

# power finance & risk

The exclusive source for power financing and trading news

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## Seasons Greetings!

*Power Finance & Risk* will not be publishing Monday, Dec. 30. Your next issue will be Jan. 6, 2003. We wish all our readers a joyous holiday season.

## PSEG Eyes Golden State Project Deal

**PSEG Global** is looking to arrange non-recourse financing for at least one and possibly more peaker plants in California.

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## EMBATTLED U.K. LENDERS CONSIDER ESTABLISHING BANK-OWNED GENCO

Three of the largest non-recourse lenders to the U.K. power sector are considering setting up a first of its kind bank-owned generation company as a way of salvaging their underperforming investments in England's generation market. Financiers from **Abbey National**, **Halifax Bank of Scotland** and **Royal Bank of Scotland** have met twice in recent weeks with advisors from **Ernst & Young** and **Allen & Overy** to thrash out a plan to pool some of their power plant project loans and convert the bank paper into equity, according to officials close to the talks.

**Christoph Waltenspuel**, partner for utility M&A at E&Y, says the firm is playing a prominent role in several discussions about setting up bank-sponsored independent power producers, but declined to elaborate. Officials at Abbey, HBoS, RBS and A&O either

*(continued on page 8)*

## Muscles From Brussels

## TRACTEBEL DRAFTS VETERAN TO REWORK \$1.8B U.S. FINANCING

Brussels-based Tractebel has drafted in a seasoned finance staffer to its Houston-based U.S. operation to add some muscle to its attempts to sort out the stuttering progress of nearly \$2 billion in planned non-recourse power plant financing. The decision to parachute in **Geert Peeters** reflects Tractebel's inability to execute a \$1.6 billion multi-plant program deal and a \$220 million loan to finance its Ennis plant in Texas, say New York financiers. Peeters, who recently took up the new position of v.p. in charge of financing, was previously covering financing in the Middle East. Peeters did not return calls.

The deals have floundered for much of the year because Tractebel's top brass in Brussels have been pushing lenders for better terms and pricing than the market is willing to digest,

*(continued on page 7)*

## CENTERPOINT SEEN EYEING \$600M CONVERTIBLE DEAL

**CenterPoint Energy** is testing the convertible bond waters with a view to bringing a \$600 million offering to market. One buy-side official who has been in contact with the company says CenterPoint's overtures have so far amounted to discreet pre-marketing to gauge potential demand. The proceeds would likely be earmarked to meet mandatory reductions of \$600 million in February and then again in June related to its \$3.85 billion in fully drawn credit facilities, the official says. **Leticia Lowe**, spokeswoman in Houston, says the company is evaluating financing alternatives, but as a matter of policy is not commenting on what is under consideration.

CenterPoint lined up a \$4.7 billion one-year credit line earlier this year and also tapped **Warren Buffett's Berkshire Hathaway** and **Credit Suisse First Boston** for a

*(continued on page 7)*

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

## NorthWestern Makes B Loan Plunge

**NorthWestern Corp.** is looking to tap the institutional market for a \$390 million term loan, a move that would add the Sioux Falls, S.D., company to the list of power players that have had to pay rich pricing to tap the B loan market this year (PFR, 12/2). The five-year facility is priced at LIBOR + 550 basis points with a 3% LIBOR floor. A number of embattled power players have been driven to the institutional market because of credit and liquidity concerns that have tightened access to bank debt, says one financier. **Roger Schrum**, a spokesman for NorthWestern, did not return calls.

Proceeds from the new facility, which is led by **Credit Suisse First Boston**, will be used to repay NorthWestern's existing \$280 million working capital facility and for other corporate purposes, according to a company release. The transaction is expected to close in January 2003 and is secured against first-mortgage bonds.

## Element Re Plans European Office

**Element Re Capital Products** plans to set up a European office to originate weather deals for end users. The subsidiary of **XL Capital** has hired **Dan Tomlinson**, marketing managing at **WeatherXchange**, to set up the London office, but will continue to trade European weather derivatives from Stamford, Conn. Tomlinson and **Lynda Clemmons**, president and ceo, declined comment.

A weather derivatives official familiar with Element Re's operation estimates the firm had originated \$2 billion of weather deals since its inception in August 2000 and estimated Europe could account for approximately half of the firm's origination business. Part of the reason for setting up the office is that European power companies are currently better capitalized than several of their U.S. counterparts. For example **RWE** is rated single A plus and **E.on** AA minus, whereas **Dynegy** and **NRG Energy** are rated single

B and D respectively.

The London office will likely concentrate on marketing weather and weather related deals, such as gas options with weather triggers, to power companies. However, it will also attempt to win business in other sectors, such as agriculture, manufacturing and entertainment. Tomlinson is expected to start in the new year with the first deals being executed in February. At **WeatherXchange** Tomlinson reported to **Cindy Daws**, managing director.

## Merrill Releases Russian Banker

**Merrill Lynch** has released **Vladimir Roussinov**, v.p. in its London-based energy and utilities team, as part of staff cut backs at the bulge bracket investment bank. Roussinov, whose focus is the Russian power market, says he was released earlier this month and has yet to find a new position. He was most recently involved in advising Russia's state owned power utility **UES** on the deregulation of the Russian power market industry.

## CMS Set To Announce Panhandle Sale

**CMS Energy** and its advisor **Merrill Lynch** are set to announce a sale imminently of assets associated with its **Panhandle Pipeline Co.**, says a banker close to CMS. He adds that **Warren Buffett's MidAmerican Energy** is emerging as the favorite given its recent ability to outsmart rivals for gas pipeline assets in recent auctions. **John Barnett**, a CMS spokesman, declined comment beyond saying that the company is evaluating the sale of Panhandle but it has not yet made a decision. **Tim Grabinski**, a MidAmerican spokesman declined to comment.

Other bidders are thought to include **Dominion Resources** (PFR, 9/2) and **TransCanada** and (PFR, 9/30).

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## Boutique Eyes Hedge Fund Money

Miller, McConville, Christen, Hutchison, & Waffel, a recently formed New York-based merchant banking boutique, has begun wooing hedge funds and distressed debt investors for capital to invest in the embattled power sector.

The company held a roadshow Dec. 11 at the *St. Regis Hotel*, New York City, in front of more than a dozen large hedge funds, says an official in attendance. He declined to name the funds.

Karl Miller, co-founder, declined to comment.

As part of its effort to buy up generation assets in both the U.S. and Europe, Miller, McConville recently formed an alliance with wires concern **Trans-Elect**, whereby they would bid on vertically integrated utilities together and divvy up the generation and wires assets if they land the business (PFR, 11/4).

## SG Takes Axe To London Power Franchise

SG has shut down the European arm of its energy and utility investment banking franchise **SG Barr Devlin** in a move that will see the French bank's European power coverage increasingly targeted toward its domestic Gallic market.

As part of the reorganization Barr Devlin's two senior bankers in London, **Robin Henshall**, managing director and head of Europe, and **Jos Shaver**, managing director, were released. Neither could be reached for comment. **Laura Shaw**, an SG spokeswoman in London, confirmed that the Barr Devlin group was being disbanded in London, but declined comment on who or how many bankers in the group had been shown the door. She adds the move was part of a broader cull that saw some 130 investment bankers and equity analysts let go in London. SG has not scaled back in France, says Shaw.

A market watcher notes the loss of Henshall and Shaver effectively ends SG's attempt to become a serious energy sector investment bank across Europe. Shaw concedes that SG will have no energy sector specialists in London, but notes that it will have several London-based M&A generalists that can work on non-French power or gas deals when required by a client.

One likely client is Paris-based **Gaz de France**. SG is advising the state-owned utility on its pending initial public offering—slated for next year—and also advised it on bidding for Great Yarmouth, a 400 MW U.K. power plant being sold by **BP**. A sale has yet to be announced.

Henshall and Shaver joined SG in 2000 from **Credit Suisse First Boston**, where Henshall was co-head of power.

Barr Devlin, which was founded in 1990 by two former **Morgan Stanley** energy bankers, was acquired by SG in 1998. The division is still operational in North America. Calls to **John Barr**, founder and managing director, were not returned.

## DZ Financier Joins Lloyds

David Cain, a project financier at **DZ Bank** in London, has joined **Lloyds TSB** to focus on non-recourse lending to the power sector. Cain says he joined at the beginning of the month as part of a structural reorganization that will see the U.K. bank divvy up its project lending business by sector, rather than have a team of generalists focusing on all sectors. Calls to DZ were not returned.

Cain fills a temporary void left by the departure on maternity leave of group head **Anita Gregson**. Deputy head **Mike Chapel** takes the helm on an interim basis.

## U.K. State-Owned Developer Eyes Double Aquisition

**CDC Globeleq**, a recently formed U.K. state-owned IPP charged with buying generation assets across the emerging markets, expects to make at least two acquisitions over the next year to round out its initial \$300 million investment fund. The London-based company made its first two acquisitions last week when it acquired **AES Kelvin Power**, a coal-fired plant in South Africa, and **Songas**, a gas-to-electricity business in Tanzania, from **AES** for \$116.1 million in cash and a further \$212.9 million in debt.

**Paul Kunert**, regional manager for Africa, says the company, a power-focused subsidiary of **CDC Group** (formerly the **Commonwealth Development Corp.**), expects to make another acquisition within the next three months and another by the end of 2003, 12 months ahead of its initial time-frame. Kunert says the swath of distressed first-world sellers looking to exit the emerging economies is allowing it to move quicker and on better terms than previously anticipated. He adds there are some \$10 billion of assets it could buy.

Kunert declined to comment on what power plants it is looking at, but says countries out of bounds include Indonesia, Pakistan, China and India. A prerequisite for **CDC Globeleq** to enter a country is genuine support for the investment from the local government, he explains.

**CDC Globeleq** may look to bring in equity partners at the project level to stretch its equity capital further, but will not look to refinance the project-level debt already in place or increase gearing. "If there's one lesson to be learnt from the power crisis of the past year it's don't overleverage yourself," says Kunert.

The **Songas** project comprises the construction of a gas processing plant off the East African coast, the laying of a 175 mile pipeline and the acquisition and conversion, from oil to gas, of a 110 MW power plant in Dar es Salaam. Kelvin is a 600 MW coal-fired power station near Johannesburg that **AES** bought last year (PFR, 11/19/01).

## PSEG Plots Golden State Peaker Financing

PSEG Global is looking to arrange non-recourse financing for at least one, and possibly more, peaker plants in California.

A finance official at the Parsippany, N.J.-based unit of **PSEG Energy Holdings** says the company hopes to finalize financing plans by year-end, declining to comment further. The deal will take the form of a small club transaction, with one banker saying it will likely involve just two banks, though another financier says he has heard the group might be three or four with the loan in the \$70-80 million range.

In August, PSEG announced its joint venture unit **GWF Energy** had renegotiated contracts for two operational peakers, and one plant under construction,

with California. That cleared the way for the non-recourse financing to begin, says one banker. The operational plants are 90 MW peakers at Hanford Energy Park and Henrietta Energy Park. One banker says the planned financing covers Hanford, but may also include Henrietta. The PSEG finance official declined comment on that point. The third peaker is the 160 MW Tracy Energy Station, which is targeted to start operation in the second quarter of next year.

Bankers say the deals are rock solid because of their location in the power starved West and the fact they have contracts with the **California Department of Water Resources**, which is now unencumbered by legal concerns. The CDWR will buy power from Hanford and Henrietta facilities through December 2011 and from the Tracy facility through October 2012.

## Corporate Strategy

### Pinnacle Taps Equity Mart To Fund Plant Build-Out

Phoenix-based **Pinnacle West Capital** last week issued 5.7 million shares with the aim of raising around \$200 million as part of a long-term funding plan for some 1,800 MW in plant construction. **Alan Bunnell**, spokesman, says the original plan was to fund the build-out at its unregulated unit **Pinnacle West Energy** because of an **Arizona Corporation**

**Commission** stipulation that generation assets should be transferred to the unit by year-end. However, in the fall the state regulator changed its stance and so the asset transfer will not now occur, he says.

The equity will pay down some of the debt associated with five facilities: Red Hawk 1 and 2 (530 MW each) plants at West Phoenix 4 (125 MW), West Phoenix (530 MW) and Saguro 3 (90 MW), according to Blunnell.

The plants had been financed via an \$800 million bridge facility and the aim is to replace that with a \$500 million inter-company loan and the equity issuance. The shares priced last Wednesday at \$31.50 and there is a 30-day underwriter option for up to an additional 855,000 shares to cover over-allotments,

The joint book-runners for the offering are **Credit Suisse First Boston** and **Salomon Smith Barney**. Blunnell was unable to provide immediate comment on the selection criteria for the leads, but early this year treasurer **Barb Gomez** told *PFR* the company likes to maintain a stable of underwriters (*PFR*, 2/18).



## Latin America

### Credit Downgrade Imperils Eletropaulo

AES's Brazilian subsidiary **Eletropaulo Metropolitana Electricidade de Sao Paulo** edged closer to bankruptcy last week as **Fitch Ratings** downgraded the utility from C to DDD for defaulting on \$100 million of commercial paper. **Jason Todd**, an analyst at Fitch, says, "We expect they'll continue to try restructuring Eletropaulo's remaining maturities, but whether they will be able to do so is questionable."

A banker familiar with the situation says that while the downgrade merely states the obvious—that Eletropaulo is struggling to stay afloat—it will further weaken the utility's bargaining hand as it looks to restructure its \$745 million debt load. He argues the downgrade could make lenders doubtful that Eletropaulo can negotiate and restructure its way out of bankruptcy. The firm's latest 10Q filing says it's presently seeking a waiver on upcoming debt obligations. Repeated calls to **Kenneth Woodcock**, an AES spokesman, were not returned by press time.

Todd notes Fitch does not expect Eletropaulo to be able to meet its upcoming debt maturities unless it can restructure its other bank loans under similar terms to an agreement it worked out with **J.P. Morgan**. Eletropaulo recently signed a definitive agreement with J.P. Morgan and its bank syndicate in which the company repaid 15% of a \$225 million loan and agreed to amortize the balance over a two-year period at a higher interest rate.



## Iberdrola Opts For Loan Financing For Mexican Project

Iberdrola reportedly is looking to arrange a project loan by next summer to part finance the construction of La Laguna II, a \$350 million, 500 MW gas-fired project in Durango state, Mexico. A New York project financier who has spoken to the company about its plans says the Spanish utility already has started pitching the mandate to potential lead arrangers. **Javier Cervera**, an Iberdrola spokesman in Madrid, was unable to provide details on the financing by press time.

Iberdrola originally planned to finance the greenfield project entirely with equity capital (PFR, 8/12). The financier says Iberdrola has changed its plans in the belief the bank market is becoming more receptive to a project loan and because it believes its well capitalized balance sheet will reassure lenders about committing to the deal. He declined comment on which banks Iberdrola has approached and was unable to put a timeframe on when it would select an advisor.

La Laguna II is scheduled to be commissioned in April 2005. Once on line the plant will sell its output to Mexican utility **Comision Federal de Electricidad** under a 25-year power purchase agreement.

## Latin American Power Financing Calendar

*Following is a directory of upcoming projects and related financing in the Latin American power sector. To report new deals or provide updates, please call **Amanda Levin**, Reporter, at (212) 224-3292 or email: [alevin@iineews.com](mailto:alevin@iineews.com)*

Sponsor	Project	Project Type	Size (MW)	Cost (\$mil)	Country	Advisor/Financier	Status	PFR Issue
Alcoa	Santa Isabel	Hydro	1,087	700	Brazil	Citi	Financing delayed till 2003	7/22/02
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	La Laguna II	-	500	-	Mexico	-	Looking to tap the bank market in 2003	13/23/02
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 enviromental permits	7/22/02
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 Recaps

*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

- **Suez**, the French utility conglomerate, hopes to recoup up to EUR3 billion by transferring all of the European energy assets of its **Tractebel** subsidiary to **Electrabel**, an affiliate in which it has a 49% stake. The assets include **Fluxys** and **Distrigas**, two Belgian gas utilities (*Financial Times*, 12/16).

- **Gamesa**, the world's fourth-largest wind turbine manufacturer, has agreed to sell 175 MW of wind farms in Italy to **Electrabel** for EUR200 million. The projects come on line in 2004. Last month Gamesa sold Electrabel a EUR320 million 252 MW wind farm portfolio in Portugal (*Financial Times*, 12/17).

### U.S. & Canada

- **Exelon**, **British Energy's** partner in its U.S. venture **Amergen**, has emerged as a frontrunner to buy the embattled U.K. company's 40% stake (*The Business*, 12/15).

- **British Energy** expects to seal the sale of its Canadian arm for more than GBP300 million by Christmas. The company is preparing to sell its 82.5% stake in the profitable Bruce Power nuclear generator to a consortium led by **Cameco**, a uranium producer that already owns 15% of Bruce (*Financial Times*, 12/16).

- A debt crisis will dominate the U.S. power sector in 2003 and could last well into 2004, according to **Fitch Ratings**. The agency says over \$25 billion of debt comes due next year at a time when nearly 40% of the utility-holding companies and half of the merchant generators it rates face possible ratings downgrades (*The Wall Street Journal*, 12/16).

- **Enron** will plead no contest to a charge that Enron Broadband Services avoided more than \$1 million in local taxes by filing false reports about its taxable assets. A Harris County grand jury indicted the unit for undervaluing assets. The charge, made against the business and not individuals, is a misdemeanor that carries a \$4,000 fine (*Houston Chronicle*, 12/16).

- **Trans-Elect** filed with federal regulators seeking approval for its plan to buy the electric transmission system of **Dynegy** unit **Illinois Power**. Privately owned Trans-Elect also informed the

**Federal Energy Regulatory Commission** that it wants Illinois Power's grid assets to operate as part of the Midwest Independent Transmission System Operator system, rather than in a power grid operating system to the east. Trans-Elect hopes FERC will approve the planned \$239 million transmission acquisition and move to the Midwest ISO by the second quarter of next year (*Dow Jones*, 12/16).

- **Sempra Energy** appealed to Gov. **Gray Davis** to ignore objections from the Golden State's utilities commission and agree to a revision of the company's controversial long-term power deal with the state. In an open letter to the governor, Sempra CEO **Stephen Baum** said the **California Public Utilities Commission** had raised "new and unreasonable demands" after an agreement had been reached to cut about \$1.5 billion from a \$6 billion electricity supply contract (*The San Diego Union-Tribune*, 12/16).

- **Williams Cos** CFO **Jack McCarthy** is retiring at year-end. The Tulsa, Okla.-based company said it expects to name a new CFO in the first quarter and **Gary Belitz**, its controller and chief accounting officer, will fill the post on an interim basis (*Reuters*, 12/17).

- Ex-**Enron** Treasurer **Ben Glisan** will pay back the money he earned from an investment in a partnership central to criminal charges against others at the bankrupt energy trader. Glisan reaped \$1 million from a \$5,800 investment in an Enron-related partnership called Southampton. He decided to turn in the balance of the funds after reviewing numerous documents related to criminal charges against former CFO **Andrew Fastow** and former finance executive **Michael Kopper**. "I consent to this payment despite my honest belief that I was an innocent owner of that money," Glisan wrote (*Houston Chronicle*, 12/18).

- Banks want **Xcel Energy** to make substantial payments beyond the \$300 million it has already offered under a plan restructure debt at its beleaguered **NRG Energy** unit. In a filing Tuesday, Xcel said its offer of \$300 million includes giving up all equity ownership, but requires the banks to release it from further claims. NRG has \$7 billion in debt and is expected to end up in bankruptcy whether or not the restructuring plan is approved (*Dow Jones*, 12/18).

## CENTERPOINT

(continued from page 1)

secured \$1.3 billion loan (PFR, 11/11). But the pricing on the latter deal of LIBOR + 975 basis points—with a 3% LIBOR floor—has set a bar that may prove difficult for the company to lower for future loans, says one financier. “Who is going to lend at better rates with no security?” he asks.

It could not be determined by press time whether CenterPoint has started courting underwriters to lead the transaction.

—P.T.

## TRACTEBEL DRAFTS

(continued from page 1)

despite warnings from Tractebel North America staffers that it's being over aggressive, say bankers.

Previously, the U.S. operation had a combined finance point person who also covered audit and tax, according to Tractebel spokeswoman **Paula Rockstroh**. She was unable to provide further comment by press time. Calls to **Bill Utt**, president and ceo of Tractebel North America, were referred to Rockstroh.

“The guys in Brussels didn't think the U.S. finance guys were cutting the best deal,” says one banker, adding they are

## Financing Record (DECEMBER 11 - DECEMBER 20)

### Bonds

Issue Date	Maturity	Issuer	Amount (\$mil)	Offer Price	Type of Security	Coupon (%)	Spread To Treasuries	Moody's	S&P	Bookrunner(s)
12/11/02	4/1/32	Constellation Energy	100	100.464	Notes	7.6	267	Baa1	BBB+	Lehman/SSB
12/11/02	4/1/12	Constellation Energy	100	102.781	Notes	7.0	259	Baa1	BBB+	Lehman/SSB
12/12/02	2/1/13	Consolidated Edison	500	99.823	Debentures	4.875	90	A1	A+	Morgan Stanley/SSB
12/12/02	12/1/28	Old Dominion Elec Cooperative	300	100.000	Fst Mtg Bonds	6.21	220	A3	A+	JPM
12/13/02	1/4/08	Kowepo	150	99.842	Fxd Straight Bd	4.66	165	NR	BBB+	ABN AMRO/Lehman
12/16/02	12/15/09	Entergy	267	100.000	Senior Notes	7.75	405	NR	NR	Morgan Stanley
12/17/02	6/15/23	Choctaw Generation	95	100.000	Equip Tr Certs	8.368	-	Baa3	BBB-	JPM/SSB
12/17/02	6/15/30	Choctaw Generation	227	100.000	Equip Tr Certs	9.516	-	Baa3	BBB-	JPM/SSB
12/17/02	12/15/10	Illinois Power	550	97.480	Mortgage Notes	11.5	829	B3	B	Merrill/CSFB
12/18/02	12/23/22	EDP Finance	95.5	100.000	Fxd Straight Bd	2.661	-	NR	NR	CSFB
12/18/02	12/15/22	Empire District Electric	50	100.000	Notes	7.05	204	Baa2	BBB-	BofA

### M&A

Date Announced	Date Effective	Target	Target Advisors	Target Country	Acquiror	Acquiror Advisors	Acquiror Country	Deal Value (\$mil)
12/11/02	-	FirstEnergy Coal Power Plants	-	U.S.	DTE Energy	-	U.S.	-
12/11/02	-	Guangzhou Dvlp	-	China	Guangzhou Dvlp	-	China	7.587
12/12/02	-	Ares Energie	CSFB	Germany	Riva Energie	-	Germany	-
12/12/02	-	Lietuvos Dujos(Lithuania)	-	Lithuania	Gazprom	-	Russian Fed	-
12/12/02	-	Texas Genco Holdings	-	U.S.	Shareholders	-	U.S.	-
12/12/02	-	Valmieras Energija	-	Latvia	Jauna Fabrika	-	Latvia	-
12/13/02	-	AES Mount Stewart Power	-	Australia	Origin Energy	-	Australia	52.610
12/13/02	12/13/02	Algonquin LNG	-	U.S.	KeySpan LNG	-	U.S.	28.000
12/13/02	-	Fluxys	-	Belgium	Electrabel	-	Belgium	-
12/13/02	-	Tractebel Eloy	-	Belgium	Electrabel	-	Belgium	-
12/16/02	-	Bohai Group	-	China	Shandong Hengshen	-	China	.724
12/16/02	-	Bohai Group	-	China	Shandong Hengshen	-	China	.454
12/16/02	-	Chiahui Power	-	Taiwan	J Power Investment Netherlands	-	Netherlands	-
12/16/02	-	Gamesa Wind Parks	BNP Paribas	Italy	Electrabel	-	Belgium	203.660
12/16/02	-	Loy Yang Power	-	Australia	Tenaga Nasional Bhd	-	Malaysia	-
12/17/02	-	AES Kelvin Power	-	South Africa	CDC Globeleq	-	U.K.	-
12/17/02	-	Chiahui Power	-	Taiwan	EPDC(Ministry of Fin/Japan)	-	Japan	49.44011/30/00

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

mistaken in this belief. He continues that because Peeters is well connected within Tractebel his word on market terms may carry more weight back at HQ.

Another seasoned project financier, who hasn't spoken to Peeters since his arrival but dealt with him on financing other Tractebel projects, says banks shouldn't expect the deals to sail through with fatter terms. His experience of Peeters is that he looks to secure the best terms for the company even after a bank thinks final terms have been agreed.

Tractebel's planned financing of four plants via a \$1.6 billion multi-loan program was launched earlier this year (PFR, 9/2) with initial pricing 1½% over LIBOR, despite lenders having signalled that was below the market rate for a U.S. project deal. This, along with concerns about the credit structure, meant banks didn't sign up by the November deadline (PFR, 11/21). One banker says the program approach may now be ditched in favor of several smaller deals. By carving it up and creating more lead slots Tractebel may be able to generate greater lender interest, he explains.

The status of the Ennis transaction is also up in the air. The current format of a 20-year, \$220 million loan with leads **CoBank** and **Abbey National Treasury Services** appears dead (PFR, 12/9), but some bankers say it may be resurrected next year with new leads and a different structure.

—Peter Thompson

## EMBATTLED U.K.

(continued from page 1)

declined to comment or did not return calls.

The aim is to set up a 4-5 GW independent power producer, though the size could be significantly larger if the 4 GW **AES DRAX** plant—the biggest in western Europe—is thrown into the mix, notes one official who attended the meetings. “The big imponderable is DRAX. But putting together a 10 GW portfolio would be too complex,” he argues.

Commercial banks are being forced to evaluate owning and operating generation because their investments in the sector have become ever more fragile as wholesale electricity prices have declined.

The near 40% fall in U.K. wholesale power prices over the past two years has undermined the economic viability of virtually all merchant generation in the U.K. and consequently eroded the plant owners' equity value in the power plants they operate. Bank lenders, rather than the initial equity investors, are now the effective owners of close to a dozen uneconomic plants in the U.K., calculates one financier.

This scenario would not concern lenders so long as the original owners continued pumping capital into the plants to

service non-recourse debt payments but, unsurprisingly, most sponsors are unwilling to inject more cash into their loss-making investments.

Some owners have already thrown away the keys to their plants. For example, **AES** walked away from **Fifoots** (343 MW) in March (PFR, 4/1) and others are threatening to bail. **Entergy** reportedly may walk away from its 800 MW **Damhead Creek** plant (PFR, 12/2) and others are teetering on the brink of bankruptcy, notably **NRG Energy**, owner of **Killingholm A** (680 MW) and a part of **Enfield** (380 MW).

In a stronger market, if the sponsor walked away or went bust the banks would then sell the plants to recoup their project-level debt investments. But the collapse in power prices means they would have to take a significant writedown even if they were able to sell the plants into the illiquid secondary market.

To avoid selling at the bottom of the market the banks are considering setting up an IPP with the aim of selling or floating the business when the wholesale generation market picks up, explains one financier. “Why should we take a haircut? Many of these assets are almost brand new and will be [in] a strong position when the market eventually turns the corner,” says the financier.

**Neil Beddall**, a credit analyst at **Barclays Capital** in London, who was unaware of the plans, says they might prove a good way of avoiding a nasty balance sheet write down. However, the plan does not solve the U.K.'s major problem, overcapacity, he adds. If anything this would discourage the mothballing of plants thereby prolonging the crisis, he argues.

Getting all the members of all the banking syndicate to agree to a debt-for-equity swap could also prove challenging, says Beddall. “It would be a logistical nightmare,” he concludes.

—Will Ainger

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### Quote Of The Week

*“It would be a logistical nightmare.”*—**Neil Beddall**, credit analyst at **Barclays Capital**, commenting on plans to set up a bank-sponsored generation company (see story, page 1)

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### One Year Ago In Power Finance & Risk

**Merrill Lynch** laid off **James McBurney**, managing director and former co-head of the firm's power group and was set to hand pink slips to several other high-ranking managing directors including **Russell Robertson**, also former co-head. [Robertson left the bulge bracket outfit early this year and joined **UBS Warburg** in June as a New York-based managing director in its global energy and power group].