

power finance & risk

The exclusive source for power financing and trading news

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Happy New Year!

Power Finance & Risk will not be publishing next Monday. Your next issue will appear Jan. 8. We wish all our readers Happy Holidays!

Noble Taps CIT To Lead Turbine Loan

Noble Environmental Power has hired CIT Group to underwrite a \$133 million turbine loan.

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BRITISH GAS, ECP CONTEND FOR LAKE ROAD PLANT

British Gas and Energy Capital Partners are vying for the 780 MW Lake Road gas-fired plant in Killingly, Conn. According to deal trackers, the auctioneer Credit Suisse is negotiating a final contract that values the plant for in excess of 825 per kW, or more than \$640 million. An official at British Gas and Credit Suisse executives declined comment. ECP officials did not return calls.

A winner is expected to be announced imminently



(continued on page 16)

AIRTRICITY LOOKS TO LINE UP \$1.3B IN CONSTRUCTION FUNDS

Airtricity Inc., the North American affiliate of renewables group Airtricity Holdings, is looking to ramp up additional construction financing for roughly \$1.26 billion for U.S. and Canadian wind projects due to come online next year and in 2008.

Ciaran O'Brien, head of financing in Chicago, says an existing \$175 million turbine supply loan for 2007 projects provided by Bayerische Landesbank, Norddeutsche Landesbank and HypoVereinsbank in July (PFR, 8/14) has been upsized. A banker says the loan was upsized last week to \$240 million and will be expanded again in the first quarter to about \$500 million. Then an additional \$1 billion will be sought for the developer's 2008 build program, says O'Brien, with mandates being awarded sometime in the second quarter.

Banks will be appointed on the basis of their ability to extend credit for a large number of

(continued on page 15)

BNP PREPS \$2.5B SAUDI IWPP SYNDICATION

BNP Paribas is preparing to syndicate early next year a \$2.5 billion financing package it is underwriting for the winner of a 2.5 GW greenfield IWPP in Jubail, Saudi Arabia.

A Suez-Tractebel-led consortium won the Marafiq project 18 months ago after securing EPC contracts about 20% cheaper than rival bidders, a banker says. It is now at the point of inking offtake agreements and wrapping financing. The reason for the time gap could not be learned.

A Paris-based official at BNP declined to elaborate on the number of sub-underwriters that will be invited into the deal, as well as what ticket levels will be offered. In addition to BNP's commitments, details of which could not be ascertained, Tractebel is obtaining funding from regional lenders Samba Financial Services and the Gulf International Bank.

(continued on page 15)

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

RBS Wraps Invenergy Cannon Syndication

Lead **Royal Bank of Scotland** has closed syndication of a \$200 million construction loan for Invenergy's 357 MW gas-fired peaker in southeastern Minnesota is Cannon Falls Energy Center, a banker says. Officials at Invenergy and Royal Bank of Scotland declined to comment.

Participants landed debt initially paying 112.5 basis points over LIBOR. The banker notes that is below the 125 spread often seen in comparable financing.

A dozen banks took slices between \$10 million and \$20 million. Identities of the participants could not be learned, but deal watchers say the list is similar to those participating in the deal RBS syndicated for Invenergy's similar Spindle Hill plant in Colorado (PFR, 9/1). Pricing of the debt will step up incrementally to a maximum of 175 over its 17.5-year tenor.

Progress To Take Unregulated Biz Final Offers

Progress Energy Ventures has entered the second round of its sale of nearly 2 GW in unregulated generation and power trading operations. Definitive bids are expected to be taken Jan. 12, according to followers.

JPMorgan Chase is running two distinct auctions for the assets and trading book. Calls to officials at Progress in Raleigh, N.C., were not returned and JPMorgan executives declined comment.

On the block are a trio of combustion turbine Georgia plants including a 350 MW facility known as Monroe Power and an adjacent 600 MW facility Washington County. The facilities are believed to have contracts in place for the next 10 years. Details about possible bids and parties interested could not be learned.

Prospective investors for its physical assets could not be learned. It is believed that interested parties in the trading book include **Morgan Stanley**, **Goldman Sachs** and **Barclays Capital**. Officials at the firms either declined to comment or did not return calls.

Russia's UES Readies 95.5 GW Asset IPO

Russia's state-owned **RAO UES** is preparing to sell equity interests publicly in 95.5 GW of thermal generation. The initiative is part of a wider restructuring of the nation's power sector that will see the country invite strategic investors to buy stakes in its generation to fund its 23 GW development pipeline and upgrade existing facilities.

Company spokesman **Stas Degtyarev** says UES hopes to raise about 40% of the \$83.1 billion it needs for its five-year capital expenditure program. "The whole sector needs money badly, but it's impossible to finance the whole sector," he says. Details about which banks will handle the offerings and which stock exchange(s) will be targeted are still in flux.

Finland's **Fortum**, Italy's **Enel**, Germany's **E.ON** and **AES Corp.** of the U.S. have each expressed an interest in the assets held across 16 generation subsidiaries, UES CEO **Anatoly Chubais** told reporters at a recent press conference. One company, UES' **Wholesale Generation Company 5**, housing 8.7 GW of large-scale thermal plants, already has been unbundled. It sold 5.1 billion shares, or 14.4% of its assets, in October, raising \$459 million.

Russia's electricity grid will remain under state control, as will 19.8 GW in hydro capacity.

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Institutional Investor NEWS
INTELLIGENCE FIRST

Boston Gen Gets Juiced In Secondary Mart

Exelon Boston Generating's downsized \$350 million second lien jumped to 102 1/2-3/4 after it broke in the secondary market at 101-102. Its \$1.13 billion first-lien term loan broke at 100 1/2-3/4. **Credit Suisse** and **Goldman Sachs** lead the deal, which refinances existing debt and pays a \$1 billion dividend to its investor group (PFR, 12/11).

One New York-based buysider says many investors are familiar with Boston Generating because of its time spent in restructuring, adding that a lot of hedge funds are familiar with the company's equity and are comfortable with the amount of debt it is carrying. According to **Moody's Investors Service**, \$1.1 billion of incremental debt will be added to the consolidated balance sheet at holding company **EBG Holdings**. Officials at EBG and K-Road did not return calls.

The second lien was originally \$400 million, but \$50 million was shifted to the term loan, which has a lower coupon. The credit line includes a \$250 million synthetic letter of credit and a \$70 million revolving credit facility. Pricing was slashed by 75 basis points on the first and second liens. The first lien priced at LIBOR plus 2 1/4%, while the second lien ended up at LIBOR plus 4 1/4%.

Barclays Offers Mass. Staple Package

Barclays Capital is offering a staple financing package for potential buyers of the 258 MW MASSPOWER cogeneration facility in Springfield, Mass., being auctioned by private equity firm **Greenwich Energy Investments**. The financing package, including letter of credit facilities, is in the neighborhood of \$150 million, says one banker. Barclays officials did not return calls for comment.

Bidding via auctioneer **Miller Buckfire** is in its final phases, but potential buyers could not be identified. Calls to **J. Sood**, managing partner of the seller in Greenwich, Conn., and officials at Miller Buckfire were not returned.

MASSPOWER's output is sold under a long-term PPA with **Massachusetts Municipal Wholesale Electric Co.** and on the New England spot market. The plant began commercial operations in 1993 and provides steam to the adjacent Solutia facility. Charlotte, N.C.-based **Cogentrix Energy** manages and operates the site.

Greenwich Energy acquired the gas-fired facility earlier this year from a consortium including **ArcLight Capital Partners**, **Energy Investors Fund**, **El Paso Corp.** and a unit of **Goldman Sachs** (PFR, 3/20).

Noble Taps CIT To Lead Fresh Turbine Loan

Noble Environmental Power has hired **CIT Group** to underwrite a \$133 million turbine loan for three to four wind projects it hopes to develop in New York next year. CIT launched syndication of the debt earlier this month, a banker says, but price talk could not be learned.

Calls to **Chuck Hinkley**, CEO of the Essex, Conn.-based developer were not returned and **Mike Lorusso**, director at CIT in New York, declined comment.

The size and locations of the proposed projects could not be ascertained, but Noble is planning a 130 MW facility in Wethersfield, N.Y., and another upstate in Brandon, North Country. The **JPMorgan Partners**-backed wind shop obtained a \$153-million turbine loan via **HypoVereinsbank** earlier this year for four existing merchant wind farms in New York: 102 MW, Altona, 82.5 MW Clinton, 81 MW Ellenburg and 73.5 MW Bliss.

Dexia Crédit Local and more recently **HSH Nordbank** won the mandates to lead \$445 million in debt financing for the planned 339 MW developments (PFR, 8/28), while **GE Energy Financial Services** provided \$232 million in equity financing.

Trans-Elect Chief Sees More Muscle In The AES Fold

Trans-Elect CEO **Bob Mitchell** says the Arlington, Va., transmission developer's acquisition by AES adds financial muscle and a much needed long-term outlook. "Our old assets were sold because investors had a short-term view towards them. The partners we build for appreciate a longer-term view," he says, referring to the sales since 2002 of the **AltaLink** system in Alberta, Canada, **Consumers Energy's** Michigan transmission system and California's Path 15 line. Each of these projects was developed or purchased by Trans-Elect, and totaled more than 12,600 miles.

While declining to discuss specific projects AES and Trans-Elect will now target, Mitchell said they will focus on upgrading grids in all regions of the country other than the southeast, where it is still difficult for independent transmission developers to enter. For the most part, financing is still less of a concern than finding areas where regulators take a more proactive stance toward transmission development.

An AES spokeswoman would not make an AES official available for comment. In the deal, Trans-Elect's management team will jointly develop transmission projects with AES. The terms of the transaction were not disclosed.

Corporate Strategies

ComEd To Trim Revolver With Upsized Bond Proceeds



Bob McDonald

Commonwealth Edison Co., a unit of Exelon Corp., plans to use proceeds from a \$345 million first-mortgage bond to trim a revolver used to pay debt maturing Dec. 1 and to retire more debt maturing mid January. **Bob McDonald**, cfo in Chicago, says the intention was to come to market for \$250 million, but the offering was upsized

when orders for the paper came in. "It was a very successful offering that was oversubscribed," he notes, declining to specify to what level.

The five-year, 5.4% bonds priced at 90 basis points over comparable Treasuries via **Bank of America**, **Deutsche Bank** and **UBS**—participants on ComEd's \$1 billion senior secured credit facility. **Loop Capital Markets** and **Cabrera Capital Markets** were tapped to assist in the issue because ComEd likes to involve local minority firms, notes McDonald.

ComEd's three-year revolver, which the company tapped to repay \$200 million in pollution-control bonds maturing earlier this month, is led by **JPMorgan Chase** and **Barclays Capital**. Long-term debt at the company was \$2.97 billion as of Sept 30.

Energy Northwest Shops \$72M For Wind Project



Nine Canyon

Energy Northwest, an electricity supplier to utilities and municipalities in Richland, Wash, has sold \$72 million in project revenue bonds to finance phase-three construction of Nine Canyon, a 63.7 MW wind facility it is

expanding by 32 MW. The 5% bonds priced at a slight discount to yield 4.49% to maturity, notes **Rich Bresnahan**, manager of treasury services.

Municipal bond underwriter **Prager, Sealy & Co.** was tapped to lead the sale because a managing director at the firm, Seattle-based **Winston Peterson**, handled much of the early work on the development. "We provided financial advice and consultancy services associated with the formation of agreements and

feasibility analytics on the project," explains Peterson, who spent 23 years as a senior partner at engineering company **RW Beck** before joining Prager, Sealy.

Underpinning Nine Canyon are 10 public utility offtakers. Five of those municipal utilities provide the equity interest funding development of phase three of Nine Canyon: Grays Harbor County (37.52%), Franklin County (25%), Benton (18.63%), Lewis County (15.71%), and Mason County (3.14%).

Energy Northwest financed 48 MW phase one via a \$70 million tax-exempt bond offering in 2001, and 15.7 MW phase two via a \$21.7 million issue in 2003. Phase three will bring the aggregate capacity of the site—the largest publicly owned wind park in the U.S.—to 95.7 MW by early 2008.

The entity envisages no additional phases at the project because the site would be fully built out after completion of phase three, Bresnahan says.

Avista Ups Equity To Pass Rate-Case Test

Avista has sold 3.1 million shares to help balance its capital structure. In December 2005, the **Washington Utility Transportation Commission** set an equity target for the company of 35% percent by 2007 and 38% by 2008, explains **Jason Lang**, investor relations manager in Spokane, Wash. It was at 33%. "This offering gets us there," he says.

Avista raised \$77.7 million, including proceeds from the 412, 500 shares reserved for overallotments. The offering was priced at the Dec. 11 closing price of \$26.12 per share. Shares hit a 52-week high of \$27.52 Nov. 16, and a 52-week low of \$17.60 Dec. 30, 2005.

The proceeds will go towards tackling some \$60 million in revolver debt and funding general expenses. The company has \$20 million left to pay next year on a five-year \$120 million transmission upgrade project, and other general expenses.

The offering was underwritten by **UBS Investment Bank** "UBS made the most economic sense," Lang says. With UBS, Avista got to target the institutional investor base it wanted. Other banks, which he declined to name, might have targeted both retail and institutional investors, which Avista thought could risk a lower share price. Avista now has 53.1 million shares outstanding.

Avista also refinanced \$150 million in short-term debt. The company took advantage of low interest rates to sell 5.70% 30-year bonds to pay off a matching amount of 7-year 7.75% coupon notes due Jan. 1. **Goldman Sachs** led that offering, with **BNY Capital Markets** and **Key Bank Capital Markets** as senior

lead managers and **A.G. Edwards** and **Banc of America Securities** as co-managers. Lang says Avista has worked with each of the banks before.

The offering was rated BBB- by **Standard & Poor's Ratings Services**. Lang says Avista will have a similar offering when \$274 million in 9.75% notes come due in 2008. Avista has \$1.1 billion in outstanding debt.

PPL Turns To Note Offer To Cover Converts

PPL Energy Supply has sold \$300 million in senior unsecured notes to fund costs associated with conversions of convertible notes. **Jim Abel**, treasurer in Allentown, Pa., says a glut of investors converted just after the most recent interest payment date, Nov. 15.

The \$300 million in 6%, 10-year notes will refinance the short-term debt used to refund the principal on notes converted to date. When a shareholder converts PPL's 2.625% convertible notes, the original par value on each \$1000 note is returned in cash, and the remainder is paid in common

stock, Abel explains.

PPL issued \$400 million in convertible notes in 2003 to cover cash needs related to expansion, Abel says. Investors have the option to convert the notes into common stock anytime the share price is above \$29.84. It first hit that limit in the third quarter of 2005. Thus far, about \$298 million in the notes due 2023 have been converted. Shares closed at \$35.79 on Dec. 18. Shares traded at a 52-week high of \$37.34 on Dec. 4, and a 52-week low of \$27.83 on April 27.

"Whenever you issue convertibles, you need provisions to meet liquidity," Abel says. While it is difficult to predict a rise in a share price, Abel says based on the company's own analysis, it is not a surprise that almost 75% of the convertibles have been converted to date. This is a downside to convertibles, he says, with the upside being the low interest rate.

The \$300 million in new notes was rated BBB by **Standard & Poor's**. **BNP Paribas**, **Goldman Sachs** and **HSBC** underwrote the offering. **Lloyds TSB**, **Mellon Financial Markets**, and **PNC Capital Markets** were co-lead managers—all institutions who have worked with PPL in the past. PPL Energy Supply has about \$2.8 billion in outstanding debt.

Financing Record (DECEMBER 18- DECEMBER 20)

Debt

Rule 144A	Issue Date	Issuer	Principal (\$M)	Offered	Coupon (%)	Maturity	Security	Bookrunner(s)
12/18/06	Enbridge Energy Partners LP	United States	300.00	99.912	5.875	12/15/16	Notes	Wachovia Securities Inc HSBC Securities Inc
12/19/06	Puncak Niaga(Malaysia)Sdn Bhd	Malaysia	122.58	100.000	Varies	12/19/16	Step-Up Bonds	United Overseas bank Malaysia

M&A

Date Announced	Target Name	Acquiror Name	Rank Value
12/18/06	Norsk Hydro ASA	Statoil ASA	"31,998.42"
12/20/06	DirectLink	Australian Pipeline Trust	132.58
12/19/06	Fujian Weidong EPT Co Ltd	Sino-Environment Clean Power	32.53
12/18/06	Syntroleum International Hldg	Energy Equity Resources Ltd	25.00
12/18/06	Princeton Co Generation Corp	Libra Natural Resources PLC	3.51
12/18/06	Grant County Wind Turbine Pro	Dominion Resources Inc	-
12/18/06	Kom-Strom AG	Deutsche Essent GmbH	-

Source: **Thomson Financial Securities Data Company**. For more information, call **Rich Peterson** at (212) 806-3144.

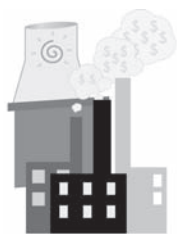


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Generation Auction & Sale Calendar

Following is a directory of ongoing generation asset sales. The accuracy of the information, which is derived from many sources, is deemed reliable but cannot be guaranteed. To report new auctions or changes in the status of a sale, please call Mark DeCambre, managing editor, at (212) 224-3293 or e-mail mdecambre@iinews.com.

Seller	Plants	Location	MW	Plant Type	Advisor	Status/Comments
Alloy Power/West Virginia Alloy	Hawk's Nest Glen Ferris	Fayette, W.Va. Fayette, W.Va.	102 4.6	Hydro Hydro	JPMorgan	Brookfield Power agreed to acquire both facilities. Terms not disclosed. Deal expected to close by year-end.
American Electric Power	Plaquemine Cogeneration Facility	Plaquemine, La.	880	Gas/Steam	N/A	Dow Chemical completed \$64 million purchase Dec. 1.
Astoria Energy	Astoria Plant	Queens, N.Y.	500	Gas	N/A	The partnership that owns the plant is said to be fielding offers from interested parties.
Atlantic City Electric Co.	B.L. England	Upper Township, N.J.	447	Coal/oil	Concentric Energy Advisors	Rockland Capital Energy Investments offered to buy for \$12.2 million so long as necessary approvals are made by March 31, 2007.
BayCorp Holdings	Benton Falls	Benton, Maine	4.3	Hydro	Concentric Energy Advisors	N/A
Calpine	Aries	Pleasant Hill, Mo.	580	Gas	N/A	Kelson Energy outbid stalking horse Aquila at auction to win the asset for \$233.6 million.
Cargill-led investor group	Granite Ridge	Londonderry, N.H.	720	Gas	Morgan Stanley	Underway
Complete Energy	Batesville	Batesville, Miss.	837	Gas	Dexia	A wholly owned subsidiary of Complete will purchase the asset for an undisclosed sum. Deal scheduled to wrap in January.
Constellation Energy	Big Sandy High Desert Holland Energy Rio Nogales University Park Wolf Hills	Wayne County, W.Va. Victorville, Calif. Holland Township, Ill. Seguin, Texas Chicago, Ill. Bristol, Va.	300 830 665 800 300 250	Gas (peaker) Gas Gas Gas Gas (peaker) Gas (peaker)	Credit Suisse	Tenaska has completed its acquisition of the portfolio.
Desert Power L.P.	Desert Power Plant	Rowley, Utah	100	Gas	N/A	MMC Energy terminated a non-binding letter of intent to acquire.
Dominion Resources	Armstrong Energy Pleasants Energy Troy Energy State Line	Elderton, Pa. Pleasants, W.Va. Troy Township, Ohio Hammond, Ind.	600 300 (peaker) 600 (peaker) 515	Gas Gas Gas Coal	Credit Suisse	Tenaska Power Fund has inked a deal to acquire the plant.
DPL Inc.	Darby Electric Generating Station Greenville Electric Generating Station Montpelier Electric Generating Station	Mount Sterling, Ohio Greenville, Ohio Poneto, Ind.	447 206 219	Gas Gas Gas	Pace Global Energy Services Pace Global Energy Services Pace Global Energy Services	Columbus Southern Power, a unit of American Electric Power, will acquire Darby for \$102 million in cash. Buckeye Power will acquire Greenville for \$49.2 million in cash.

Generation Auction & Sale Calendar (cont'd)

Seller	Plants	Location	MW	Plant Type	Advisor	Status/Comments
EBG Holdings	Mystic 7	Everett, Mass.	560	Gas/Oil	Lehman Brothers	Credit Suisse closed financing package to refinance \$2.1 Billion in debt tied to the plants.
	Mystic 8	Everett, Mass.	832	Gas		
	Mystic 9	Everett, Mass.	832	Gas		
	Fore River	Weymouth, Mass.	832	Gas/Oil		
Goldman Sachs	Horizon Wind Energy	Houston, Texas	Owns 237.5 outright Co-owns 130	Wind	N/A	Sale could fetch \$1 billion or more based on 750 MW online by year end and 600 MW pipeline.
Invenergy	Hardee Power	Bowling Green, Fla.	370	Gas	Morgan Stanley	Sale effort may be halted.
KGen Power Partners	Murray Energy	Dalton, Ga.	1,244	Gas	Friedman Billings Ramsey	KGen aims to IPO an undisclosed portion of the ex-Duke Energy portfolio and fetch circa \$750 million (PFR, 12/11)
	Hot Springs	Hot Spring County, Ark.	620	Gas		
	Hinds County	Hinds County, Miss.	520	Gas		
	Enterprise	Clarke County, Miss.	640	Gas		
	Sandersville	Washington County, Ga.	640	Gas		
	Southaven	Southaven, Miss.	640	Gas		
	New Albany	Union County, Miss.	385	Gas		
	Marshall Energy	Calvert City, Ky.	680	Gas	N/A	Being sold to Tennessee Valley Authority
Lake Road	Lake Road Power Plant	Killingly, Conn.	780	Gas	Credit Suisse	(See story, page 1)
LEP Holdings	Liberty	Eddystone, Pa.	568	Gas	JPMorgan	Auctioneer JP Morgan is hoping to get around \$400M.
Mirant	Curacao Utilities Co. (25%)	Curacao	133	Asphalt/ refinery gas	JPMorgan	Underway
	Grand Bahama Power Co. (55%)	Grand Bahama Island	151	Oil		
	Jamaica Public Service Co. (80%)	Jamaica	621	Oil/Hydro		
	PowerGen (39%)	Trinidad & Tobago	1.2 GW	Gas		
	Sual Generating Plant	Pangasinan, Philippines	1.2 GW	Coal	Credit Suisse	A consortium led by Marubeni Corp. and Tokyo Electric Power Co. agreed to buy Mirant's interests for \$3.42 billion.
	Pagbilao Generating Plant	Quezon, Philippines	704	Coal	Credit Suisse	
	Ilijan Generating Plant	Batangas, Philippines	240	Gas	Credit Suisse	
	Apex plant	Nev.	518	Gas	JPMorgan	2nd round offers will be taken early in the first quarter.
	Bosque	Texas	537	Gas		
	Shady Hills	Fla.	469	Gas/Oil		
	Sugar Creek	Ind.	535	Gas		
	Zeeland	Mich.	840	Gas		
	West Georgia	Ga.	605	Gas/Oil		
Progress Ventures	Walton	Walton, Ga.	450	Gas	JP Morgan	(See story, page 2)
	Monroe Power	Monroe, Ga.	350	Gas		
	Washington County	Washington County, Ga.	600	Gas		
	Effingham County	Effingham County, Ga.	500	Gas		

2006 YEAR IN REVIEW/PREVIEW

The Year By Month

Below is a timeline of the biggest stories of each month of 2006 as reported by Power Finance & Risk.

JANUARY

LS Power Equity Partners agreed to purchase **Duke Energy North America's** entire fleet of power generation assets outside the Midwest for approximately \$1.54 billion.

MAY

FPL Group and **Constellation Energy** temporarily suspended merger activities, amid political opposition in Maryland to the proposed \$11 billion tie-up.



Constellation CEO Mayo Shattuck

MARCH



Duke's CEO Jim Rogers

Duke Energy closed its \$9 billion purchase of **Cinergy**, forming one of the nation's largest public utilities.

Jan.
'06

Feb.
'06

March
'06

April
'06

May
'06

June
'06

FEBRUARY



KeySpan agreed to be acquired by **National Grid** for approximately \$7.3 billion, plus \$4.5 billion of assumed debt.

APRIL



TXU CEO John Wilder

TXU announced it will invest \$10 billion to construct 11 coal-fired power plants in Texas, adding a generating capacity of 9.1 GW.

JUNE

Mirant withdrew its \$8 billion unsolicited bid for **NRG Energy** after many observers and its shareholders put pressure on the independent power producer to call it off.

2006 YEAR IN REVIEW/PREVIEW

The Year By Month

JULY

Duquesne Light was acquired by a consortium led by Australia's **Macquarie Infrastructure Partners** and **Diversified Utility and Energy Trusts** for roughly \$1.59 billion.

Enron founder **Kenneth Lay**, who was convicted of fraud that led to the collapse of the company, died in Colorado.

SEPTEMBER

Hedge fund **Amaranth Advisors** sold its energy portfolio after trading positions lost about \$4.6 billion through natural-gas trades in August.

Dynegy agreed to buy the **LS Power Group's** electricity plants for \$2.3 billion, expanding its generating capacity by 69%.

PSEG called off its \$17 billion merger with **Exelon**.

NOVEMBER

Scottish Power agreed to a \$22.5



billion cash and stock buyout offer from Spanish utility **Iberdrola**, a move creating one of Europe's biggest utilities.

July.
'06

Aug.
'06

Sept.
'06

Oct.
'06

Nov.
'06

Dec.
'06

AUGUST

New York energy hedge fund **MotherRock** closed down after losing \$230 million in June and July in the natural gas market.

OCTOBER

Duke Energy completes a \$475 million sale of its trading arm **Cinergy Marketing and Trading** and **Cinergy Canada** to **Fortis**.

Constellation Energy Group and **FPL Group** called off their \$11 billion merger. It had been delayed by a bill passed during a special summer session of the state legislature to deal with increased electric rates brought on by deregulation.

Tenaska Power Fund purchased **Constellation Energy's** 3.4 GW in merchant assets for \$1.64 billion.

DECEMBER

Mirant has reached a \$3.42 billion deal to sell its Philippine business to a consortium including The **Tokyo Electric Power Company**.



Mirant CEO
Ed Muller

2006 YEAR IN REVIEW/PREVIEW

The Heat Is On

Spotlight Falls On European Utilities As M&A Continues Apace

A trio of mega mergers—E.ON/Endesa, Gaz de France/Suez and Iberdrola/ScottishPower—had the rumor mill grinding into overdrive speculating on who'll be next to say, 'I do.' Driving the consolidation activity, says **Peter Atherton**, head of utilities research at **Citigroup** in London, is surplus capital from buoyant electricity sales and E.U. calls for more cross-border integration.

Wallflowers include Spain's **Gaz Natural**, which made a hostile bid for Endesa before E.ON; the U.K.'s **Centrica** and **Scottish & Southern Energy** (SSE), both trumpeting ambitious growth plans; and Germany's **RWE**, which is hastily buying back shares to defend itself from a hostile takeover and is rumored to have made a beeline for **International Power**. But deals involving these utilities would probably be negotiated behind closed doors, believes **Andrew Steel**, global head of power and energy at **Fitch Ratings**, after untimely challenges from rival players and regulatory intervention changed the outcome of this year's headline deals.

Iberians **Unión Fenosa** and **Electricidade de Portugal** appear restless, notes **Stewart Gray**, a European gas and power analyst with energy and consultancy research firm **Wood Mackenzie**. "I think there'll be more action involving Spanish companies, the ones we haven't heard from this year," he predicts. **Unión Fenosa** is under pressure to save face, after being jilted at the altar by Iberdrola, which bolted when Spanish construction group **ACS**—a big shareholder in both—signaled it would welcome the creation of a national champion.

Another possible union is between Dutch utilities **Essent** and **Nuon**. The pair has made little secret of their intention to combine and indicated they plan to cozy up to a third party—either domestic or foreign. Centrica would be a natural bedfellow. The company already owns generation and gas and electricity supplier **Oxxio** in the Netherlands, and considers the country of strategic importance, given its unbundling efforts and

proximity to the liberalized U.K. market.

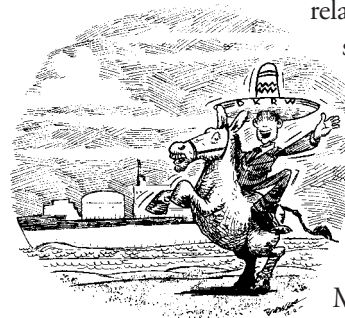
Italy already has a champion in the form of **Enel**, which recently acquired a 66% stake in **Slovenské Elektrárne**, the second-largest generation company in Central and Eastern Europe. But Steel at Fitch says the recent tie-ups between municipal utilities in Italy should continue, with clusters of munis going after like-sized groups in a bid to achieve critical mass. "Protectionism is starting to be seen in many guises, from support for municipal mergers in Italy through to the creation of four national champions à la GdF and Suez".

Atherton at Citigroup believes a few more deals may come to light early next year, but that deal flow will slow to a trickle as the consolidation wave nears its peak. He says mid-sized companies such as SSE and Centrica are under no pressure to overreach as, "Both have perfectly re models and don't need to do big M&A deals to deliver market expectations." Moreover, he notes, they may do better picking up small-fry assets divested in the wake of larger deals, if private equity doesn't pip them to the post.

Mexico

(Relative) Political Certainty Fosters Financier Flow Hopes

Project finance activity in Mexico next year is tipped to be brisk relative to this year, which financiers



say was slow due to uncertainty wrought by the country's presidential election of **Felipe Calderon**. Trackers say deals either stalled or were held off entirely amid the uncertainty.

Delayed projects include the 750 MW **La Yesca** hydroelectric project in western Mexico. The **Comisión Federal de Electricidad** (CFE) cancelled three bids in October and will solicit them again in the first quarter of 2007 (PFR, 11/6).

In addition to **La Yesca**, whose discarded 2006 bidders were

investing in energy and infrastructure because it offers a great hedge against other asset classes (10/20).

"Yes, there is competition from funds interested in the energy space, but the proof of the pudding is in the exit. The proof of our pudding is our return." —**Glenn Payne**, v.p. of Greenwich, Conn.-based buyout shop **First Reserve**, on competition in the energy infrastructure investment arena (8/18).

Quotes Of The Year

"In previous years, the theme was 'Let's get together,' whereas this year it seems to be 'Let's break up.'" —**Rudy Tolentino**, energy analyst at **Morgan Stanley**, predicting the industry will see more transmission spinoff (11/10).

"It's a no brainer." —**James Perry**, investment analyst at **San Bernardino County Employees Retirement System** in San Bernadino, Calif., explaining that the pension fund is exploring

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pitching around \$1 billion, bankers have their eyes on three other sizeable projects so far. The El Norte La Trinidad 333MW cogeneration plant in Durango, should cost around \$420 million and be awarded in the first quarter of 2007.

The Manzanillo LNG power island on the West Coast and a refurbishing of the Laguna Verde nuclear facility in Veracruz state are also expected to be awarded around that time. Both could be worth more than \$500 million.

"These projects alone could take up a lot of lenders' budgets in Mexico," one New York banker says. Whether incoming president Calderon's government will fulfill its promises for reform at state-run energy giants **Petróleos Mexicanos** and CFE remains to be seen, but the market expects that the new government will want to show accomplishments early, the banker notes.

Rock Rush

Coal Emerges As Hot Commodity For New Generation



David Crane

In the wake of oil and natural gas price spikes, developers have increasingly been turning to coal. "With gas being in the \$6 to \$8 range—where we believe it'll stay—coal is just much more economic," says **David Crane**, ceo of **NRG Energy**, which is aiming to build five coal plants by 2012 as part of an 18-project re-powering program. Of the company's existing 23.4 GW of generation, 7.7 GW is coal-fired.

ERCOT, the world's 11th largest electricity market, is the prime location for the commodity because coal is cheap, while gas sets the price of power. Moreover, electricity reserves in the state are expected to fall below the minimum 12.5% threshold by 2008, so it is in urgent need of baseload capacity if it is to avoid rolling blackouts. Some 17 traditional coal plants are in various stages of permitting with local authorities, and **TXU Corp.** wants to bring online 9.1 GW as part of a national 23 GW rollout.

Still, environmentalists such as **Rainforest Action Network** are

stoking opposition to TXU's 11-unit plan, potentially threatening the projects' completion. But proponents believe it will get permitted and financed because coal could be brought online sooner than new nuclear. Syndication of the \$11 billion debt package being arranged via **Morgan Stanley**, **Citigroup** and **Merrill Lynch** has been delayed until next quarter (PFR, 8/14).

The focus on coal will continue, believes Crane at NRG, as long as the federal government chooses not to penalize developers for the extent of their carbon footprint.

"Everyone is watching what the federal government does next and it looks increasingly likely it will implement some form of legislation putting in place an emissions trading scheme for carbon credits," notes **Louis**



Redshaw, head of emissions trading at **Barclays Capital** in London. So far the only credits being traded in the U.S. are for sulfur dioxide emissions. Voluntary schemes for carbon trading are due to begin in 2009 in Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont under the **Regional Greenhouse Gas Initiative** and there is a separate initiative at the **Chicago Climate Exchange**.

In a bid to anticipate legislative change, developers such as TXU and NRG have mapped out facilities where carbon would be captured and contained rather than emitted into the air as is the case with conventional coal plants. The only hitch is proving that once the carbon has been captured and injected into the ground, it will not leak out, notes Crane. In the meantime, expensive environmental upgrades are required. **Mirant Corp.**, for instance, is committed to spending up to \$1.5 billion fitting scrubbers at three plants in Maryland. And developers, such as German utility **E.ON** are experimenting with plans for zero-emissions coal plants.

IGCC

New technologies that burn cleaner coal, such as integrated gasification combined cycle (IGCC) have also been on the

"Winning is becoming more important than the transaction itself."
—**Larry Kellerman**, managing director at **Goldman Sachs** and president of its IPP affiliate **Cogentrix Energy**, explaining the aggressive bids that are being made in the energy sales arena (9/29).

"If you have a client who is familiar with our assets and the country they are in, who wants to make an offer that will knock our socks off—one that provides in our view substantially more than we think they are worth to us—then we are willing to talk."

—**David Seabrook**, v.p. of **PSEG Global** in Newark, N.J., on the potential sale of Chilean transmission business, **Sociedad Austral de Electricidad**, if the right deal came along (10/6).

"While there are external opportunities, for the time being our preferred plan is to water our own garden." —**Larry Kellerman**, managing director at **Goldman Sachs**, on the firm's plan on concentrating its portfolio of assets, as opposed to going after other generation assets (5/5).

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Mike McCall

drawing board but have had limited market appeal given the newness of the technology. When TXU looked at what was needed, says **Mike McCall**, CEO of TXU Wholesale, it concluded IGCC technology is insufficiently understood and needs to be perfected. "Our analysis suggested IGCC is something we need to think about for the next decade, but

for now there are some serious shake-down issues," says McCall, noting that only two IGCC plants exist in the U.S.

"IGCC cannot compete in markets where carbon is free," NRG's Crane says, cautioning that carbon legislation remains "the 1,800-lb gorilla in the room."

Gas Hiccups Spark Calls For Increased Oversight

Calls for greater market oversight after the gas trading blow-up at **Amaranth** and investigations into alleged irregularities at **Energy Transfer Partners** are expected to gain momentum next year. Legislators, such as California Senator **Dianne Feinstein**, have long been advocating tighter regulation on over-the-counter derivatives trading, and might get their opportunity in the new U.S. Congress.

Trades on the over-the-counter markets are done privately between parties, and subject to little regulation and that fact has been of greatest concern to regulators and industry observers. The **Intercontinental Exchange**, one of the busiest OTC trading markets, is completely online and oversight is a challenge, officials say. Currently, OTC markets rely on voluntary reporting by high-volume traders. ICE v.p. **Kelly Loeffler** in Atlanta declined to comment.

Dave Freeman, a partner in consultants **Team Power and Associates** in Dallas and gas trader, says the right mix would be greater state inspection and federal changes. "I've long favored natural gas and power to be included in the **Commodity Futures Trading Commission**," he says.

Freeman says, short of legislation requiring reporting of all fixed-

price trades, a retention of records of all trades 5-7 years old would be useful if legal action occurs. It would be difficult to keep records on everything, he admits, but if records are kept on the top 25% marketers in the US, that will cover a majority of trading. "There are already an ample number of laws dealing with index fraud. It's really a matter of what you do to report it," Freeman says.

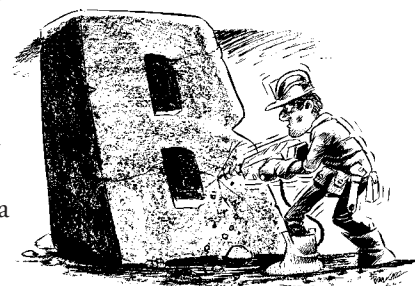
Some worry about where tighter regulation in commodities trading would push U.S. exchanges. "If you try to regulate OTC, it goes offshore," says **Peter Fusaro**, chairman of energy trading consultancy **Global Change Associates** in New York. He recalls the offshore moves happening with oil futures trading in the 1980s and IPO's more recently after the passing of the Sarbanes-Oxley Act. Not only would the U.S. exchanges lose business, he says, but locations outside the U.S. might have looser securities laws.

The ideal compromise, Fusaro says, might be to have the CFTC perform market surveillance on the ICE as it does on the NYMEX Exchange. There would be opposition, however, from those arguing that the OTC trading is not necessarily considered futures.

A spokeswoman for Sen. Feinstein in Washington said the Senator's position is summarized in legislation she and colleagues supported this year. The bill requires traders on electronic facilities to keep and save records and report large positions carried by participants, as on NYMEX, and submit them to regulators on request.

B Loans Demonstrate Mainstream Appeal

While there may have been questions of how long B loans would stick around in the power sector when they started cropping up in 2001-2002, this year has underscored how much of a financing mainstay they've become. **Pat Kunkel**,



Quotes Of The Year (cont'd)

"Greed has no memory." —**Alan Rosenberg**, president of **KGen Power Management**, talking at the **Platts'** conference in Las Vegas, on the challenges facing utilities as they contemplate growth (4/7).

"We decided two years of sitting in the penalty box was not a good idea." —**Mike Childers**, CEO of generation and development at TXU, explaining at **Platts'** 3rd Annual Utility M&A Conference in New York why the Dallas-based company did not aggressively seek a corporate-

level merger for fear of protracted regulatory approval processes akin to **Exelon** and **Public Service Enterprise Group** (6/30).

"The price was right at the time." —**Miriam Gilligan**, treasurer at **PSEG Energy Holdings**, subsidiary of **Public Service Enterprise Group** in Newark N.J., on why the company chose to redeem \$41 million through an open-market repurchase when an investor offered to sell the debt back (1/6).

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director of project finance at **Erste Bank** in New York, doesn't see use of B loans abating, especially for bigger deals and large coal construction deals such as **LS Power's** Plum Point plant in Arkansas (PFR, 3/20).

Kunkel said B loans have been attractive to the new players entering the loan market, such as hedge funds, because the deals are publicly rated. There also is a strong secondary market, characterized by above-par prices, he adds.

"Leverage-ability has increased exponentially," says one B loan buyer. "Some of the first liens wouldn't have been possible at the beginning of the year." The participant says 2006 has seen a transition from a mostly distressed environment to one where investors realize that a gap exists between the perceived value and the actual value of assets.

Blade Runners

Wind Heats Up, Ignites Flurry Of M&A

Wind generation stepped up a notch this year as it continued to gain momentum from developers and investors keen to diversify away from solid fuel sources and also looking to pocket production tax credits. The **American Wind Energy Association** expects between 3-3.5 GW of wind turbines will be installed in 2007, versus the 2.4 in 2005 and around 2.7 this year, says **Mark Ahlstrom**, AWEA member and ceo of wind consultant firm **WindLogics** in St. Paul, Minn.

Mike Panteloganis, wind banker at **WestLB** in New York, says there is more liquidity and flexibility to finance wind projects in the short term, given that PTCs were recently extended to 2008. Ahlstrom envisions plenty of money will be available in 2007. The question is whether projects have secured turbines and good interconnections.

This could mean a continued focus on markets such as New York and Texas, he adds.

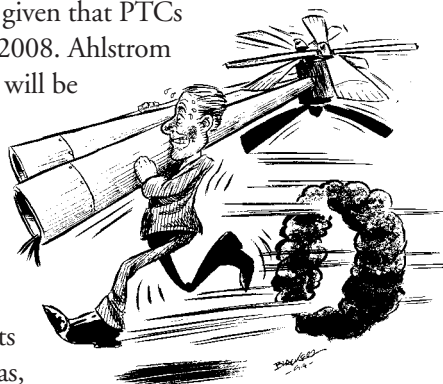
A New York banker says it has proved easier in ERCOT, where deals such as **Airtricity's** Sand Bluff, and **Invenergy's** Camp springs have closed this year thanks to regulatory flexibility, and projects are only limited by transmission capabilities. The banker notes that there has been a lot talked about in New York and the Northeast, but very little actually

done this year. In 2007 and 2008, Ahlstrom says the market could see more utility ownership of projects, yielding a mixed environment of the old system — project finance backed by long-term PPAs—and direct utility ownership.

One structural surprise this year has been the reduction in manufacturer warrantee levels, a banker notes. On **General Electric's** turbines, for example, two years is now the market standard, down from five years. **Sean Fitzgerald**, GE Energy director of marketing in Schenectady, N.Y., declined comment.

Meanwhile, M&A chatter has also picked up noticeably. **Goldman Sachs** is trying to flip **Horizon Wind Energy** for more than \$1 billion, having bought the outfit only 20 months ago for about a tenth of that sum (PFR, 12/3). **Catamount Energy Corp.**, a wind shop backed by New York buyout firm **Diamond Castle Holdings** (PFR, 10/24/05), put itself up for sale earlier this year via Goldman, but later nixed the auction preferring to focus on its development pipeline. Others considering outright sales of their wind businesses are **Orion Energy** and **Competitive Power Ventures**. Officials at the companies did not return calls. CPV is being advised by **Marathon Capital**, which handled the sale of **Greenlight Energy** to **BP Alternative Energy** in August.

Energy-focused shops **First Reserve** and **Carlyle/Riverstone Holdings** have expressed an interest in Horizon, bankers say, principally because Goldman may structure the transaction in a way that allows them a clean entry and exit—one in which Goldman retains the tax equity portion for its own benefit. The risk/reward profile of wind developers can be insufficient to generate returns that meet private equity hurdle rates, explains **Ted Brandt**, ceo of Marathon in Bannockburn, Ill. "The old model of being able to develop and flip is now very difficult to execute. The heavy capital requirements it takes to obtain turbines and offtakers' requirements have really raised the bar."



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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.

North America

- **FPL Energy** is buying the Point Beach nuclear power plant near Two Rivers, Wis. from **Wisconsin Electric Power's Wisconsin Energy** unit. FPL will pay \$783 million for the plant and \$215 million for fuel, inventory and other items. FPL will assume management and operation of the two-unit, 1.03 GW facility (*Associated Press*, 12/20).
- The New York State Power Authority has awarded **NRG Energy** a contract to push ahead with a planned \$1.5 billion, 680 MW clean coal-fired plant at its Huntlaey facility in Erie County, N.Y. (*Reuters*, 12/19).
- Connecticut's Department of Environmental Protection again ruled against **Islander East's** building of a natural gas pipeline through Long Island Sound. The application was denied because the pipeline's proposed route would damage water quality, natural resources and prime shellfish beds (*Associated Press*, 12/19).
- **Constellation Energy Group** has been awarded a 10-year

contract to provide 30 MW of wind power to the **Washington Suburban Sanitary Commission** in Maryland. Terms were not disclosed (*Associated Press*, 12/19).

- **Duke Energy** has named president and CEO **James Rogers** as board chairman. Rogers will replace **Paul Anderson**, who is resigning to become chairman of Duke spinoff **Spectra Energy** (*Dow Jones Newswires*, 12/19).

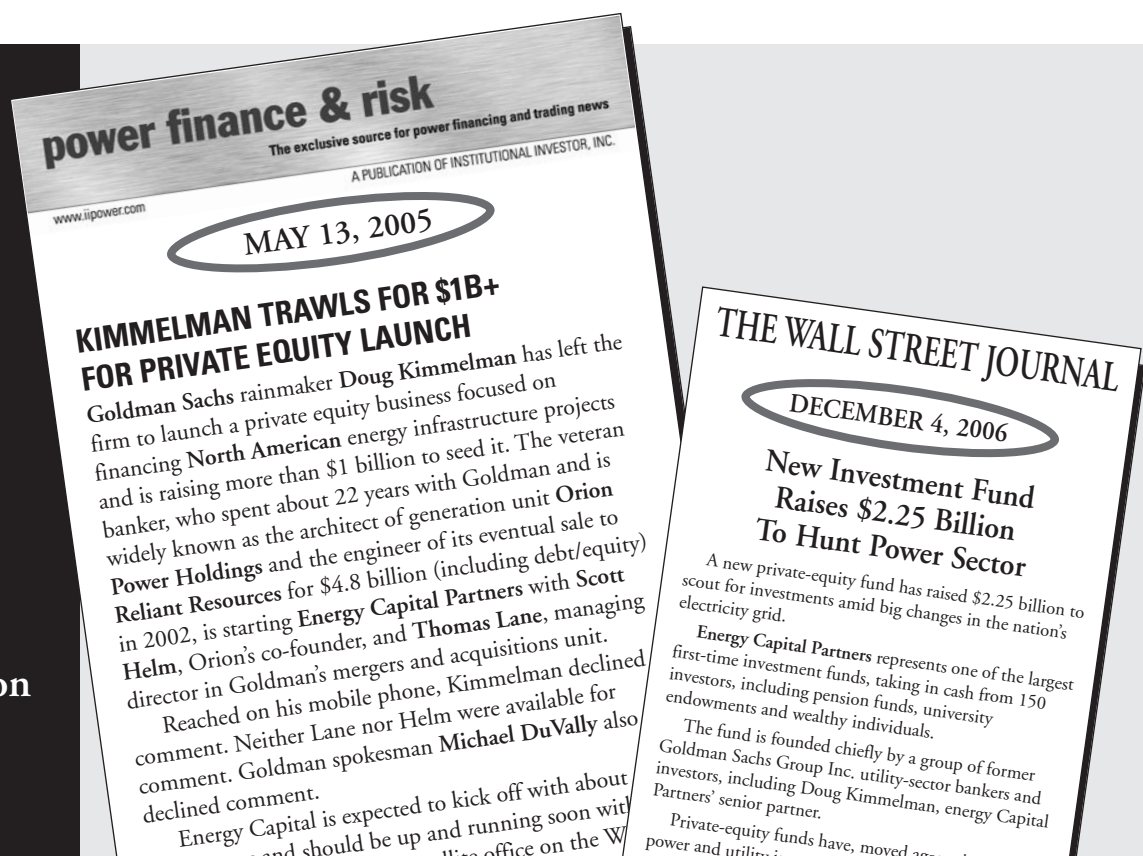
- Idaho state regulators authorized **Idaho Power** to pursue its plan to build a \$60 million, 170 MW gas-fired peaking plant near Mountain Home (*Idaho Statesman*, 12/19).

Europe

- European Union regulators overturned Spanish conditions on **E.ON's** \$48.64 billion bid for Spain's **Endesa**, giving Madrid a Jan. 19 deadline to withdraw them. If Spain fails to act, the European Commission says it can take it to court. Spain's Socialist government strongly backs a competing \$26.82 billion bid for Endesa from Spain's **Gas Natural** (*Associated Press*, 12/20).

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Energy Transfer Breaks Above Par

Midstream entity **Energy Transfer Equity's** \$1.3 billion term loan broke at 100 3/8-5/8. **UBS Securities** and **Wachovia Capital Markets** lead the loan, which backs the purchase of \$1.2 billion of equity units from **Energy Transfer Partners**. The \$1.3 billion term loan is an add-on to an existing \$150 million term loan. Pricing on the loan is LIBOR plus 175 basis points

Fitch Ratings assigned a BB to the term loan. **Energy Transfer Equity** derives most of its revenues from its interests in **Energy Transfer Partners**, which owns and operates a portfolio of energy assets. Officials at **Energy Transfer Equity** could not be reached.

BNP PREPS

(continued from page 1)

Rajit Nanda, cfo of **Suez Energy** for the Middle East, Asia and Africa, did not respond to requests for comment and an official at **BNP** declined comment.

BNP has advised **Tractebel** on other developments in the region. It was co-mandated with **Calyon** on a \$1.2 billion financing package for **Gulf Total Tractebel Power Co.**'s **Taweelah IWPP** in Abu Dhabi earlier this year (PFR, 11/25).

Power from the Jubail facility will be sold under a long-term

PWPA with the **Marafiq Power & Water Utility Company** for **Jubail and Yanbu**. Construction will take place in two phases. Phase one, set for completion in 2009, will have a capacity of 2.5 GW and 800,000 cubic meters of desalinated water per day, and phase two will have capacity of 1.5-2 GW and 100,000 cubic meters of water per day, according to the **Marafiq** website. Saudi is planning to bring 10 **IWPPs** online by 2016 for a total capital investment of \$16 billion.

AIRTRICITY LOOKS

(continued from page 1)

projects over the next two to three years, notes O'Brien. **Airtricity's** capital raising initiative is ambitious, notes one banker, but it won't present the company with too great a challenge.

"[The] universe of wind banks is growing, particularly since **PTC** timing is less of an issue for another year. Lenders have at least three years' experience with modern wind construction and technology in the U.S. and history has shown us that construction risk is manageable," says **Andrew Vernon**, v.p. at **NordLB**.

Precise sites the new debt will bankroll are still to be determined, but **Airtricity** plans to bring online more than 400 MW of wind capacity in the U.S. next year, including 40 MW

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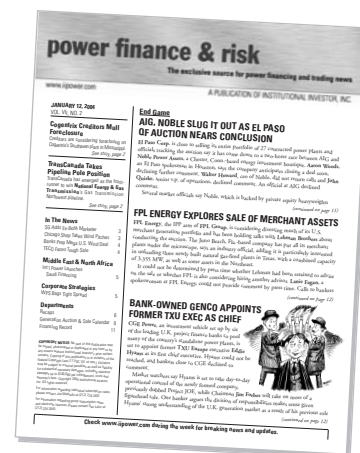
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Munnsville in New York, and other facilities in Canada, following its acquisition of Toronto developer **Gale Force Energy** in October. Construction of some 215 MW in ERCOT wind projects—comprising 90 MW Sand Bluff (PFR, 10/30) and 125 MW Forest Creek (PFR, 10/23)—is due to wrap next quarter.

Dublin-based parent Airtricity is considering a refinancing of its entire portfolio when it feels it has achieved critical mass, possibly in the 2009 timeframe, notes **Manus O'Donnell**, senior corporate finance executive in Dublin. This week it inked a new EUR40 million facility with **Investec**, which will trim project-level debt tied to commissioned assets in the U.K., Ireland and Scotland, and fund a cash dividend to fund construction of its 2007 projects.

The new facility ranks *pari passu* to an earlier EUR40 million facility provided by **Barclays Capital**, inked in November last year. Both are priced at a fixed rate of 9% over three years.

—**Katy Burne**

BRITISH GAS,

(continued from page 1)

but must be approved by Lake Road's ownership group, consisting largely of hedge fund owners.

Observers say British Gas has a slight edge because it is offering to fund its purchase primarily with equity. Moreover, since BG is U.K.-based, the current strength of sterling against the dollar gives it added bidding power over U.S. suitors such as ECP, says one banker. BG also recently won an auction for a Dighton, Mass., plant for some \$90.2 million from **Calpine**.

Energy Investment Funds Group also was believed to have made it into the definitive phases of bidding but another contender, a venture between **US Power Generating Co.** and **Madison Dearborn Partners**, has dropped out, according to observers. Calls to the energy private equity shops were not returned.

Although the Lake Road facility does not carry long-term PPAs, it is coveted because the environment for IPP owners has improved in ISO New England. Recent regulatory rulings encourage new development and promise independent producers they will be paid for providing much-needed capacity. The plant is also eligible for reliability-must-run contracts, which could also provide stable revenue.

A staple loan package being offered by Credit Suisse is expected to take the form of two-lien financing that will support prospective buyer's investment in the facility, which was placed on the auction block by private-equity and hedge fund owners affiliated with **Cargill**, **Bear Stearns** and **Merrill Lynch**. Officials at the owners declined comment or did not return calls.

—**Mark DeCambré**

Calendar

EXNET will host the 20th annual *Utility M&A Symposium* from January 29-30 at the Ritz-Carlton in Battery Park, Manhattan. To register, email exnet@erols.com or call +1 212 988 3921 and ask for utility mergers and acquisitions.

Quote Of The Week

"[Carbon legislation remains] the 1,800-lb gorilla in the room." — **David Crane**, CEO of **NRG Energy** on why IGCC can't compete in markets where carbon emission is free (see story, page 11).

One Year Ago In Power Finance & Risk

Tenaska Energy was shopping its 62% interest in the 830 MW Tenaska Frontier Generating Station plant, a gas-fired combined cycle facility in Shiro, Texas. It retained **Lehman Brothers** and **RBC Capital Markets** to advise on the auction. [Japanese investment firm **J-Power USA Development Co.** outbid **GE Energy Financial Services** and **ArcLight Capital Partners** for the stake. The price was not disclosed, but late-round bids were said to be in the \$200-250 million range (PFR, 4/7).]

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