power finance & risk

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Seasonal Greetings!
Power Finance & Risk will not be publishing Monday, Dec. 29. Your next issue will be Jan. 5. We wish all our readers a happy holiday season.

CSFB Buys Generation
Credit Suisse First Boston's private equity arm has agreed to buy a portfolio of U.S. power plants from a rival private equity shop.

See story, page 2

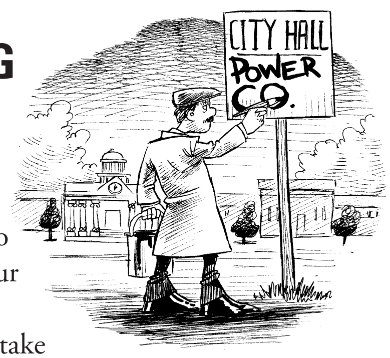
GAS RALLY CATCHES SHORTS; EX-ENRON STAR RUMORED TO BE AMONG BIG LOSERS

A large number of U.S. commodity desks were caught trying to unwind short positions by the recent dramatic spike in natural gas prices, say dealers, and a hedge fund run by former Enron star trader **John Arnold** was rumored to be one of the biggest losers. Arnold, principal at **Centaurus Energy** in Houston, declined to confirm or deny the reports, noting that the firm does not comment on specific positions or its profit and loss

(continued on page 15)

Counter-Bid

CITY HALL CONSIDERS ACQUIRING PORTLAND GENERAL



The City of Portland is considering countering **Texas Pacific Group**'s (TPG) $2.35 billion bid for **Enron** subsidiary, **Portland General Electric** (PGE), with a view to taking control of the utility itself. "We are still reviewing our options," says **Kathleen Gardipee**, policy advisor for city commissioner **Erik Sten**, who is spearheading the effort to take

(continued on page 16)

MIZUHO UNWINDS DRAX LOAN POSITION

Japan's Mizuho, one of the three largest bank lenders to **Drax Power**, has liquidated its position in the U.K. power plant's GBP840 million ($1.47 billion) loan.

Market watchers say Mizuho's London commercial banking unit **Mizuho Corporate Bank** recently offloaded its GBP43 million position in Drax, Europe's largest power station, to the distressed trading desks at **Citibank** (GBP33 million) and **Merrill Lynch** (GBP10 million) at 90% of face value. At least one of the bulge bracket firms

(continued on page 16)

2003 YEAR IN REVIEW

ENERGY MERCHANTS ESCAPE BANKRUPTCY VIA MULTI-BILLION DOLLAR REFINANCINGS

A host of embattled U.S. energy merchants and independent power producers refinanced billions of dollars of maturing debt this year, and while some negotiations were heated and tense, most market watchers see the scorecard as weighing toward the positive. "Billions of dollars have been renewed and rolled over. It hasn't been the crisis everyone thought it would be," reflects **Andrew Mathews**, managing director at **HypoVereinsbank** in New York.

Figures from **Standard & Poor's** highlight the scale of refinancing. At one point energy

(continued on page 7)

At Press Time

CSFB Acquires $1.6B Generation Portfolio

Credit Suisse First Boston Private Equity has bought 12 power plants in the Northeast and half of a green energy business from fellow private equity firm Foster City, Calif.-based **Fox Paine**. One market watcher estimates the purchase of **United American Energy** will cost CSFB some $1.6 billion, including the assumption of debt. Neither **Nina Covalesky**, spokeswoman for Fox Paine, nor **Pen Pendleton**, spokesman at CSFB, was able to ascertain details by press time.

Woodcliff Lake, N.J.-based UAE owns and manages 649 MW of capacity and a 50% interest in **American Ref-Fuel**, an owner and operator of waste-to-energy facilities.

As part of the transaction, CSFB intends to sell six of UAE's plants to Morristown, N.J.-based **Delta Power** and focus the business on American Ref-Fuel, of which CSFB already owns a 25% stake.

According to the **Federal Energy Regulatory Commission**'s Web site, the sale of one of the six plants, a 132 MW facility in Mecklenburg, Va., to Delta Power and **John Hancock Financial Services** is still awaiting federal approval.

CSFB will finance the acquisition in part through the issuance of $225 million of 7 3/8% six-year notes.

Icahn, TPG Reportedly Eyed Edison Mission Takeover

Texas Pacific Group and legendary New York financier **Carl Icahn** both separately looked at acquiring **Edison Mission Energy** (EME) last autumn as it stuttered toward a mammoth make-or-break debt refinancing, says a market watcher close to the negotiations. The inability of either bidder to reach a deal with EME's parent **Edison International** (EIX), led to EIX recently retaining **Lehman Brothers** and **Credit Suisse First Boston** to offload EME's international assets (see story, page 3).

In August, Rosemead, Calif.-based EIX invited several deep-pocketed private equity investors to bid for EME, which is saddled with some $10 billion of debt. Fort Worth, Texas-based TPG reportedly came closed to inking a deal. Its $10 million cash offer was accepted by EIX's executive management, however, the EIX Board of Directors rejected the offer as 'ludicrous' and decided to pursue a program of debt refinancing and asset sales to bail out EME, says the market watcher. **Owen Blicksilver**, spokesman for TPG, declined to comment. **Kevin Kelley**, spokesman at Rosemead, Calif.-based Edison International, was unable to provide comment.

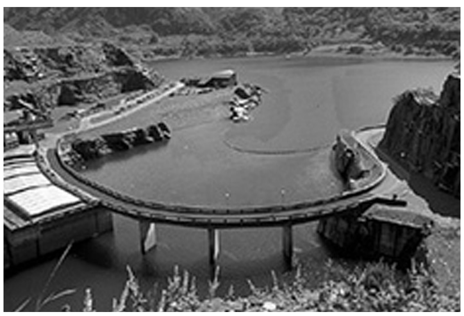
"The debt load on EME is huge," notes a banker, "but there are some fantastic assets there." In particular, bankers cite several plants in Chicago that feed **Commonwealth Edison**'s load and a 1,884 MW coal-fired plant in Pittsburgh as prime assets.

"TPG tried to buy it for a dime," notes a banker, "but it's a risky business bringing on $10 billion in debt, even if it is project finance."

First Hydro Rallies On Takeover Hopes

Edison Mission Energy's GBP400 million ($625 million) First Hydro non-recourse bond has rallied sharply on the belief that the U.K. pumped-storage company's financing could be taken out as part of an imminent acquisition. The 9% notes due 2021 were trading at 104 last week, up from the low 90s earlier this month on rumors that either **E.on**'s **Powergen** utility or **RWE Innogy** are set to bid for the 2,088 MW pumped-storage facility in Wales.

The rally marks an astonishing turnaround for the bonds. At the beginning of this year the bonds were languishing in the low 30s on concerns that the U.K.'s New Electrcity Trading Arrangements (Neta) had undermined the day-night power price arbitrage crucial to operating pumped-storage facilities successfully. By the end of March First Hydro was trading around the 70 mark (PFR, 3/18).


First Hydro's Dinorwig

Some market watchers believe the rally may have come too far in recent weeks. **Neil Beddall**, a fixed-income utility analyst at **Barclays Capital** in London, worries that U.K. regulator Ofgem may place restrictions on the sale of First Hydro, and worries this could hurt the sale price.

EME put First Hydro and other international assets up for sale earlier this month as part of plans to cut leverage and avoid a potential liquidity crisis (PFR, 12/17).

Wells Fargo Looks To Initiate Research Coverage

Wells Fargo is looking to build a utility equity research team to support its newly formed power sector investment banking business. Five months ago Wells Fargo hired former **Banc of America Securities** bankers **Lane Genatowski** and **Jay Schwartz** to head up a new power banking team in New York (PFR, 7/7).

Wells Fargo is currently looking to hire a senior research analyst based in New York who will initiate equity coverage of regulated utilities but not IPPs or energy merchants. "Most of Wells Fargo's business is middle market," notes a banker, "so it makes sense that the team should go after the regulated companies."

Calls to bankers at Wells Fargo were not returned.

Entergy-Koch Loan Draws Strong Demand

Entergy-Koch has upsized a planned $200 million 364-day revolver to $230 million after syndication saw the loan oversubscribed by 50%. The showing was in line with financiers' expectations that the deal would syndicate strongly (PFR, 12/2). One banker says Entergy-Koch did a good job explaining how it manages its marketing operation **Entergy-Koch Trading** and interest was also sparked by bank relationships with its parents. Entergy-Koch was set up in February 2001 by New Orleans-based **Entergy Corp.** and privately-owned **Koch Industries**.

The deal has a facility fee of 13.5 basis points and is priced at 47.5 basis points over LIBOR. If 33% or more of the loan is drawn, a utilization fee of 12.5 basis points kick in. Lead arrangers **Royal Bank of Scotland** and **ABN AMRO** took $35 million tickets, **Wells Fargo** and **WestLB** took $30 million, and **Commerzbank**, **Credit Suisse First Boston** and **Compass Bank** took $20 million. The allocations were rounded out with four banks at $10 million: **J.P. Morgan**, **Bank of Nova Scotia**, **Société Générale** and **Southwest Bank of Texas**.

A key selling point for the loan is that the joint-venture has a strong asset base, says another banker. Its **Gulf South** operation runs interstate natural gas pipelines serving the transportation and storage needs of the Gulf Coast.

Corporate Strategies

FirstEnergy Sub Retires Expensive Debt

Cleveland Electric Illuminating, a utility subsidiary of FirstEnergy, issued $300 million in 10-year notes earlier this month to pay down short-term debt and redeem $150 worth of bonds due at the end of the year. **Aneesh Prabhu**, an analyst at **Standard & Poor's** in New York, says the Cleveland, Ohio-based utility initially intended to issue $150 million of bonds with a 5% coupon to replace notes issued at a 9% rate, but ultimately decided to issue $150 million more to pay down even more short-term debt while rates are so low. The new offering was priced at 99.637 and has a 5.65% coupon

Prabhu notes that FirstEnergy has fallen short on generating an expected $1 billion in free cash flow this year due to the continued closure of the 873 MW Davis-Besse nuclear plant, which has been out of commission since 2002. "Davis-Besse didn't come [back] on line and some asset sales didn't come through so they issued some short-term debt to make up the shortfall," he explains.

FirstEnergy paid down much of its short-term debt with a $960 million equity issuance in September, but other debt is still outstanding. "They are in better shape with that equity issuance," says Prabhu, though he notes that S&P will keep the company on Credit Watch Negative until issues surrounding the blackout are resolved. **Tom Navin**, treasurer at First Energy, did not return calls by press time.

Barclays Capital and **Morgan Stanley** underwrote the deal.

WPS Utility Scores A Tight Spread

Wisconsin Public Service Corp. landed a 57 basis point spread over Treasuries on a $125 million note allowing the Green Bay, Wis., utility to bag lower funding than on its last debt issue when rates were slightly lower. "We did a debt issue last year and at the time I thought the rate would be lowest I'd see for 10-years," says **Joe O'Leary**, cfo at parent **WPS Resources**. He attributes the tight spread to general market conditions and also Wisconsin Public Service's solid AA- rating.

The 4.8% 10-year senior secured notes priced at 99.646 in a deal led by **UBS Securities**. Longtime relationship firms **A. G. Edwards & Sons** and **Robert W. Baird & Co.** were also in one the offering along with newcomer **Bank One Capital Markets**, O'Leary notes. He declined to give a detailed reason for the addition of Bank One, but says, "We don't do a lot of these [debt issues] so when we do we like to spread the business among people who want to do business with us."

The proceeds are being used to cover retiring debt of around $50 million and also fund a $48 million payment to **Calpine**, O'Leary says. The payment to the San Jose, Calif., IPP is due under the terms of Wisconsin Public Service's acquisition of the 180-megawatt De Pere Energy Center. The $120 million deal closed in December 2002.

Weekly Recap

The Weekly Recap is a summary of publicly reported power news stories. The information has been obtained from sources believed to be reliable, but PFR does not guarantee its completeness or accuracy.

Asia & Australasia

• **Huaneng Power Group**, China's biggest independent power producer, has bought two power plants in Australia from U.S. IPP **InterGen** for $227 million, marking the first foreign purchase by a Chinese power producer. State-owned Huaneng bought a 50% stake in **OzGen**, a wholly-owned subsidiary of Boston-based InterGen, which owns two power plants with a combined 1.8 GW of capacity in Queensland. "The acquisition marks a concrete step taken by Huaneng Group to implement its overseas expansion strategy," Huaneng said (*Reuters*, 12/16).

Europe & Middle East

• French utilities giant **Suez** has taken direct control of **Electrabel** after lifting its stake in Belgium's dominant power utility from 45.34% to 50.01%. Suez is understood to have spent some EUR500 million ($614 million) since May in building its stake by buying Electrabel shares on the stock market (*Financial Times*, 12/16).

• **London Array Ltd**, a joint venture between **Powergen Renewables, Shell WindEnergy** and **CORE Ltd,** has been awarded the opportunity to lease an offshore wind farm site in the outer Thames Estuary by the U.K.'s **Crown Estate**. The consortium is planning construction of a wind farm on the site that could ultimately supply up to a quarter of London's power. The first phase would be a 300 MW wind farm commissioned in 2007. Depending on the success of the first phase, three further phases of slightly smaller size would be commissined in 2008, 2009 and 2010 respectively. The full development would then generate around 1 GW of capacity (*Dow Jones*, 12/17).

• **Enel,** Italy's biggest power company, has bought Sicilian gas distributor **Sicilmetano** for EUR41 million, as part of its strategy to expand in the domestic gas market. The purchase will add 37,000 Sicilian customers to **Enel Gas**, taking its total gas customer base to 1.85 million or 11% of the country. Enel is aiming to increase its domestic gas market share to 20% by 2008 (*Dow Jones*, 12/17).

• French state-owned power company **Electricité de France** expects to triple profits to EUR3.16 billion by 2006 from EUR1.09 billion this year primarily on the back of improvements at it international operations (*Reuters*, 12/16).

• Saudi Arabia's state-owned oil giant **Saudi Aramco** has announced plans for a $533.3 million power generation project to be built and run by private sector firms. Aramco said the project will involve a Saudi company and an international firm working in partnership to develop, build, finance and operate industrial facilities generating electricity and steam at four Saudi Aramco sites in the east of the country. Altogether it would produce more than 1 GW of power and more than 4 million pounds per hour of steam for Aramco's oil and gas processing facilities. Work on the project is expected to start in the first half of 2004 and be completed by 2006 (*Reuters*, 12/16).

Latin America

• Arlington, Va.-based **AES** has successfully concluded talks to renegotiate some $1.3 billion in debt with Brazil's national development bank (*Reuters*, 12/16).

U.S. & Canada

• **El Paso Corp**. is selling its controlling interest in a natural-gas pipeline unit, **GulfTerra Energy Partners** to **Enterprise Products Partners**, in a complex deal that values GulfTerra at $3.2 billion in cash and stock. El Paso owns a 90.1% controlling interest in GulfTerra and has been trying to sell assets and become a slimmer company focused on natural-gas production and pipelines. Under the deal Enterprise will pay $3.2 billion for GulfTerra and assume $1.7 billion of its debt. El Paso will receive about $900 million in cash for half of the existing general partnership and about 14 million publicly traded GulfTerra units (*Wall Street Journal*, 12/15).

• Federal energy regulators have denied California's bid to intervene in an investigation of power players accused of manipulating prices in the state, including **Mirant** and **Dynegy**. The probe is an investigatory proceeding in which California and others can't intervene, the **Federal Energy Regulatory Commission** ruled. California was looking to combine its investigations with the federal effort (*Bloomberg Business News*, 12/12).

• **Mission Energy Holdings International**, a subsidiary of **Edison Mission Energy**, closed an $800 million three-year secured loan and used part of the proceeds to pay off a maturing $781 million loan. **Citigroup**, **Credit Suisse First Boston**, **J.P. Morgan** and **Lehman Brothers** led the new LIBOR plus 5% deal (*Reuters*, 12/12).

• **Exelon** agreed to sell its **Exelon Thermal** unit to **Macquarie Bank** of Australia for $135 million. Exelon says it is divesting the Chicago-based provider of water for industrial cooling to focus on its core utility businesses (*Dow Jones*, 12/15).

• California's largest utility, **Pacific Gas & Electric**, said a U.S. Bankruptcy Court had found its reorganization plan to be legal, clearing the way for state regulators to act on it. PG&E filed for bankruptcy in April 2001 at the height of California's energy crisis (*Reuters*, 12/12).

• **Jersey Central Power & Light** has named **Stephen Morgan** as its president and gave him the task of making the utility's service more reliable. Morgan, who was v.p. of energy delivery for JCP&L's parent company, **FirstEnergy**, said he hoped to use the newly created position to restore the company's legacy of being a high-quality utility (*Asbury Park Press,* 12/12).

• Trial staff at the **Federal Energy Regulatory Commission** filed a motion to dismiss charges that **Entergy-Koch** unit **Koch Energy Trading** may have acted in concert with another energy firm to manipulate markets during the California energy crisis (*Reuters*, 12/16).

• **Northeast Utilities** named **Charles Shivery** interim president to lead the company while its board looks for a replacement for CEO **Michael Morris**, who is leaving to take the top job at **American Electric Power** (*Reuters*, 12/16).

• **El Paso Corp.**, the biggest natural gas pipeline company in the U.S., has laid out an ambitious restructuring program to reduce almost $24 billion in debt and obligations to pay $15 billion by the end of 2005. The program includes scaling back the company's wide focus to concentrate more fully on natural gas pipelines and exploration and production (*Financial Times*, 12/16).

• The **Wisconsin Public Service Commission** approved a new $420 million transmission line linking Minnesota and Wisconsin, which will open one of the most clogged grid paths in the Midwest. The Arrowhead-Weston line, which was initially authorized in 2001, received approval after cost estimates were revised. The 345 KV line, expected to be in service by 2008, will run 220 miles from Duluth, Minn., to Wausau, Wis., and will be constructed, owned and operated by the **American Transmission Co.** (*Reuters*, 12/15).,

2003 YEAR IN REVIEW **NORTH AMERICA**

ENERGY MERCHANTS

(continued from page 1)

merchants were looking at $90 billion ifalling due by 2006, but that figure has fallen to around $47 billion, mainly because debt has been refinanced, according to S&P.

Edison Mission Energy (EME) was one of the many merchant-energy players that escaped the clutches of bankruptcy this past year. The **Edison International** unregulated power generation unit flirted with Chapter 11 late this fall as it headed toward a $781 million bank debt maturity due this month, with little obvious sign of how it would be refinanced (PFR, 8/11). But, EME, for all its balance sheet liquidity issues, has cash-generating assets, rather than a portfolio of unfinished construction sites, and this positive feature allowed it to tap the increasingly important institutional or ‘B’ loan market to refinance the debt.

Tom Murray, managing director at **WestLB** in New York, says the institutional loan market has become a significant source of capital in the power sector for companies with the right mix of assets. “The ‘B’ loan market is very focused on cash generation and [its investors are] afraid of construction risk,” he explains.

The bankruptcy of two other IPPs highlights the flipside of the equation. **PG&E National Energy Group** had some strong pipeline assets but it also had a large portfolio of unfinished plants that weren’t generating cash. “NEG was very focused on greenfield development. The issue was liquidity. There was no one out there willing to put in the capital,” says Murray. NEG eventually filed for bankruptcy protection over the summer (PFR, 7/21).

NRG Energy was in a similar boat with its focus on new plant development and it filed in May with $11.6 billion in liabilities.

Mirant’s failure was perhaps the most surprising bankruptcy in the sector, given its relatively strong generation portfolio. Market watchers say its Byzantine financial structure, which left different groups of creditors fighting among themselves to land liens in the refinancing, undermined Mirant’s ability to secure a deal.

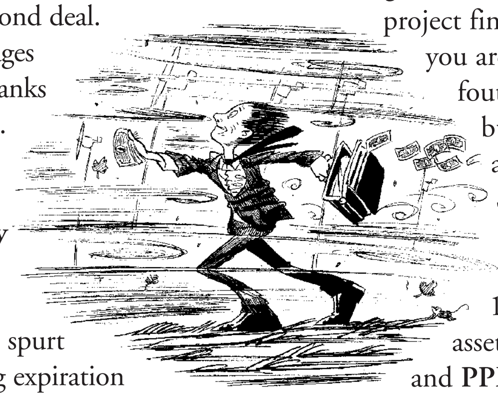
This year also saw a string of restructuring talks between power players and bank lenders. Ranking as the most hotly contested was **Reliant Resources**’ $5.9 billion make-or-break debt refinancing this spring, with creditors squabbling among themselves over how hard to push Reliant for improved financing terms. The lead banks ultimately froze trading lines with WestLB, which was seen as the ringleader of the dissenters, to persuade the bank to sign up to a refinancing package. The deal was eventually wrapped with both camps claiming victory (PFR, 4/14).

—Peter Thompson

Winds Of Change

Wind Farm Financing Flourishes

The niche sector of wind farm financing finally came of age this year with several high-quality sponsors bringing $70 million in non-recourse loans to market and the market leader, **FPL Energy**, sealing a $380 million wind farm bond deal.



With the arrival of bigger financing packages and stronger developers, so project finance banks started getting more interested in the market. The line-up of borrowers shrugged off any sense that this is still a minnow’s market: **American Electric Power**, **Shell WindEnergy** and **Electricité de France** unit **enXco** all landed loans this year.

But while the flow of deals was good, the spurt of activity was in part driven by the looming expiration of federal production tax credits (PTCs). “The financings have all come through because everyone knew PTCs could expire at year-end. That was the gun to people’s heads,” says **Andrew Mathews**, managing director at **HypoVereinsbank**. With the failure of legislators to pass the Energy Bill, those tax breaks will expire for new farms, but projects hooked up to the grid by year-end will still qualify. PTCs will likely be re-instated when the bill is passed but the delay may put a dampener on new deals in the first half of next year.

Even at full tilt, bankers say wind farm financing isn’t going to be a huge business, but it could be a solid component for project finance shops. “It’s going to be a niche, but if you are one of the dozen banks seeing three-to-fout deals per year that should keep you busy,” says **Steven Gray**, director of project and specialized industry finance at **Bank of Scotland** in New York.

The key deals this year were AEP’s $74.25 million Trent Mesa loan (PFR, 11/17), enXco’s $80.2 million loan funding assets in Minnesota (PFR, 11/17), and Shell and **PPM Energy**’s $125 million Colorado deal (PFR, 12/15).

A further sign of the increasing legitimacy of the sector was FPL Energy’s ability to execute the first U.S. bond deal secured against wind generation facilities. The $380 million investment-grade issue drew in a raft of new wind investors (PFR, 7/28).

2003 YEAR IN REVIEW **NORTH AMERICA** (cont'd)

Tough At The Top

Industry Woes Prompt Executive Shakeout

As befits an industry reeling from trading and accounting scandals, disastrous investment forays abroad and collapsing share prices, the power industry saw a mass turnover in its executive ranks this past year. "It's unlike anything in recent memory," says **Caren Byrd**, executive director at **Morgan Stanley,** noting that 13 of the 50 largest power companies by market cap either changed their chief executives or announced a change at the helm within the past 24 months.

Flux At The Top: Recent CEO Appointments

Company	Former CEO	New CEO	Turnover Date
Allegheny	Jay Pifer	Paul Evanson	6/9/03
Ameren	Charles Mueller	Gary Rainwater	1/1/03
AEP	Linn Draper	Michael Morris	1/1/04
Duke	Richard Priory	Paul Anderson	11/1/03
El Paso	Ronald L. Kuehn	Douglas L. Foshee	7/16/03
Great Plains	Bernie Beaudoin	Michael Chesser	9/22/03
Pepco	John Derrick	Dennis R. Wraase	6/01/03
Reliant	Steve Letbetter	Joel Staff	8/12/03
Southern	Allen Franklin	David Ratcliffe	7/1/04
TXU	Erle Nye	N/A	N/A
Westar	David Wittig	James Haines	11/22/03

Source: *PFR*/Morgan Stanley

Some of the industry's biggest players, including **Reliant Resources**, **Southern Co.**, **Allegheny Energy**, **Duke Energy** and **El Paso Corp.**, hired new chief executives this year. **American Electric Power** CEO **Linn Draper** also announced his imminent retirement and **TXU** CEO **Erle Nye** hopes to announce a successor by year-end.

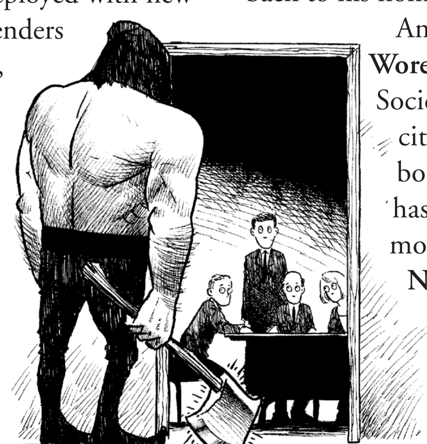
"In some cases, the chief executive is simply retiring, but there was shareholder and boardroom pressure for change at each of these companies," says **Richard Preng**, head of recruitment firm **Spencer Stuart**'s energy practice in Houston. He adds, however, that reshuffles were often driven by investor calls for a clean sweep and a new beginning, rather than any specific underperformance.

As befits a more conservative climate, Preng says he sees an increased emphasis on chief executives having operational know-how, rather than a financial background. "The industry is changing from a financial focus. [There's less emphasis] on trading power and derivatives, to running commercially viable power plants."

To that end **Paul Evanson** was hired as Allegheny's new ceo last June because of his utility experience and understanding of the generation market, says Preng.

Downturn Prompts Wave Of Departures

This year saw a hike in the number of top power sector financiers either heading out the door or redeployed with new job functions. Heavyweight project finance lenders **Bank of Tokyo-Mitsubishi**, **Barclays Capital**, **Société Générale** and **WestLB** were among those to have key personnel shifts. A combination of changing internal bank strategies, a lack of deal flow, and taking the rap for poorly performing loan books led to the wave of departures.



"After 2002, everybody did some soul searching," says **Andrew Mathews**, managing director at **HypoVereinsbank**, referring to the strategic business reviews many banks carried out. The changes through the wider power industry also created new avenues for financiers, for instance on the asset acquisition side. "There are opportunities out there. But whether everybody ends up in a safe haven is another question," he adds.

In the top strata, **Chris Kinney**, managing director and second in command of Barclays' power and utilities group in New York, decided to take a break from the market. The highly-regarded veteran wrapped a three-year stint at the U.K. bank's Big Apple office last spring when he decided to head back to his home state of Tennessee (PFR, 5/19).

Another key change was the departure of **Jay Worenklein,** global head of project finance at Société Générale in New York (PFR, 3/24), who cited a desire to set up a energy investment boutique as a reason for the move. Worenklein has been actively pursuing that goal in recent months, reportedly taking a run at **PG&E National Energy Group**'s GenHolding assets, which are currently on the auction block.

Among the other key changes this year were the exit of colorful industry veteran **Manfred Knoll** from **WestLB** (PFR, 11/17) and **Lewis Hart**, senior v.p. of project finance at **Bank of Tokyo-Mitsubishi.** Renewable energy specialist **Fortis Capital** added **Deutsche Bank** staffer **Paul Naumann** to head its U.S. power and infrastructure business, while its former incumbent **Hendrik Vroege** took up a new senior position in the firm's asset restructuring area (PFR, 9/29).

2003 YEAR IN REVIEW **NORTH AMERICA** (cont'd)

False Dawn
Private Equity Primed, But Transmission Deals Dry Up

Transmission became a key target for private equity players this year, but the much anticipated flood of utility transmission sales just hasn't materialized. In response, players are expecting new wires projects to be the main recipient of funds flowing into the business. "It's difficult to see where the next [divestiture] transaction is coming from," says **Christopher Leslie**, division director at **Macquarie Securities** in New York, which has been active in making principal investments in transmission.

Kirk Edelman

In the immediate aftermath of the summer blackout that crippled many parts of the U.S., many officials hoped transmission investment would become a political priority (PFR, 8/19). But a solution for the impasse created by different agendas at federal regulators, state agencies and the asset owners themselves doesn't seem any closer. "The biggest impediment is the age-old state versus federal conflict," says **Kirk Edelman**, former cfo at **TRANSLink Transmission**, who adds there is no sign of any initiative to tackle the issue.

The year started out with investors still buoyed by the **Kohlberg Kravis Roberts** and **Trimaran Capital Partners** acquisition of a **DTE Energy** wires business, **International Transmission Co.** (PFR, 2/17). Reston, Va.-based **Trans-Elect** was also poised to acquire **Illinois Power**'s transmission system. But that deal deteriorated into an acrimonious lawsuit as Trans-Elect sued Illinois Power in the fall, claiming it had breached its contractual obligations to sell the asset.

On a different front, the grand plan behind the utility-backed **TRANSLink Transmission** startup, which was set to become the largest independent transmission company in the U.S., also appeared an attractive proposition to investors. Ahead of the formal transfer of assets from the utilities to the new company, **First Reserve Corp.**, one of the largest private equity firms in the energy sphere, signed up to pump $200 million in to the business. "We went out to just six private equity investors and got six good proposals back," says Edelman. But that also proved to be a false dawn. The utility backers ended up pulling the plug on the plan, citing regulatory uncertainty surrounding transmission (PFR, 11/10).

In terms of new transmission projects, Trans-Elect was able to seal a two-part $210 million debt financing package funding the construction of an 83 mile, 500 KV line along Path 15, California's notorious north/south transmission bottleneck (PFR, 9/21). And that deal also landed equity backing from **ArcLight Capital Partners**, **EIF Group**, and a third private equity fund.

Macquarie's Leslie sees more opportunities coming down the chute in the new development area. "It would seem to be easier for independent equity to do something in the project development arena [than in divestitures]," he says. He adds there are around four or five of these projects planned at the moment that are of a sufficient size to make them interesting to equity players.

Project Finance
New Generation Flows Thin To A Trickle

The project finance market for traditional thermal generation plants proved as inactive as many commentators had feared with only **Calpine**, **FPL Energy** and **Tractebel North America** among the major IPPs, tapping the loan market with new deals. "It's been very quiet," reflects **Mike Pepe**, head of project and export finance at **IntesaBci** in New York. With most U.S. markets burdened with overcapacity and weak power prices, the power plant construction boom of the late 1990s that fueled project finance activity seems like a distant memory.

Pepe says a significant feature of the project finance market this year is all the financings were long gestated and well flagged deals. In contrast to the boom years, there were no big-ticket deals put together secretly and launched quickly. "Most of the deals we've seen are legacy deals that were penciled in prior to the merchant meltdown," notes **Steven Gray**, director of project and specialized industry finance at **Bank of Scotland** in New York.

The biggest new project finance deal of 2003 was FPL's $400 million non-recourse financing for two gas-fired plants. A high quality sponsor, solid offtake arrangements, and a short 3.5-year post-construction maturity were among the reasons behind the deal's packed out launch at **The Palace** hotel in New York City. And that enthusiasm carried through to a syndication, with 29 lenders stepping up to write tickets (PFR, 6/30). The factors driving the success of the deal also underscored its rarity value. Going forward there will only be a few deals that will hit the project loan market and they will do so because of unique factors, such as supply shortages in specific markets.

Tractebel, which is renowned for its cautious, steady, and unhurried approach to financing, finally refinanced the already

2003 YEAR IN REVIEW **NORTH AMERICA** (cont'd)

operational 343 MW Ennis, Texas, plant with a $100 million loan (PFR, 8/19) this summer. The deal has a club-like feel to it, with **DZ Bank**, **Bank of Scotland** and **Export Development Canada** signing up first and then drawing in four additional players.

Many financiers see some sort of club-like underwriting as being the likely shape of financings in the post-boom market. "It's back to the future for project finance," says Pepe. "For a period in the late 1990s the deals were a lot larger and that encouraged large banks to get involved. Those deals are gone, so we're back to where we were in mid-1990s," he adds. Bankers are expecting a similar smaller-bank flavor to Tractebel's next deal financing a $400 million, 520 MW plant in Chehalis, Wash. (PFR, 9/29).

Largest U.S. Generation Project Finance Loans

Sponsor/Project	Plant Type	Amount (millions)	Lead Banks
FPL Energy Revolver	Two CCGT Plants	$400	Bank of Nova Scotia, Royal Bank of Scotland
Calpine Riverside	CCGT	$230	Bayerische Landesbank, Credit Lyonnais, HypoVereinsbank, CoBank and NordLB
Calpine Blue Spruce	CCGT	$140	Beal Bank
Shell/PPM Colo Green	Wind Farm	$125	ANZ, Rabobank
Tractebel Ennis	CCGT	$100	DZ Bank, Bank of Scotland, EDC
enXco (Northern Wind Energy)	Wind Farm	$80.2	Crédit Agricole Indosuez
AEP Trent Mesa	Wind Farm	$74.25	Fortis Capital
Alliant Energy Neenah	SCGT	$72.5	CoBank

Source: ***PFR***

The only other big-name sponsor to tap the project loan market last year was San Jose, Calif.-based Calpine. The IPP landed a $230 million short-term mini-perm of construction plus three years to fund the construction of its 600 MW Riverside Energy Center in Beloit, Wis., with an 11 lender roster (PFR, 10/27). And, as with Tractebel, it has another similarly sized deal in the pipeline to refinance the 601 MW Rocky Mountain Energy Center (PFR, 11/17).

Back To Basics

Industry Players Rush To Reduce Debt

Driven on by increased rating agency scrutiny and fears of credit downgrades, the country's biggest utilities and energy merchants spent much of the year in a conservative back-to-basics mode with the prime goal of deleveraging their debt-laden balance sheets and maintaining an investment-grade rating.

Dot Matthews, an analyst at New York-based **CreditSights**, explains that energy companies looking to bolster their balance sheets adopted two tactics. "The less desperate issued equity, and the more desperate sold assets," she says.

Top 10 Equity Offerings of 2003

Company	Amount ($ mil)	Bookrunner	Issue Date
Dominion Resources	1,073	Merrill/Morgan Stanley	10/15
Duke Energy	1,000	Morgan Stanley	10/15
El Paso Corp.	898	JP Morgan/CSFB	6/20
Calpine	759	Goldman/CSFB	6/24
NiSource	658	BofA/CSFB	4/24
American Electric Power	654	Goldman/Citi/JP Morgan	11/6
Progress Energy	615	JP Morgan	2/21
TXU	562	Merrill	11/6
Dominion Resources	562	Citigroup	5/30
Sempra Energy	550	Merrill/Citi	4/24

Source: **Thomson Financial**

Energy giants such as **Dominion Resources**, **TECO Energy**, **American Electric Power**, **Exelon**, **First Energy** and **Duke Energy** took advantage of an upswing in the stock market and renewed investor appetite to issue equity to help pay down debt.

By the third quarter, a swathe of equity capital raising programs had helped reduce debt-to-capital ratios among single-A rated power companies by some 2.09% to an average of 57.4% and triple-B companies an average of 1.84% to 61.8%. Some of the best-heeled utilities, such as Exelon and **Entergy,** managed to reduce debt-to-equity ratios to near the 50/50 mark.

Power companies also turned to asset sales in hopes of raising money and cutting debt, but with less success. **El Paso Corp**. launched a push to sell 27 contracted plants as well as nine merchant plants last May. None of the assets had sold as of present time. **Allegheny Energy** and Duke Energy also put both well-performing and distressed power plants on the block, but struggled to execute sales. While Allegheny divested non-core assets such as its energy supply contract with the California Department of Water Resources—sold to **Goldman Sachs** in September for $354 million—it pulled the sale of three coal-fired plants in Pennsylvania.

Calpine also cancelled a 13 plant portfolio sale after selling just three assets. **Ron Walters**, executive v.p. of development at the San Jose, Calif., IPP explains, "We just thought that we could get refinancing done on the capital markets and keep our valuable plants without selling them at terribly low prices. Sometimes it's not worth selling."

Amidst all the failed asset sales, **Aquila** stood out, offloading nearly $2 billion in assets in the U.S., Australia and Canada. The key to its success? "The vast majority of what they sold was contracted," explains Matthews. "Valuable and contracted plants always have a buyer."

2003 YEAR IN REVIEW **NORTH AMERICA** (cont'd)

Mini-Perms Find Refinancing Backers

Three big-ticket U.S. mini-perms were refinanced this year, partly assuaging the wide spread fear that the debt markets would have difficulty tackling the wave of looming maturities. But the potential mini-perm crisis is far from resolved. The projects were solid and they represent the tip of the iceberg. "These were good deals. I wouldn't have been too fussed if they couldn't have taken them out and kept them as bank debt," says **Andrew Mathews**, managing director at **HypoVereinsbank** in New York.

The textbook example of how a mini-perm loan should be refinanced was **Tenaska**'s $400 million project-level bond offering for its Alabama II power plant (PFR, 10/13). The investment-grade 20-year paper repaid non-recourse lenders who funded construction of the 885 MW natural gas-fired combined-cycle plant in Autauga county, Ala. The deal was executed a few months after the non-recourse bank debt flipped to a post-construction seven-year term loan. But a strong 20-year offtake deal with **Coral Power** that carries a guarantee from its parent, triple-A rated **Shell Oil**, also makes the deal an almost uniquely solid proposition.

There will likely be a variety of different outcomes for other mini-perms. **Steven Gray**, director of project and specialized industry finance at **Bank of Scotland** in New York, says the outcome will be very much deal-by-deal with some bank loans getting reworked and extended, and others being taken out in the bond market. "You could still see workout situations on some of the others," he adds.

Mathews argues the dynamics of the mini-perm situation have changed. Merchant plant mini-perms simply won't get refinanced at their maturity, because many of them are already in workout and won't exist at maturity.

The other key mini-perm refinancings were a $319 million project bond for **Cogentrix**' 885 MW Green Country project in Billingsley, Ala., and the $900 million balance on **Calpine**'s CCFC1 non-recourse construction facility. The loan was paid down over the summer (PFR, 8/25), after **Goldman Sachs** placed a package of term loans and floating-rate notes with institutional investors. "You are seeing a new investor base come in," says **Mike Pepe**, head of project and export finance at **IntesaBci** in New York. He also cites another Calpine deal when it was able to pay off non-recourse construction financing for its Blue Spruce Energy Center located in Aurora, Colo. Privately-held Dallas player **Beal Bank** provided a $140 million, 15-year term loan without a general syndication.

Power Trading

Liquidity Remains Elusive Despite Promise Of New Entrants

The **Enron** debacle continued to cast a shadow over the wholesale markets this year as liquidity struggled to bounce back, despite a steady stream of new entrants starting up power trading operations. **Merrill Lynch**, **J.P. Morgan, Prudential Securities**, **Deutsche Bank** and **Citigroup** were among the best known names looking to commence trading. An aura of déjà vu clung to Merrill's effort since the firm sold its Global Energy Markets (GEM) business to **Allegheny Energy** two years ago and then re-hired several GEM traders earlier this year to lead the new charge (PFR, 4/21).

These firms seemed unconcerned by **Bank of America**'s continuing leadership upheaval in its nascent commodity business that culminated most recently in the appointment of **Greg Mulligan**, head of market risk-Europe in London, as global head of commodity derivatives (PFR, 8/11).

Hedge funds, in common with the main securities houses, also continued to trickle into the market. **Ritchie Capital Management,** a Geneva, Ill.-based hedge fund, followed a well-worn path by hiring industry veterans from **Williams Co.s**, **Duke Energy** and Enron to launch a power and energy trading desk (PFR, 9/22). Similarly, **Steve Culliton**, head of forward and financial power trading at Williams Co.s' Energy Marketing & Trading, joined Chicago hedge fund **Citadel Investment Group** (PFR, 3/3).

But while established players, such as Williams, **El Paso Corp**. and **Mirant**, continued to scale back their trading operations and shed personnel as management struggled to justify the high overhead, tarnished image and credit constraints associated with wholesale trading, **Constellation Power Source** bucked the trend. Early in the year it hired a team of Portland-based Western power marketers from **American Electric Power** after agreeing to purchase the bulk of **CMS Energy**'s power book (PFR, 2/24).


Kenneth Laughlin

The malaise wasn't confined to home-grown operations. German utility **RWE** announced in November plans to close its Houston-based **RWE Trading Americas** unit after a high-profile attempt to launch an asset-backed U.S. trading operation. Similarly, **Louis Dreyfus Energy** appears to have put on ice plans to set up an asset-backed power trading unit and is instead focusing on natural gas trading (PFR, 6/9).

Liquidity in PJM's western hub contract—probably the most liquid wholesale power market in the U.S.—has remained level this year, says **Kenneth Laughlin**, v.p.-market services at PJM in Norristown, Pa. "It's extremely liquid and stayed extremely liquid," he adds.

2003 YEAR IN REVIEW **NORTH AMERICA** (cont'd)

New Kids On The Block
Investment Boutiques Spring Up ...

A plethora of energy sector investment boutiques emerged last year, formed by industry veterans hoping to snap up power plants and other hard assets at fire sale prices. But deal flow has proved elusive, with most incumbent power producers, or the banks that now control many of the plants, refusing to take significant haircuts on their investments.

Chris Ellinghaus, equity analyst at **Williams Capital Group** in New York, argues that investment boutiques' unrealistically inflated expectations of the investment returns they could achieve means there remains a very wide gulf between bids and offers for power plants. "Private equity comes in and would like to buy plants for $200 a kilowatt hour," says Ellinghaus. "This is ludicrous."

The long list of new investment vehicles includes New York-based **Miller, McConville, Christen, Hutchison & Waffel**, that has looked to acquire assets on both sides of the Atlantic, Chicago-based **Insight Energy,** Bethesda, Md.-based **ElectroVest** headed by **William Conway**, and **K Road Ventures**, started by **Sithe Energies** founder **William Kriegel**. None have yet to close on acquisitions

"Some of the plants' creditors, rather than forcing asset sales, have agreed to roll over debt," says **Kevin Smith**, whose investment boutique, Insight Energy, recently refocused its efforts on Europe after failing to secure any deals in the U.S.

Smith continues that boutiques also may have had trouble closing on acquisitions because they are being bankrolled by private equity firms that have high investment return expectations. "Compared to **GE Capital**, their cost of capital is much higher," he explains.

Another stumbling block was that private equity proved reluctant to take an investment gamble on the plethora of merchant assets up for sale. "Private equity wasn't quite sure what to do with merchant plants at the end of the day," says Ellinghaus.

Those boutiques that managed to secure acquisitions typically acquired small contracted plants and steered clear of public auctions. Other boutiques emerged from the shadows to make quiet deals on merchant plants at deep discounts.

For example, Oak Brook, Ill.-based **Private Power**, recently renamed **Primary Energy**, recently bought six plants producing 444 MW of inside-the-fence generation power from Merrillville, Ind.-based **NiSource** subsidiary **Primary Energy**.

Invenergy, a startup founded by entrepreneur **Michael Polsky**, also closed a deal this fall, buying Hardee, a contracted 370 MW power plant in Florida from **TECO Energy** (PFR, 8/25).

"A lot of the successful deals weren't public auctions," notes Smith. "You'd see an auction get to the second round then blow up because the winning bidder hadn't done his homework or had overvalued the assets. It was very frustrating."

New Entrants

Name	Based	Management	Comment	PFR Cite
Canam	Houston	Riaz Siddiqi	-	7/14/03
Denver Power	Denver	John Moye, Michael Bugdanowitz, Edward White	Looking at generation in the US and Latin America	12/22
ElectroVest	Bethesda, Md.	William Conway	-	6/16/03
Franklin Park Energy	McLean, Va	Tom Tribone	-	6/30/03
Insight Energy	Chicago	Kevin Smith	Looking at Edenderry power plant	3/31/03
Invenergy	Chicago	Michael Polsky	Bought plant from TECO	-
K Road Power	New York	William Kriegel	-	-
Miller, McConville	New York	Karl Miller	Focusing on Europe & U.S.	-
Primary Energy	Oak Brook Ill.	Tom Casten	Looking to buy Trigen	8/20/03
Rockland Capital Management	Houston, New York	Scott Harlan, David Yeager,	Set to buy to Tractebel QFs	6/9/03
StoneCap Group	Houston	Hugh Tarpley, Milton Scott		-
Sutton Ventures	Houston	Joe Sutton	Looking at Duke plants in the U.K. and AEP in Texas	12/16/03

Source: *PFR*

... As Wall Street Enters The Fray

Wall Street, which has traditionally confined it interest in the power sector to corporate finance and advisory work, joined the rush of alternative investors looking to acquire distressed generation this year.

Goldman Sachs proved the most active. Perhaps flush from the lucrative success of its previous power generation venture, **Orion Power**, the bulge bracket firm invested in more than $4 billion of generation capacity. In late October Goldman agreed to acquire Cogentrix Energy, a 3.3 GW North Carolina IPP for $2.4 billion, including the assumption of debt. "They paid good prices for these," notes **Chris Ellinghaus** an analyst of **Williams Capital** in New York, but he notes its other significant plant purchase, **El Paso Corp's** 940 MW Linden plant in New Jersey, was acquired at a steeper valuation. Goldman's decision to pay some $1,000 per kilowatt for Linden raised eyebrows on Wall Street, he notes.

Other banks or their associated private equity arms also have begun scouring out investment opportunities, though with less success to date. The roster includes **Bear Stearns**, which set up a Houston-based power team led by formal El Paso originators **Pam Baden** and **David Field** this spring, **Morgan Stanley**, **J.P. Morgan Partners** and **Wachovia Capital Partners**.

2003 YEAR IN REVIEW **EUROPE**

U.K. Generation Market Offers Lenders A White-Knuckle Ride

The U.K.'s independent generation industry witnessed a helter-skelter ride this year, as the collapse of many offtake agreements and the withdrawal of most U.S. energy merchants back to their domestic market left stand-alone power plants exposed to the volatile movement of wholesale power prices.

Drax: Improving Outlook

While weak spot prices kept the generation industry in the doldrums for the first half of the year, sentiment has turned markedly higher in recent months as wholesale power prices have nudged higher. "It has been hell," reflects **Alan Baker**, head of power project finance at **Credit Lyonnais** in London, of the past year, "but with a silver lining at the end. [All in all] it could have been much much worse."

A negative tone was set on the very first day of 2003 when **Entergy Corp**. walked out on Damhead Creek, an 800 MW three-year old power plant in Kent, southern England (PFR, 1/13). The move put the merchant gas-fired facility in the hands of its non-recourse creditors. Within six seeks **NRG Energy** also had walked away from its 680 MW Killingholme plant in Yorkshire, north England. And by the fall over 7 GW of merchant generation had either fallen into the hands of creditors or administrators, including the Drax, Shotton, Roosecote and Fife power plants.

While project finance banks cut their losses on several of the distressed plants, including Barry and Roosecote, they typically wrote down the value of their investments, restructured the debt and held on to their exposure in the hope of an upturn in the market.

The ploy proved a shrewd move. As power prices rebounded, so have the value of banks' distressed generation investments. "Drax is a case in point," says Lyonnais' Baker. He notes 4 GW power plant's debt has rallied from 55% of face value this summer to 90% last week.

The turn around in Drax's value has been so marked, that it prompted the plants' creditors to recently reject **International Power**'s bid to take over control of the asset (PFR, 12/1).

Project Finance

Spain Prospers As The Rest Of Europe Remains Becalmed

For the third consecutive year, the European power project finance market proved a barren ground for deal marking. With wholesale power prices weak across much of Western Europe and most utilities and IPPs focusing on consolidation and cutting leverage, it's little surprise that only a few greenfield power projects managed to reach financial close this year.

The power market's looking healthier than last year, but its still been tough," says **Andy Griffiths**, a syndicate banker at **HypoVereinsbank** in Munich.

A vast swathe of distressed and underperforming generation projects in the U.K. also left commercial banks with little inclination to take on more generation risk, explains **Alan Baker**, head of power project finance at **Credit Lyonnais** in London

The Spanish market proved the focal point for the bulk of the project finance activity this year with two large greenfield independent power plants securing non-recourse financing. After years of over-hype followed by frustration and disappointment, the Iberian IPP market finally blossomed in 2003.

In February, an international affiliate of the Republic of Ireland's **Electricity Supply Board** sealed a EUR690 million non-recourse loan that finances its 800 MW Amorebieta combined-cycle gas turbine project near Bilbao (PFR, 2/4), Spain's first truly independent large-scale generation venture. The deal was led by **Royal Bank of Scotland**, which brought on board a further eight lead arrangers, **Allied Irish Bank, Banco Bilbao Vizcaya Argentaria**, **Banesto**, **Bank of Scotland**, **Bayerische Landesbank**, **Bank of Ireland**, **Fortis Bank** and **KBC Bank**.

In August **AES** followed suit, sealing a EUR659 million non-recourse debt financing package to fund the construction of a 1.2 GW gas-fired power project at Cartagena in southeast Spain (PFR, 8/ 11). Like ESB before it, AES pulled together a large debt underwriting group to minimize any underwriting risk. It signed up 11 lead arrangers to underwrite the deal.

Another similarity between the two Spanish deals was the involvement of highly rated tolling counterparties to supply the plants' fuel and take their output. AES Cartagena signed a long-term tolling agreement with France's state-owned gas monopoly **Gaz de France**, while ESB International signed a 15-year tolling agreement with **Shell España**.

"The collapse of TXU Europe has left financiers acutely aware that you don't just need an offtake agreement, but also one with a top-notch counterparty," says one financier.

QUOTES OF THE YEAR 2003

On the money, wide of the mark or just plain funny, here's a thumbnail sketch of the past 12 months in the words of power company executives, investment bankers and analysts:

- *"I've always wanted to be an entrepreneur but I've never had a really good idea before."*—**Jay Worenklein**, global head of project finance at ***Société Générale*** in New York, explaining his reason for leaving the French bank to set up a generation investment company (PFR, 3/24).

- *The not-so-good news is that it's surrounded by some of the wealthiest lawyers in the country."*—**Jim Gordon**, president of ***Cape Wind Associates*** in Boston, commenting on local opposition to the development of a 420 MW offshore wind farm in Nantucket Sound off the coast of Cape Cod (PFR, 10/27).

- *"Investing in a cement plant is more attractive."*—**Bill Brier**, v.p. of policy at the ***Edison Electric Institute***, commenting on the low rate of return on investing in transmission projects (PFR, 10/20).

- *"They are in desperate straits and I mean desperate."*—**Dot Matthews**, a fixed-income and power analyst at New York-based ***CreditSights***, commenting on ***Aquila's*** weak financial health (PFR, 7/14).

- *"What is the risk that keeps me up at night? It's not what the traders are doing, it's what the regulators are doing."*—**Bob Stibolt**, senior v.p. at ***Tractebel North America***, commenting on regulatory risk in the U.S. power market (PFR, 7/7).

- *"It'll be unrelenting."*—**Dominic Nash**, pan-European utility analyst at ***Credit Suisse First Boston***, reflecting on the negative impact new renewable generation capacity will have on power prices in the U.K. (PFR, 8/21).

- *"KKR's only complaint was that this project was too small."*—**Steve Mitnik**, founder of Albany, N.Y.-based ***Conjunction LLC*** reflecting on ***Kohlberg Kravis Roberts***' decision to invest $200 million in the wires company, rather than invest directly in its Empire Connection transmission project (PFR, 9/22).

- *I'll probably leave millions of frequent flyer miles behind when I die."*—**Richard Morgner**, head of mergers & acquisitions at Los Angeles-based ***Chanin Capital Partners***, commenting on his frequent flights to New York (PFR, 9/8).

- *"Players are snake-bit, but we think there is room for the intelligent taking of risk."*—**William Conway**, president of start-up ***ElectroVest***, commenting on the company's plan to acquire quasi-merchant plants (PFR, 6/16).

- *"We are probably more circumspect. We dot our Is and cross our Ts."*—**Ron Walter**, executive v.p. of development at ***Calpine***, discussing the company's more conservative power plant development strategy (PFR, 9/15).

- *"I asked myself, 'If I was in Madrid, would I prefer to visit **Real Madrid** or **Endesa**?'"*—**Harry Philp**, managing director of ***GE Structured Finance*** in London, explaining why he's leaving the U.S. investment giant to become a sports investment banker (PFR, 8/4).

- *"Syndication is on life support because there are only a few mega deals on the horizon."*—**Mike Pepe**, head of project and export finance at ***IntesaBci*** in New York, commenting on the viability of large project loan syndication desks given the small size of most deals in the project loan pipeline (PFR, 1/6).

GAS RALLY

(continued from page 1)

account. "We are having a fantastic year," he says, adding that Centaurus is still the leading market maker in fixed-price natural gas swaps. Indeed, rival traders say Centaurus is widely believed to have been up in excess of $100 million prior to the rally, and therefore likely will end the year with a net positive performance.

Centaurus, an aggressive natural gas trader with some $250 million under management, was reportedly forced to liquidate short positions at the height of the rally when it received margin calls from brokers, according to a trader at another hedge fund.

In the recent rally, natural gas prices followed surging demand as a cold snap enveloped the Northeast. Contracts for January delivery on the **New York Mercantile Exchange** spiked to a high of $7.55 per million British thermal units on Dec. 10 from a low of $4.87 per million Btus at the beginning of the month. Most desks had been short going into the fourth quarter because of relatively mild winter weather and robust gas reserves. "Everyone lost money in the move, the question is: how much?," says the hedge fund trader.

An over-the-counter broker, who had heard the rumors about Centaurus, says the fund is still making markets as usual. The fund's traders are famously tight-lipped, he continues, adding "you would not be able to tell if they had gone out of business or made $500 million."

"They *are* the market," notes a natural-gas trader at a bank, who had also heard the rumor. "I don't know where they are laying off the risk," he adds.

—*Victor Kremer*

Financing Record (DECEMBER 4 - DECEMBER 12)

Bonds

Issue Date	Maturity	Issuer	Amount ($ mil)	Offer Price	Type of Security	Coupon (%)	Spread to Benchmark	Moody's	S&P	Bookrunner(s)
12/12/03	01/15/07	CenterPoint	225	100	Sen Unsec Cvt	2.875	-	Ba1	BBB-	Deutsche Bank/Citigroup
12/12/03	05/15/13	SEMCO	50	104.25	Senior Notes	7.75	306	Ba2	BB-	CSFB
12/16/03	01/15/14	Exelon	500	100	Notes	5.35	112	Baa1	AAA	Barclays
12/16/03	12/15/33	MDU Resources	30	100	Notes	5.98	90	A2	A-	Citigroup/JP Morgan
12/16/03	12/19/33	Piedmont Natural Gas	100	99.859	Notes	6	93	A3	A-	UBS
12/16/03	12/19/13	Piedmont Natural Gas	100	100	Notes	5	76	A3	A	Merrill Lynch
12/17/03	01/16/12	Energiedienst	79.7	100.25	Fxd/Straight Bd	3	-	NR	A	Merrill Lynch
12/17/03	12/15/13	NRG Energy	1,250.00	Market	Secnd Prior Nts	8	381	B2	NR	CSFB
12/17/03	06/07/32	Southern Electric Power	176.5	103.643	Fxd/Straight Bd	5.5	-	Aa3	B+	Lehman/CSFB/Royal Bank of Scotland

M&A

Date Announced	Date Effective	Target Name	Target Advisors	Target Country	Acquiror	Acquiror Advisors	Acquiror Nation	Deal Value ($mil)
12/12/03	-	Gulfterra	UBS/CSFB	U.S.	Enterprise Products	Lehman/Citigroup	U.S.	3,852.27
12/12/03	-	Purac	-	Sweden	ACME Television	-	U.S.	-
12/15/03	-	El Paso Corp-Natural Gas Plant	CSFB/UBS	U.S.	Enterprise Products	Lehman/Citigroup	U.S.	150
12/15/03	12/15/03	GulfTerra	Goldman Sachs/UBS	U.S.	El Paso Corp	CSFB	U.S.	-
12/15/03	12/15/03	GulfTerra	UBS/CSFB	U.S.	Enterprise Products	Lehman/Citigroup	U.S.	425
12/15/03	-	GulfTerra	UBS/CSFB	U.S.	Enterprise Products	Lehman/Citigroup	U.S.	500
12/15/03	-	Montkemija d.o.o.	-	Croatia	Istrabenz Plini	-	Slovenia	3.648
12/17/03	-	Bahia de Bizkaia Gas	-	Spain	Iberdrola	-	Spain	Source:

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

MIZUHO UNWINDS

(continued from page 1)

immediately flipped the position to **Deutsche Bank** for 90.5, they add. Officials at Mizuho declined to comment and calls to Merrill, Citi and DB were not returned.

The back-to-back trades leave DB with the single largest position in Drax's senior loan. Before the trade it had a GBP46 million position, making it the equal largest loan holder alongside **Goldman Sachs**, say bankers. Market watchers say DB, unlike Goldman, is not looking to acquire control of Drax, but is simply making an investment play on its debt.

The GBP842 million loan will be converted into four tranches of bonds when all of Drax' outstanding senior loans and senior bonds are restructured on Dec. 22.

Mizuho tendered its Drax position in the belief that the paper's rally has come far enough in recent weeks and will likely run out of steam once the plant's debt is restructured, say rival traders. In the past six weeks alone Drax's debt—which already trades as a combined restructured four tranche package—has rallied 15 points from the low seventies, in response to concerns that the U.K.'s reserve generation margin is declining (PFR, 12/2).

Another motivation for Mizuho was that despite selling the Drax paper at a discount to par, its trading desk was able to book a profit on the sale because it had already significantly marked down the value of Drax on its balance sheet.

—Will Ainger

CITY HALL

(continued from page 1)

over PGE, "but we have staff on it, looking at the process." Calls to Sten were referred to Gardipee.

The city is trying to ascertain TPG's rate plans for PGE as well as its long-term commitment to the utility, says Gardipee. She adds this evaluation will determine whether the city makes a counter-bid. "We don't like the idea of a turn-over [in ownership] every three years," she says, explaining its concern that TPG might be looking to make a short-term profit on the utility.

Owen Blicksilver, spokesman for Fort Worth, Texas-based TPG, says it is premature to assess TPG's investment strategy. In an e-mail sent to *PFR*, he adds, "While every transaction is different, TPG maintains a mid- to long-term horizon. It has held some investments for 10 years."

Gardipee says the city's most immediate problem is raising the $20 million that all bidders must deposit in order to take part in the Feb. 2 auction. "We're a city. We just don't have money lying around," she explains. Bids are due Jan. 28, according to filings at the United States Bankruptcy Court, Southern District of New York. Bankruptcy Judge **Alberto Gonzalez** also has stipulated that bidders must top TPG's offer of $1.25 billion in debt and $1.1 billion in cash by at least $50 million if they're to oust TPG.

The city has retained **Goldman Sachs** to advise on acquiring PGE, but has not asked the investment bank for a loan. Gardipee says if the city beats TPG's bid it will fund the deal through revenue bonds. "We are a triple-A rated city," says Gardipee, "so we can do this more cheaply than most private equity shops." She adds that the city would not have to pay federal income tax on the property, which amounts to $62 million a year.

TPG revealed late last month that former Oregon governor and Secretary of Transportation **Neil Goldschmidt** would sit on the board of **Oregon Electric Utility**, the special purpose company it has created to operate PGE. Goldschmidt was subsequently castigated in the *Oregonian*, a local paper, for the apparent conflict of interest. Calls to Goldschmidt at his office in Portland were not returned.

Enron has twice tried to sell PGE, which it acquired in 1997 for $3.1 billion. A proposed $3.1 billion sale to **Sierra Pacific** fell through in 1999, as did a planned $2.9 billion sale to **Northwest Natural** in 2001.

According to a banker working on the deal, some six other investors have asked for financial information on PGE since TPG announced its purchase plan, though no formal bids have yet been submitted.

—Nina Sovich

Quote Of The Week

"That was the gun to people's heads."—**Andrew Matthews**, *managing director at* ***HypoVereinsbank****, explaining why banks rushed to fund wind farm loans by year-end to meet the expiration of production tax credits on Dec. 31 (see story, page 6).*

One Year Ago In Power Finance & Risk

Tractebel drafted in a seasoned staffer to its Houston unit to juice up its U.S. financing program. **Geert Peeters** took up a new top finance position and was expected to tackle the stuttering progress of nearly $2 billion in non-recourse financing. [A reworked, more conservative $100 million deal for its Ennis facility was the first to wrap (PFR, 7/7). The company also ditched the plan for a four-plant $1.6 billion loan program deal, in favor of single asset deals, with the first being a 520 MW facility in the U.S. Northwest (PFR, 9/29).]

