes have fast disappeared as acquisitions have failed to materialize.

**Eric McCartney**, director of global business development at **KBC Bank** in New York, doubted there will be a flurry of plant sales next year because of the wide divide between sellers' and buyers' power plant valuations. **Sadek Wahba**, executive director in the project and structured finance group at **Morgan Stanley**, agreed. "I doubt that they see many deals because no one wants to sell their assets at such low prices."

The uncovering of trading scandals and regulatory investigations in the power industry also continues to stymie any recovery in new projects. "So long as you have these event risks out there, people in this industry are going to be reluctant to do anything," forecast **Geoffrey Pack**, senior v.p. and head of energy at **ANZ Investment Bank**.

## ABB Exits Trading Biz

Zurich-based ABB will shortly shut down its London-based energy trading arm **ABB Treasury and Energy Services**, having failed to find a buyer for the business.

**Mark Meyrick**, managing director and head of the unit, says the Swedish-Swiss industrial giant has been trying to find a buyer for the business since late this summer when it decided to exit trading. He notes the firm has already wound up its currency and interest trading desk but kept the energy division running in the hope of finding a buyer. While the firm is still talking to a number of potential suitors, the dearth of potential new entrants in the power market has left the prospects for a sale looking increasingly remote, says Meyrick. The business has 10 front and back office employees.

ABB set up its U.K. power-trading operation in August 2000, ahead of the launch of the New Electricity Trading Arrangements (Neta). Until that time ABB only traded one power market, Scandinavia's Nordpool, out of its Stockholm office. Expected volatility following the launch of Neta prompted ABB to enter the U.K., explained Meyrick last summer (PFR, 5/13).

## CL Funds Calpine Colo. Deal

Lead arranger **Credit Lyonnais** last week funded the \$106 million loan covering the 300 MW Blue Bruce Energy Center in Denver, according to a banker. The final syndicate allocations left sole lead **Credit Lyonnais** committing \$25 million, **HypoVereinsbank** and **Bank of Nova Scotia** each taking \$23 million tickets, **CoBank** \$25 million and **Hamburgische-Landesbank** lending \$10 million. The six-year loan, sponsored by San Jose, Calif.-based **Calpine** and backed by a 10-year tolling agreement with **Public Service Co. of Colorado**, was fully underwritten by **Credit Lyonnais** (PFR, 9/16).

## Lenders Call For Cool Heads To Avert Crisis

Lenders will need to take a measured and often conciliatory approach to reworking embattled power company debt if the roughly \$70-\$90 billion of loans and bonds maturing over the next three years aren't to create a fully blown refinancing crisis, according to industry officials.

**Tony Muoser**, managing director of global project and structured trade finance at **Citigroup**, told delegates at **Euromoney's Global Energy Finance Summit** in New York earlier this month that it's crucial for financiers to work together as a team and not to panic and create a crisis.

"Everyone has to take a long-term view of the merchant energy sector because it is not going to turn around in the next six to 12 months. We have to accept the situation as it is and move forward on the restructuring path," reasoned Muoser.

**Donald Kyle**, head of project finance at **Société Générale**, agreed that cool heads are the order of the day. He noted the debt

mountain is so overwhelming that it's creating a lot of tension between lenders and borrowers. Nevertheless, he said bankers must give power companies more time to repay the debt, as the focus during the restructuring process needs to be on recovery and bringing the industry back from the brink.

## Canadian Bank Goes Retail On Ontario Project Loan

Lead arranger **BMO Nesbitt Burns** is close to rounding out a limited retail syndication of the bank debt portion of a \$403 million (\$260 million) project loan backing the development of a 580 MW power plant at Brighton Beach in Windsor, Ontario.

The deal, one the largest north of the border this year, is split roughly between one third bank debt and two thirds institutional debt, the latter being snapped up Canadian insurers who traditionally have had a strong appetite for local project paper, says one banker. Officials at **BMO** declined comment and calls to **Bank of Tokyo-Mitsubishi**, which took a key role in the bank debt component, were not returned.

Construction of the plant, a gas-fired combined-cycle facility, began earlier this year and is slated to begin commercial operation in the spring of 2004. One banker says Canadian project deals occasionally register with U.S. financiers if they are of a big enough size, but the hyper-competitive Canadian bank market often means pricing is tight. An additional draw on this deal is the fact there is a **Coral Energy** offtake contract, another financier adds. A timeline for wrapping syndication could not be ascertained.

The project sponsor is **Brighton Beach Power**, a limited partnership between **ATCO Power** and **Ontario Power Generation**.

## Corporate Strategy

### Dominion Goes Long, Earmarks Funds For Paydown

Richmond, Va.-based **Dominion** last week tapped the 30-year end of the curve for the first time in a \$600 million issue of senior notes and has also placed \$500 million in escrow to partially cover a \$1 billion debt that matures next month.

**Mark Lazenby**, spokesman, says the company hasn't used the 30-year debt market for the holding company level before. Market conditions made the timing appropriate for the foray as finance staffers thought spreads at the end were attractive, he notes, adding that the deal was oversubscribed. Lazenby was unable to ascertain why the escrow was used.

The notes were divided into a \$300 million tranche of

5.125% seven-year notes and \$300 million of 6.75% 30-year paper. Lazenby says the \$500 million chunk has been earmarked to partially refinance an issue of 6% senior unsecured notes.

The other chunk of the funds is being used to pay down commercial paper run up in connection with **Dominion's** \$217 million acquisition of **Cove Point LNG**. Cove Point, which is the owner of the country's largest liquified natural gas import facility located on the Chesapeake Bay near Baltimore, was acquired from **Williams Co.s** in September.

The joint managers on the notes are **J.P. Morgan** and **Wachovia Securities**. Lazenby says **Dominion** tries to maintain solid relationships with a number of major houses and makes the call on lead assignments based on their track record and also the transactional capability for individual deals.



## Latin America

### Petrobras Preps Financing

Brazilian oil concern Petrobras expects to seal a non-recourse loan early next year to fund the construction of an approximately \$200 million, 700 MW thermal power plant in Brazil, dubbed Ibiritermo.

Ted Helms, general manager in Petrobras' New York office, says it has retained BNP Paribas as its financial advisor and also has inked commitments with Banco Nacional de Desenvolvimento Econômico e Social (BNDES), U.S. Exim Bank and SACE. Helms says some 70% of the project will be funded with debt and the remainder through equity. Calls to bankers at BNP Paribas, BNDES, U.S. Exim Bank and SACE were not returned by press time.

### Big Apple Insurer Eyes LatAm

Despite economic turmoil and regulatory uncertainty in the region, at least one life insurer, New York Life Insurance Co., is looking for project finance opportunities in Latin America's power markets. Grant Davis, director at its investment arm, New York Life Investment Management, says, "We remain opportunistic about Latin America, specifically in Chile and Mexico, because the markets are open and the regulatory structures are rather stable."

Davis notes that when considering opportunities in emerging markets it is important to look at the basic fundamentals of the country to decide whether it will still be a good investment 10-20 years out.

## 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@iinews.com](mailto:alevin@iinews.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
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 Suereste	Manuel Moreno Torres	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 plans to approve loan	11/11/02
InterGen	Carioba	Gas-fired	945	670	Brazil	Citi	Has put financing on hold	12/9/02
Petrobras	Ibiritermo	Gas-fired	200	200	Brazil	BNP	Expects to sell loan in 2003.	12/16/02
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 environmental 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

## 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

- London-based **National Grid Transco** asked power companies to increase output last week, anticipating a reserve shortfall of 400 MW in the wake of two larger power stations unexpectedly going offline. Low temperatures, high winds and overcast skies have also led to record high demand (*Dow Jones*, 12/11).
- Shareholders of **Italenergia**, the Fiat-led holding company controlling Italy's second largest electricity company **Edison**, have agreed to take part in a EUR1.1 billion recapitalization (*Dow Jones*, 12/11).

### Latin America

- Mexican state-owned distributor **Luz y Fuerza del Centro** (LFC) loses \$293 million per year from power tapping by street vendors, according to LFC distribution and trading deputy director **Oscar Luce Gonzalez** (*BNamericas*, 12/9).
- Argentina's economic chaos and the lack of investment in power could lead to supply cuts and a deterioration in the level of service by the middle of next year, warned **Jose Maria Hidalgo**, manager at **Endesa** in Argentina. Argentina's electric sector needs \$1 billion of investment next year to ensure a long-term sustainable supply of energy and a consistent level of service, said Hidalgo (*BNamericas*, 12/10).
- The energy team of Brazil's Workers Party is leaning towards the creation of an energy trading pool, where all surplus power produced in the country is fed into a single pool from which distributors purchase their additional requirements (*BNamericas*, 12/10).

### U.S. & Canada

- **Enron** should refund unfair profits it made in recent years in the western U.S. because it used other power traders and utilities to influence the market without telling federal authorities, a **Federal Energy Regulatory Commission** accountant said in a sworn statement. Enron failed to notify the FERC about the extent of its trading arrangements (*Reuters*, 12/9).
- The Bush administration scored a legal victory when a federal court ruled the White House does not have to release

details of energy task force meetings run by Vice President **Dick Cheney**. Investigators have demanded to know which industry leaders and lobbyists Cheney met while formulating an energy plan (*Deutsche Presse-Agentur*, 12/9).

- Congressional investigators are looking at a series of deals between **Enron** and **Citigroup**. The focus is on whether the bank ignored its own internal guidelines and whether the collapsed Houston energy trader used one of the deals to sidestep accounting treatments (*The New York Times*, 12/9).
- **Todd Geiger**, a former natural gas trader at **El Paso Corp.**, pleaded innocent to charges that he reported fictitious trades to an industry publication in a ploy to manipulate gas prices. An initial trial date has been set for Feb. 3 (*Dow Jones*, 12/10).
- **UBS Warburg**, which acquired the remnants of **Enron's** energy trading business and in February launched it as **UBS Warburg Energy**, pulled the plug on renamed **UBSWEnergy.com**. The firm will consolidate its activities with similar operations in Stamford, Conn., and around 90 of its 380 Houston workers are being offered positions in Connecticut. The rest will be laid off (*Associated Press*, 12/10).
- A **Federal Energy Regulatory Commission** investigation cleared **Avista** of any wrongdoing in connection with **Enron's** alleged schemes to manipulate the California electricity market. Lawyers for the utility and for FERC filed a joint motion with an administrative law judge to suspend the probe (*Reuters*, 12/9).
- **Wisconsin Energy's** plan to build two new natural gas-fired power plants in order to meet rising demand for electricity in the state has been approved by state energy regulators. The plants are part of Milwaukee-based Wisconsin Energy's \$7 billion program to build 2.8 GW of new generating capacity in the state at a cost of \$3 billion (*Reuters*, 12/10).
- Sweden's **Skanska** has received a contract worth \$243 million to construct a 500 MW plant in New York from the **New York Power Authority**. The plant will be constructed next to NYPA's existing Poletti Generating Station in Astoria, Queens (*Dow Jones*, 12/11).

# Financing Record (NOVEMBER 9 - DECEMBER 11)

## Bonds

Issue Date	Maturity	Issuer	Amount (\$ mil)	Offer Price	Type of Security	Coupon (%)	Spread to Bench-Mark	Moody's	S&P	Bookrunner(s)
12/03/02	09/01/12	Kinder Morgan	250	101.709	Notes	6.5	205	Baa2	BBB	Wachovia
12/04/02	01/08/10	Tractebel Power (AES Corp)	49.8	102	Fxd/Straight Bd	5	-	NR	NR	ING
12/05/02	12/18/07	Termoelectrica	200	100	FRNs	Floats	-	NR	B+	JPMorgan
12/05/02	03/20/08	EdP Finance	500.1	99.924	Fxd/Straight Bd	5	-	A2	A+	Deutsche Bank/UBS Warburg
12/09/02	12/15/09	Dominion Resources	300	99.553	Senior Notes	5.125	162	Baa1	BBB+	JPMorgan/Wachovia
12/09/02	12/15/32	Dominion Resources	300	99.758	Senior Notes	6.75	182	Baa1	BBB+	JPMorgan/Wachovia
12/09/02	12/20/27	United Utilities	235.9	99.878	MTNs	5.625	-	A2	A-	BarCap
12/09/02	12/01/12	Wisconsin Public Service Corp	150	99.605	Notes	4.875	90	Aa1	AA-	UBS Warburg
12/10/02	12/18/14	EdF	40.5	100	MTNs	1.27	-	NR	NR	BoTM
12/10/02	02/01/13	Florida Power & Light Co	400	100	Notes	4.85	81	Aa3	A	JPMorgan/Salomon
12/10/02	02/01/33	Florida Power & Light Co	200	100	Notes	5.85	94	Aa3	A	JPMorgan/Salomon
12/10/02	12/13/20	Psalm	200.6	99.457	Fxd/Straight Bd	3.2	-	Baa1	NR	Nomura
12/10/02	12/13/22	Psalm	299.9	99.645	Fxd/Straight Bd	3.55	-	Baa1	NR	Nomura
12/03/02	09/01/12	Kinder Morgan Inc	250	101.709	Notes	6.5	205	Baa2	BBB	WACHOVIA-SEC
12/04/02	01/08/10	Tractebel Power Inc(AES Corp)	49.8	102	Fxd/Straight Bd	5	-	NR	NR	INGBBB
12/05/02	12/18/07	Termoelectrica	200	100	Float Rate Nts	Floats	-	NR	B+	JPM
12/05/02	03/20/08	EDP Finance	500.1	99.924	Fxd/Straight Bd	5	-	A2	A+	DEUTSCHE-LONDON/GS(JB)/UBS-WARBURG(JB)

## M&A

Date Announced	Date Effective	Target	Target Advisors	Target Country	Acquiror	Acquiror Advisors	Acquiror Country	Deal Value (\$mil)
11/29/02	-	Laem Chabang Power Co	-	Thailand	Sime Darby Eastern	JPMorgan	Singapore	30.350
12/02/02	-	Qingxin Bai Fu Yang Petrol	-	China	Guilin Green Energy	-	China	3.138
12/02/02	-	Zhuhai Huadian Co	-	China	Shenzhen Qinghua Scientific	-	China	-
12/02/02	-	Zhuhai Huadian Co	-	China	Beijing Qinghua Scientific	-	China	-
12/03/02	-	DTE-Transmission	-	U.S.	Investor Group	CIBC	U.S.	610.000
12/04/02	-	Florida Public Utilities-Water	-	U.S.	City of Fernandina Beach	-	U.S.	24.600
12/04/02	-	Sichuan Jialing Elec Power	-	China	Lin Feng Group	-	China	-
12/05/02	-	Union Fenosa Gas	Goldman Sachs	Spain	ENI	Rothschild	Italy	438.460
12/05/02	-	Connecticut Valley Electric	-	U.S.	Public Service Co of NH	-	U.S.	29.000
12/05/02	-	Union Fenosa Gas	Goldman Sachs	Spain	ENI	Rothschild	Italy	438.460
12/06/02	12/06/02	Bonna Sabla(Vivendi Env)	-	France	Investor Group	-	France	-
12/09/02	-	Samalayuca Project	-	Mexico	GE Capital Svcs Structured	-	U.S.	-
12/09/02	-	Societe Energheia	-	Italy	Azienda Energetica Municipale	-	Italy	-
12/09/02	-	Southern Cross Energy	-	Australia	TEC Desert Pty	-	Australia	6.689

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

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**Deal Co's: Sinks Funds To Save Off Backlogging**  
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**In The News**  
Duke Energy International is close to purchasing CEM's 50% stake in a 1,000 MW and first phase in America, says an official familiar with the matter. While neither party would comment on the pending asset sale, Peter Barrett, a spokesman at CEM's Frankfurt, West, says it is close to reaching a deal and would announce a sale before year-end. **Investor Group's** spokesman at Duke Energy in Atlanta, advised officials informally that the transaction is in progress, which will not be reported.

**Deal Co's: Sinks Funds To Save Off Backlogging**  
Deal Co's: Sinks Funds To Save Off Backlogging

**TRYD OF COMPANIES NEARS EPA DEAL, BOND FINANCING LIKELY**  
Several major U.S. power companies, including **Consolidated Edison** and **Public Service Electric and Energy**, are close to reaching agreements with the United States Environmental Protection Agency (EPA) on a \$1.5 billion bond financing deal. The deal is expected to be announced in the next few days and will be a major step in the companies' efforts to meet the EPA's new acid rain rules. The deal is expected to be announced in the next few days and will be a major step in the companies' efforts to meet the EPA's new acid rain rules.

**LONDON UTILITY READIES \$1.4B MTN PROGRAM TO FUND TXU ACQUISITIONS**  
London Utility is preparing to launch a \$1.4 billion medium-term note (MTN) program to fund its acquisition of TXU. The program is expected to be launched in the next few days and will be a major step in the company's efforts to meet the EPA's new acid rain rules.

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## AEP DITCHES

(continued from page 1)

The joint bookrunners on the 364-day deal are **Westdeutsche Landesbank** and **Barclays Capital**, which were among the quartet of players that provided the original GBP650 million bridge loan for the purchase of the 2,000 MW Fiddler's Ferry plant and 2,000 MW Ferrybridge facility at the beginning of this year. Although officials at the banks declined comment, and specific pricing on the deal and the size of the bank group therefore could not be determined, market officials note the sharp downturn in U.K. energy prices over the past year has resulted in wider project loan spreads.

One banker says the new loan is priced at a standard corporate spread, declining to elaborate. Another financier notes that there have been several instances this year in which borrowers have flipped between corporate and non-recourse strategies. For example, **Reliant Resources** switched to corporate-level financing to refinance its \$1.33 billion non-recourse **Orion Power** deal (PFR, 2/11). As Reliant's credit deteriorated, the company had to stick with a non-recourse extension. AEP had the financial strength to turn its back on the non-recourse market, reflects one banker.

—Peter Thompson

## U.K. MART

(continued from page 1)

generation for the bulk of the year, these officials worry that extreme temperatures, such as those seen last week, could leave utilities scrambling for generation, and possibly unable to meet demand.

Last week as temperatures in the densely populated southeast of England dipped below freezing, system operator **National Grid** was reportedly forced to purchase power at up to GBP10,000 (\$15,000) per MWh to balance supply with demand in the hour-ahead market, well above the GBP22 for delivery the next day. Sellers included **Innogy's** Fawley plant in Hampshire, say officials. A National Grid spokesman says it doesn't comment on power purchases and an Innogy spokeswoman did not return calls.

Worries that the U.K. could be blighted by spiking power prices or even blackouts contrast sharply with the prevailing wisdom that overcapacity and weak power prices will bedevil the U.K. generation market for at least two or three more years.

Yet it is this complacency—which has prompted the mothballing of plants and the scrapping of new generation projects—that is stoking concern, say officials.

**Mark Robinson**, U.K. utility analyst at **Commerzbank** in

London, notes the grid operator has had to cut its forecast plant margin—a key indicator of available generation relative to expected demand—three times this year from 22.2% to 17.4%, well below its 20% comfort level. But National Grid's latest figure doesn't include the closure of the AES Fifoots plant in Wales, which went into receivership this spring. With this plant out of the equation the safety cushion falls to 16.7%, argues Robinson. "It might be enough to get us through the winter. But I can't tell you that there won't be a system emergency."

The situation looks even worse next winter, notes one London power banker, because a swath of plants will be decommissioned, including some 2.4 GW of capacity that **E.ON** recently bought as part of its acquisition of **TXU Europe**.

Mothballing next year will cut the capacity margin to 13%, well below the 21% forecast by National Grid, says **Commerzbank's** Robinson, "Knuckles are going seriously white at 13%. There's a significant risk of system emergency next winter."

Despite these concerns, and the brief spike in short-dated power prices last week, the forward curve has not spiked. Winter prices for 2003 and 2004 have barely risen and 2003 annual prices remain depressed at the GBP17 level, notes an **Entergy-Koch Trading** official.

Robinson says illiquidity along the curve and utilities' reluctance to contract large amounts of power in the forward market is keeping the curve artificially low.

—Will Ainger

### Quote Of The Week

"Knuckles are going seriously white at 13%."—**Mark Robinson**, utility equity analyst at **Commerzbank** in London, commenting on the likelihood of tightening generation capacity margins in the U.K. (see story, page 1).

### One Year Ago In Power Finance & Risk

**Otter Tail Power** was looking to double its generation capacity to over 1.2 GW over the next few years with the construction of two coal-fired plants in the Midwest. It was looking to build a 600 MW coal-fired plant, dubbed Big Stone II, in Grant County, S.D. and was also considering the construction of a 43 MW coal-fired facility in North Dakota or Minnesota. **[John Erickson]**, president and ceo of **Otter Tail Corp.** in Fergus Falls, Minn., says, "There was some original thought about it, but we are no longer looking to become a merchant player." He adds that Otter Tail Power would consider becoming involved with a project on a very small level, but only if another company was the primary owner and operator.]