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. 9. We wish all our readers Happy Holidays!

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TENASKA TO SHOP ERCOT PLANT

Tenaska Energy is shopping its 62% interest in the 830 MW Tenaska Frontier Generating Station plant, a gas-fired combined cycle facility in Shiro, Texas. Tenaska, based in Omaha, Neb., has retained **Lehman Brothers** and **RBC Capital Markets** to advise on the auction. **Frank Napolitano** and **Jack Paris**, managing directors at Lehman in New York, are handling the sale, according to an industry official.

Calls to **Paul Smith**, managing director at Tenaska, to Napolitano and Paris at Lehman, and to **Mike Casey**, managing director at **RBC Capital Markets** in Houston, were not returned.

The sale of the stake breaks down into a 61.75% of Tenaska limited partnership and .25% of the general partnership. Tenaska will retain operating and management of the

(continued on page 16)

FINANCIALS EMERGE IN DENA AUCTION SECOND PHASE

Financial players dominate the list of suitors for **Duke Energy**'s **Duke Energy North America** portfolio. The sale of the IPP unit's 6.2 GW of generating capacity has drawn second round bids of $1.3-1.5 billion from players including partners **AIG Highstar** and hedge fund **King Street Capital Management**. Teaming in the second round are **Tenaska** and **Warbug Pincus** and **Madison Dearborn** and **US Power Generating Company**, which combined to acquire **Reliant Resources** New York peaker plants for $975 million (PFR, 10/3). Calls to **Pete Sheffield**, a spokesman at Charlotte, N.C.-based Duke, and auctioneers **Credit Suisse First Boston** and **Goldman Sachs**, were not returned.

Other second round players include **LS Power**, **Complete Energy, Bear Stearns**' **Arroyo**

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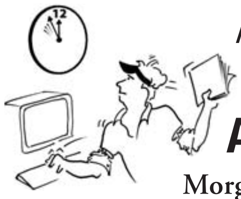
Year In Review/Preview

NRG'S CRANE SEES STRENGTH IN IPP MODEL POST BANKRUPTCIES

CEO **David Crane** at **NRG Energy** is sanguine about the wholesale power sector, despite the market volatility that has felled the likes of **Miran**t and **Calpine**, which sought Chapter 11 protection. NRG, the Princeton, N.J.,-based wholesale power producer, tackled its own bankruptcy woes just over two years ago. Crane told *PFR* one of the lessons from its own past is the need for prudent balance sheet management. "Calpine is about debt and doesn't reflect on the IPP model being fundamentally flawed," he notes. "Never let your balance sheet get out of whack."

The IPP market is a tricky one, requiring a deft act between purchasing necessary fuel to run plants and hedging commodity risk appropriately to manage spark spread. "You can't

(continued on page 15)



At Press Time

Morgan, Citi Ready $5.2B Genco Acquisition Financing

Morgan Stanley and **Citigroup** are set to launch early next year syndication of a $5.2 billion acquisition financing for **NRG Energy**'s purchase of **Texas Genco**. The funding is expected to take the form of a $3.2 billion, seven-year term loan, $1 billion, seven-year letter of credit facilities and a $1 billion, five-year revolver. Calls to officials at Morgan Stanley and Citi in New York were not returned. **Jay Mandel**, spokesman for NRG in Princeton, N.J., would not comment on financing.

Expected pricing on the term loan will be at around 225 basis points to start, and the revolver could be priced at 200 basis points. Depending on the rating the company gets pricing could be pushed up 25 basis points.

NRG announced in early October that it was acquiring Houston-based Texas Genco (PFR, 9/30). Last year, Genco was acquired by a consortium of private equity firms that included: **Kohlberg, Kravis, Roberts & Co.**, **Texas Pacific Group**, **The Blackstone Group** and **Hellman & Friedman**. **Joe Householder**, spokesman for Texas Genco in Houston, would not comment, referring calls to NRG.

Citadel Said To Recoup Hurricane Losses

Citadel Investment Group, the Chicago hedge fund, has pared losses north of $250 million on its energy trading desk on bets made on gas and electricity prices this summer. A market player familiar with performance says the fund, which traded energy via its *Kensington Global Strategies Fund*, cut losses to less than 1%, or about $90 million, of the net asset value of the fund, which stands around $9 billion, says an industry official

The losses were related to trades on natural gas and electricity made during Hurricanes Katrina and Rita. The official declined to say how the firm had done so.

"Following losses earlier in the year, primarily as a result of Hurricane Katrina, Citadel has rebounded strongly, generating substantial profits in the fourth quarter," **Scott Rafferty** said in a written statement. He declined to comment further. The Kensington fund totals $9 billion and is up between 5% -10%, the market watcher says.

Tell Us What You Think!

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

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Goldman Garden State QF Draws Hard Looks

Bidding for **East Coast Power**, a holding entity for a 940 MW cogeneration facility in Linden, N.J., is heady. The exact number of bidders last Wednesday when offers were due could not be learned, but pensions and private equity players, including a group sponsored by **Bear Stearns**' Houston energy investment team, **ArcLight Capital Partners** and **Rockland Capital**, expressed early interest, according to observers. Initial prices could not be learned. Bear Stearns, ArcLight and Rockland declined to comment or did not return a call for comment.

Seller **Goldman Sachs**, which is running the process internally, did not return a call for comment. Plans for the next phase of the auction could not be learned.

Appetite is driven in large part by the fact the facility is qualified with a long-term PPA with **Consolidated Edison Co. of New York** for 645 MW, which expires in 2017 in a relatively strong East Coast market. It was purchased for $456 million in cash and the assumption of about $600 million in non-recourse debt.

Leads Plot $1.5B Loan For Bahrain Plant Purchase

Leads including **Royal Bank of Scotland** and **Standard Chartered Bank** plan to launch an acquisition financing package equivalent to roughly $1.5 billion

for **International Power**, **Suez Energy International** and **Sumitomo Corp.** The trio is aiming to acquire a 1 GW gas-fired facility and 30 MIGD Al Hidd desalination plant from the Bahrain government, which has circled the consortium as likely bid winners. The sale is expected to be tied up sometime in the first quarter with an eye toward launching funding later that quarter or early in the second.

BNP Paribas advised the government. Officials there would not comment on the deal. Spokeswomen at IP and Suez International declined to comment on the financing. Calls to Sumitomo were not returned.

The plant has a 20-year PPA in place with the Ministry of Electricity and Water of Bahrain. **Gulf International Bank**, **KFW Bank**, **Sumitomo Banking Corporation** and **Mizuho Corporate Bank** are also acting as co-leads on the financing, according to bankers. Officials at the leads either would not comment or did not return calls.

Bankers close to the loan package speculate it will include a long-term bank loan similar to those arranged for other Middle East projects. Exact details could not be ascertained.

Sempra Markets Western District Heating/Cooling Facilities

Sempra Energy is auctioning eight district and heating and cooling plants in Nevada and California in effort to streamline its generation business. The district heating and cooling business, which many utilities are involved in because they function in much the same way as electric generators, include Golden State facilities known as Bunker Hill, Boeing and Disneyland Hotel. Those three operations have a megawatt equivalent—the standard measurement for such facilities—of 263 MW.

San Diego-based Sempra is taking qualified bids from prospective investors for Sempra Energy Facility Management over the next several weeks. Calls to officials at the company were not returned. Other facilities service The Venetian Casino and Resort Hotel. It is unclear if a sales advisor has been hired to run the process.

The most recent district heating package to hit auction was **Tractebel North America**'s **Trigen Energy**, which hired **Bank of America** to sell seven district plants that serviced over 1,000 buildings in Philadelphia, Baltimore among other cities (PFR, 9/11/03). That package sold for some $600 million. It is unclear what Sempra's assets will fetch, observers say.

Qatar Searches Leads For $525M Plant Expansion

Qatar Electricity and Water Company is looking for leads to arrange a $525 million construction financing package for a 567 MW expansion of a power and water desalination project. Bankers who are hoping to nail the lead financing role say bids are due Friday. The project is the approximately $600 million expansion of the Ras Abu Fontas B2, which is slated for a 2007 completion. Calls and emails to spokesman **Mansoor Alsaadi** at QEWC in Doha, were not returned.

Financiers expect the deal to close in the first quarter. Despite the inherit risk in providing construction funding, bankers say comparable construction loans have achieved pricing below LIBOR plus 1% and tenors in the neighborhood of 20-years. Specific pricing will be worked out as the deal gets closer to launch. **HSBC Securities** is advising QEWC and bankers at the firm in London declined to comment.

Already under early construction, bankers expect bids for the lead to be highly competitive. A 25-year PPA and PWPA is in place with **Qatar General Electricity and Water Corporation**, **Kahramaa.** The first Ras Abu Fontas A 618 MW plant was built between 1977 and 1980.

Kan. Boutique Venture Circles Pratt Plants

A venture including **Tyr Energy** is aiming to work out an agreement to acquire **Pratt & Whitney**-developed plants, known as Calpeak Power. Pratt & Whitney has granted the venture a 30-day period in which to kick the tires and decide whether to acquire them. The portfolio is on the block because Pratt & Whitney is not a generation player and developed the plants to test new technologies (PFR, 10/31). Calls to Tyr and Pratt & Whitney in East Hartford, Conn., were not returned. Tyr's venture partner could not be identified.

According to sources following the transaction, Boston-based private equity shop **ArcLight Capital Partners** also took a hard look at the plant (PFR, 11/26).

Each of the six plants is about 50 MW a piece, have PPAs in place with local utilities, including **Pacific Gas & Electric**. The terms of those contracts could not be determined.

The Calpeak facilities are El Cajon, Enterprise, Lonestar, Panoche, Vaca and Mission. The auction is being handled directly by Pratt & Whitney—a **United Technologies** unit.

Financing Record (DECEMBER 14-DECEMBER 20)

Debt

Rule 144A	Issue Date	Issuer	Business Description	Amount ($M)	Coupon (%)	Type of Security	Maturity	Offer Price	YTM(%)	Spread	S&P	Moody's	Fitch
	12/14/05	Entergy Corp	Electric,gas utility;hldg co	500		Cvt Pfd Shs		50	10.78		NR	nr	NR
Yes	12/14/05	Entergy Louisiana Inc	Electric utility	100		Cum Preferred	Perpet.	100	6.95		BB+		BBB-
No	12/14/05	Tenaga Nasional Bhd	Electric utility	65.9	3.65	Fxd/Straight Bd	12/20/06	100	3.65		NR	NR	
Yes	12/15/05	Atlas Pipeline Partners LP	Own,op natural gas pipelines	250	8.125	Senior Notes	12/15/15	100	8.125	364	B+	B1	NR
Yes	12/15/05	Southern Connecticut Gas	Gas utility	25	Floats	Mdm-Trm Fl Nts	6/22/07	100	Floats		BBB+	A3	A
Yes	12/20/05	Mirant Corp	Electric,gas utility	850	7.375	Senior Notes	12/31/13	100	7.375	292	B-	B1	NR

M&A

Date Announced	Date Effective	Target Name	Target Industry Sector	Target Nation	Acquiror Name	Acquiror Advisors	Acquiror Industry Sector	Acquiror Nation	Value ($M)
12/14/05	12/14/05	Eoliennes de la Citadelle SAS	Electric, Gas, and Water Distribution	France	Boralex Inc		Oil and Gas; Petroleum Refining	Canada	
12/14/05		Salcon Power Corp Inc	Electric, Gas, and Water Distribution	Philippines	Investor Group		Investment & Commodity Firms, Dealers,Exchanges	Philippines	22.058
12/14/05	12/14/05	Tejo Energia SA	Electric, Gas, and Water Distribution	Portugal	Investor Group		Investment & Commodity Firms, Dealers,Exchanges	United Kingdom	
12/15/05		Berlinwasser International AG	Electric, Gas, and Water Distribution	Germany	Marubeni Corp		Textile and Apparel Products	Japan	51.612
12/15/05		Simeo Srl	Electric, Gas, and Water Distribution	Italy	ENEL SpA	Lazard	Electric, Gas, and Water Distribution	Italy	44.311
12/16/05	12/16/05	Grupo Enersis	Electric, Gas, and Water Distribution	Portugal	Babcock & Brown Pty Ltd		Investment & Commodity Firms,Dealers,Exchanges	Australia	505.902
12/16/05		NRG Energy-Power Plant,MO	Electric, Gas, and Water Distribution	United States	Ameren Corp		Electric, Gas, and Water Distribution	United States	355
12/19/05		Aquila Inc-Illinois Peaking(2)	Electric, Gas, and Water Distribution	United States	AmerenUE		Electric, Gas, and Water Distribution	United States	175
12/19/05		Constellation Energy Group Inc	Electric, Gas, and Water Distribution	United States	FPL Group Inc	Merrill Lynch & Co Inc	Electric, Gas, and Water Distribution	United States	15,230.20
12/19/05		El Paso Mktg-Whl Power	Electric, Gas, and Water Distribution	United States	Morgan Stanley Capital Group		Electric, Gas, and Water Distribution	United Kingdom	442
12/19/05		Henan Province Chinese	Electric, Gas, and Water Distribution	China	Seapower Resources Intl Ltd		Transportation and Shipping (except air)	Hong Kong	

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

Strategies

Reliant To Trim Term B Debt Via W.Va. Plant Sale

Reliant Energy will use the proceeds from its $100 million sale of the Ceredo Generating Station in Ceredo, W.Va., to pay down its $1.3 billion term loan B. **Dan Hannon**, treasurer for the Houston-based energy company, says the company will use all of the net proceeds from the natural gas-fired plant sale for debt reduction. Earlier this year, the company sold three New York power plants for $975 million to **Madison Dearborn** and **US Power Generating Company** (PFR, 10/10) and also pared back debt with the cash generated from the sale.

According to Hannon the term loan was taken out in December 2004 as part of a refinancing Reliant was undergoing and was priced at LIBOR 2 3/8%. Participating banks include **Banc of America Securities**, **Barclays Capital**, **Deutsche Bank**, **Goldman Sachs** and **Merrill Lynch**. The firms were chosen because they had worked as leads on other deals for the energy company.

American Electric Power closed the sale of the 505 MW Ceredo plant last week, and intends to operate the plant as peaking generation for use only when electricity demand is high, says AEP spokeswoman **Melissa McHenry** in Columbus, Ohio, adding the company has to maintain a capacity margin in the PJM market.

Reliant took out a second $300 million term loan B in October that was used to add liquidity for the company in the face of rising gas prices (PFR, 10/24).

Entergy Scores Fresh Revolver

Entergy Corp. obtained a new $1.5 billion, three-year credit facility to bolster liquidity in the wake of hurricane recovery costs. “Strategically, the company [obtained the facilities] to allay investor concerns of their liquidity,” says **Justin Bowersock**, an analyst with **Fitch Ratings** in Chicago “They’re showing that they’ve got the liquidity they need. I don’t think they would have done this had they not had hurricanes,” referring to Hurricanes Katrina and Rita which taxed the company’s subsidiaries **Entergy Louisiana** and **Entergy Gulf States**. Entergy plans on funneling down $300 million into Entergy Gulf States.

Through the facility, which is priced at LIBOR plus 80 basis points, Entergy will be able to issue letters of credit, according to **Securities and Exchange Commission** filings.

Morgan Stewart, spokesman for Entergy in Jackson, Miss., would not comment on the facility, or make officials available.

Citigroup Global Markets Inc. acted as sole lead arranger and book manager for the facility. Citi led a group of about 19 banks that includes co-syndication agents **ABN AMRO**, **BNP Paribas**, **JPMorgan Chase** and **The Royal Bank of Scotland**.

A few weeks ago Entergy Gulf States sold $350 million of first-mortgage, floating-rate bonds to not only pay down maturing debt, but also pay back $174 million borrowed from monies funneled from its parent (PFR, 12/19).

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M&A

Treading Where Few Will

Strategic Buyers Swoop On Distressed Generation Plays

Strategic investors such as private equity and hedge fund shops gobbled up generation assets this year and have amassed war chests to take a fresh run in 2006. Indeed, those outfits have some $20 billion set up or are being set up for energy investments in the coming year. "What really provided the opportunity for the emergence of strategic investors was corporates essentially leaving the markets," says **David Foley**, senior managing director at **Blackstone**.

Kolhberg Kravis Roberts, Blackstone, **Texas Pacific Group**, and **Hellman & Friedman** were able to purchase **Texas Genco** (PFR, 7/18/04) only after **Reliant Resources**, during a period of distress, declined its option to buy it from **Centerpoint Energy**, which needed the cash to reduce its leverage.

Matlin Patterson's acquisition of Duke's 5.3 GW southeast merchant generation portfolio also was a key event for private equity two years ago because it represented a change of control of an entire business. Blackstone mulled merchant investments in late 2003, but did not pull the trigger because it was virtually impossible to score unanimous approval from creditor-controlled businesses. Meanwhile, distressed-debt funds and hedge fund investors found many avenues to make purchases, buying debt on a one-off basis, such as **K-Road Venture**'s bid for **Exelon Boston Generating** (PFR, 6/22) and hedge fund **Cargill**'s push to take hold of the Lake Road plant in Killingly, Conn. (PFR 9/23/04).

Challenges ahead.

Foley thinks it is becoming tougher to find assets that are selling at an attractive valuation, as natural acquirers re-enter the market. **Cambridge Energy Research Associates** agrees that prices for merchant assets appear to have halted a three-year free fall, according to a new research report. According to CERA, since the beginning of 2004, over 80% of nearly 58,000 MW in announced transactions have come out of the merchant sector.

As it stands, the recovery in the market for generation assets is driving activity, Foley says. "If you have good assets I think you can get a good price for them in this market, since there's more money going out to individual assets than they would at any time recently."

Patricia A. DiOrio, director of asset valuation at CERA in Cambridge, Mass., says the resurging interest doesn't necessarily point to an immediate and broad recovery in the sector. Without a recovery in electricity prices, competition for assets could drive prices past their actual value, a problem for funds that try to grab assets below par.

John Buehler, managing partner at **Energy Investors Fund** in San Francisco, still sees an increasing number of opportunities in diverse segments of the generation and transmission market for a company like EIF which, he notes, takes a bottom up, plant-by-plant approach, as opposed to Blackstone, which aims to own entire energy companies. He points to the fact that reserve margins are shrinking. Combined with concerns about the lack of transmission systems, Buehler sees an "absolute sweet spot" for private equity to supply capital that needs to be spent on infrastructure.

Underpinning some of the predicted activity is the repeal of the Power Utility Holding Company Act. Previously, if a private equity group wanted to buy a utility, it would have to subject itself to regulation, a big turn-off for that type of investor. The big issue in this type of acquisition, says Buehler, is whether private equity will have to change its orientation. Local citizens, he says, are going to be wary of seeing private equity go after their utilities and the funds may need to make longer-term commitments to assuage their fears. But utilities have found that as they have been forced to buy generation, they can have good relationships with private equity who own generation, he says.

Trading

Financials Chase Energy Trading Lucre

Investment banks and others continue to push into or re-enter the energy trading arena. A trend begun in fits and starts by names including **Credit Suisse First Boston** (PFR, 3/11/02, 12/13/04) in the wake of the energy crisis of 2001-2002, the latest entrants include **Lehman Brothers**, which has tapped **Frank Napolitano**, former co-head of its global power group, as its chief in New York (PFR, 9/5).

Simon Greenshields, global head of electricity and natural gas trading at **Morgan Stanley** in Purchase, N.Y., which, along with

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Goldman Sachs, has been at the vanguard of energy trading, sees a "herd-like mentality" at play. "I think the reason that they're back this year, perhaps with a more serious demeanor than they've had in the past, is that they've seen that the commodities markets are an increasingly important contributor to the bottom line of Goldman Sachs and Morgan Stanley." Greenshields thinks that interest from hedge funds and private equity groups is a big driver.

Some of the new entrants will be successful, say Greenshields, but "if history is any guide most of them are going to fail." Greenshields warns that many of the entrants have tested these waters before and been zapped. "Banks love it when it's volatile and they see an opportunity to make money, says Greenshields. "But many of these entities are going to be ill-prepared for what unfolds over the course of the next five years. Volatility might turn down, or stay where it is, which could be even worse. If they don't have the expertise they'll suffer the consequences."

Indeed, a few hedge funds took some hits late in the summer, when Hurricanes Katrina and Rita sparked sudden volatility in natural gas and electricity prices. The fallout crunched trading desks at **Ritchie Capital** and **Citadel Investments** (PFR, 12/9).

Other Entrants

Bear Stearns formed limited partnership **CalBear Energy** with embattled **Calpine** (PFR, 6/24) to focus on energy trading and **Barclays Capital** took hold of **Duke Energy**'s trading book (PFR, 11/18). Barclays's acquisition represents another step in that bank's steady growth in energy trading in North America, says **Jonathan Taylor**, global head of commodities sales at Barclays in London.

Taylor says the bank's strategy is driven by its customers' needs to reduce risk. "For me, it's risk management. It's not trading; it's not speculation," says Taylor. Record high prices for natural gas may not last, says Taylor, noting that the constrained nature of the infrastructure creates volatility, and that is what has opened eyes. "What the high prices [in energy commodities] have done is demonstrate where people have exposure," he says.

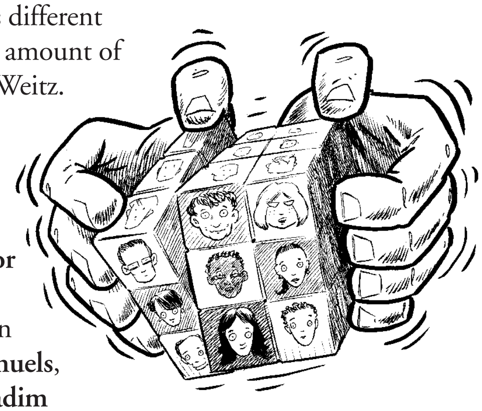
Lehman's decision to tap investment banker Napolitano to spearhead its energy-trading arm seems to take a page from Goldman's playbook, says **Jonathan Weitz**, president at executive search firm **Jilson Advisors** in Southbury, Conn., noting that Goldman tapped **Doug Kimmelman**, who was also an investment banker, for its then-nascent energy desk and used his corporate contacts to open doors—a method Lehman says it will look to employ (PFR, 12/19). Lehman is trading only financial contracts right now, but Weitz speculates that it is a matter of time before the firm pushes into ownership of physical assets. Napolitano declined to comment.

CalBear's future may be clouded by its bankruptcy filing at Calpine, but according to **Russell Sherman**, a spokesman at Bear Stearns, the venture is up and running. Industry officials say both parties have a clause in their agreement that lets them dissolve the partnership if there is a materially adverse event within 90 days of its start.

Greenshields says Morgan has been expanding its own operations as its competitors have come more into the frame. The firm hired **Eric Yao**, a Mirant trader, as an executive director in its power trading group (PFR, 6/17), and also picked up **Brian Kavanaugh** from **American Electric Power** (PFR, 8/19). It also is moving into the liquefied natural gas market and has hired **Richard Pratt** from Madrid-based **Repsol** to head up the initiative.

Hunt For Talent

The activity has made the market for energy trading talent a hot one. "What I think is different [from last year] is the amount of musical chairs," says Weitz. JPMorgan has been aggressively chasing Morgan Stanley's staff, and landed **George "Beau" Taylor** to run its power desk (PFR, 3/17). Taylor in turn lured **David Samuels**, an originator, and **Nadim Soylemez**, an associate junior trader, both of whom worked for him at Morgan Stanley. JPMorgan has also managed to snare former Goldman traders from its London office after hiring **Jose Coggoloudio**. Taylor has since been named head of commodities trading.



Project Finance

Lenders Revisit Merchant Risk

Dan Morash, global head of power, energy and infrastructure at **CIT Group** in New York, says lenders are reacquiring the taste for merchant risk. The CIT official, whose firm provides financing on many energy projects, says merchant deals—those deals funding projects without long-term power purchase agreements in place—are becoming more acceptable in part due to the popularity of the term loan B market which allows lenders with varying desires for risk to participate.

Deals done in the term loan B market include the **Mirant** bankruptcy exit refinancing (PFR, 11/21), a **Florida Power & Light** club syndication for a wind portfolio (PFR, 10/17) that is presently in the market and acquisition plant financing for Wolf Hollow (PFR, 8/22) and La Paloma (PFR 5/16).

Santino Basile, co-head of **WestLB**'s financial sponsors and

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power and utility group in New York, which spearheaded the Wolf Hollow and La Paloma deals, says an important element in getting deals with merchant risk completed is **Goldman Sachs** and **Morgan Stanley** offering to cover at least some part of the facilities output until longer-term contracts can be secured..

Bankers in Europe and the US say new players that have emerged, specifically the hedge funds and pension plans, who have been participating on B loan syndications have bolstered the market. Basile says those players are more yield-focused investors and willing to take the risk of a merchant deals, adding that he predicts more B loan deals ahead.

In Europe, one of the more high-profile deals, which had an element of merchant risk, was **Drax Group Limited**'s plan for refinancing and a public listing. Drax, the owner and operator of England's largest coal plant that supplies almost 7% of England's power needs, wrapped up the initial syndication phase of its £877 million ($1.5 billion) refinancing package.

Hot Commodity

Wind Turbine Dearth Crimps Small Developers

The extension of production tax credits until the end of 2007 has made wind turbines a hot commodity. Turbines became hard to come by as they were stockpiled by those betting on a PTC extension, such as **FPL Group**. **Jan Paulin**, president and chief executive of **Padoma Wind Power** in La Jolla, Calif., says there are no available turbines to buy in 2006 and few to buy for 2007.

Paulin predicts fewer projects will get done in 2007 not only because of a lack of turbines, but because manufacturers are not meeting production deadlines. Some big manufacturers include **General Electric** and **Siemens**.

Small developers are getting squeezed they say as manufacturers are requiring almost 20% down, with a PPA in place, while larger developers are getting away with bulk orders.

Sven Wellock, assistant treasurer in the structured finance group at **NordLB** in New York, says the constraint on the turbines could help smaller turbine suppliers. Earlier in the year he noted the spike in prices for turbines is a concern for NordLB because developers have to go back to the utilities and rework agreements inked earlier (PFR, 8/29).

Randall Swisher, executive director of the **American Wind Energy Association** in Washington, says the biggest problem has been the lack of a renewable energy policy. "Lack of a stable, consistent policy has been the single strain on the market," he says. Paulin echoes Swisher, and adds, "We will not get the normalization of the industry until we get a comprehensive renewable energy policy."

"Wind Farms In 2005"

State	Project Name	Location	(in MW)	Project Developer	Power Purchaser	Turbines Used
New York	Maple Ridge Wind Farm	Lewis County	198	PPM Energy & Horizon Wind Energy	NYSERDA	120 Vestas 1.65-MW
Pennsylvania	Bear Creek Wind Farm	Luzerne County	24	Community Energy, Inc.	PPL Energy	12 Gamesa 2-MW
New Jersey	Jersey-Atlantic Wind Farm	Atlantic City	7.5	Community Energy, Inc.	Atlantic County Utilities Authority Wastewater Treatment Plant	5 GE Energy 1.5-MW
Illinois	Crescent Ridge	Bureau County	54.5	Illinois Wind Enegy/Eurus	Commonwealth Edison	33 Vestas 1.65-MW
Iowa	Century Wind Project	Wright & Hamilton Counties	150	enXco	MidAmerican Energy	100 GE Energy 1.5-MW
Minnesota	Trimont Wind Farm	Martin & Jackson Counties	100.5	PPM Energy	Great River Energy	67 GE Energy 1.5-MW
North Dakota	Velva Wind Farm	McHenry County	11.9	Acciona Energia	Xcel Energy	18 Vestas 660-kW
North Dakota	Wilton Wind Farm	Burleigh County	49.5	FPL Energy	Basin Electric	33 GE Energy 1.5-MW
Nebraska	Ainsworth Wind Energy Facility	Brown County	59.4	Nebraska Public Power District	Nebraska Public Power District	36 Vestas 1.65-MW
Kansas	Elk River Wind Farm	Butler County	150	PPM Energy	Empire District Electric Co.	100 GE Energy 1.5-MW
Oklahoma	Weatherford Wind Energy Center	Custer County	147	FPL Energy	Public Service Co. of Oklahoma	98 GE Energy 1.5-MW
Oklahoma	Blue Canyon II	Comanche and Caddo Counties	151.2	Horizon Wind Energy	Public Service Co. of Oklahoma	84 Vestas 1.8-MW
Texas	Horse Hollow Wind Energy Center	Taylor County	220.5	FPL Energy	TBD	147 GE Energy 1.5-MW
Texas	Buffalo Gap	Taylor County	120.6	AES	Direct Energy	67 Vestas 1.8-MW
Texas	Callahan Divide Wind Energy Center	Taylor County	114	FPL Energy	TBD	76 GE Energy 1.5-MW
New Mexico	San Juan Mesa	Near Chaves & Roosevelt County lines	120	Padoma Wind Power	Xcel Energy	120 Mitsubishi 1-MW
Colorado	Spring Canyon	Logan County	60	Invenergy Wind	Xcel Energy	40 GE Energy 1.5-MW
Montana	Judith Gap	Wheatland County	135	Invenergy Wind	Northwestern	90 GE Energy 1.5-MW
Idaho q	Wolverine Creek	Bingham and Bonneville Counties	64.5	Invenergy Wind	PacifiCorp	43 GE Energy 1.5-MW
California	Kumeyaay Wind Power Project	San Diego County	50	Superior Renewable Energy	San Diego Gas & Electric	25 Gamesa 2-MW
California	Shiloh Wind Power Project	Solano County	150	PPM Energy	PG&E, Modesto Irrigation District, City of Palo Alto utilities	100 GE Energy 1.5-MW
Oregon	Klondike II	Sherman County	75	PPM Energy	Portland General Electric	50 GE Energy 1.5-MW
Washington	Hopkins Ridge Wind Project	Columbia County	149.4	RES America	Puget Sound Energy	83 Vestas 1.8-MW

Source: **AWEA**

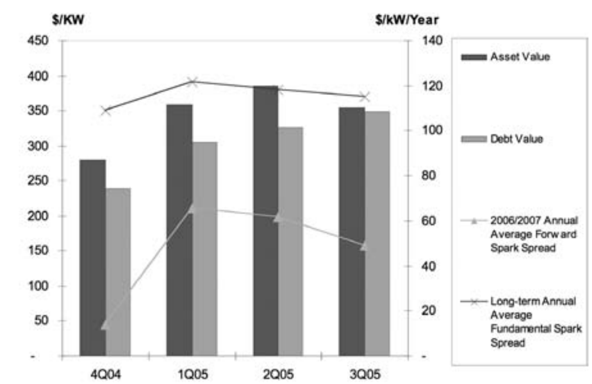
2005 YEAR IN REVIEW/PREVIEW

VIEWPOINT

How Should Buyers Asses Value For Generation Assets?

Over the past year, a number of distressed energy projects and portfolios have changed hands, or are positioned for sale. But with secondary debt markets linked to generation facilities bustling and new entrants pouring into the energy sector, assessing values will be a challenge. Making matters tougher is that prices on secondary loans tied to such projects sponsored by **Mirant Corp.**, Lake Road and others have been ticking up from distressed levels to levels at or near par, creating a large gap between market fundamentals and indicative values, particularly in certain electricity markets.

Generation Asset Sales



Source: **Platts, PFR, Pace Global Energy Services**

Historic sales values for gas-fired technologies have ranged from under $100/kW equivalent for distressed peaking units in over-supplied markets, such as SERC, to as high as $500/kW (a figure approaching original construction costs and new build economics) for select combined-cycle facilities in strengthening markets such as California's and NEPOOL,

For example, Perryville Energy and McClain Energy both combined cycle gas turbine (CCGT) assets located in SERC or SPP, were purchased by the regulated utilities with the intention of placing the generation assets into their rate base. Each of these generation assets were purchased at or above par (i.e., original debt value). La Paloma, a 1.02 GW CCGT located in California, was purchased by **Complete Energy** for $643 million or $629/kW.

In NEPOOL and California, plant owners (comprised of lenders and financial investors who have purchased project debt on the liquid, secondary-debt market and subsequently converted their position into equity) are choosing to hold their generation assets over the near term and are positioned to sell at a future date when the market corrects. This is the case, for example, in the Lake Road, Boston Generation, and Granite Ridge generation assets.

To determine asset values, owners must factor in debt value, (as a percent of par), short-term (liquidity horizon-limited) spark spread value and long-term regional outlook.

Not surprisingly, asset values reflect a premium over short-term spark spreads, with the degree of this premium in part driven by longer term "fundamental" value designation. This eventually includes a capacity value sufficient to entice additional investment. In effect, the short-term, more volatile debt and equity "trading" valuations provide a floor to value, while the long-term, fundamental-based value indicators provide a realistic target for the party with sufficient staying power. An informed view of the market can straddle these perspectives and take a risky, but potentially lucrative mid-term position by correctly assessing the embedded option-value that is assigned to a given asset or portfolio

In assessing market values, and in relating debt trading values to equity value ranges, several important distinctions should be noted:

First, liquidity and the intended holding period in a project or portfolio's debt are critical to value designation. The ability to move in and out of a position, coupled with a feel for where the value floor lies with specific project paper, is vital to the project's value proposition given relatively illiquid mid- or long-term equity interest.

As evidenced by several recent major transactions, equity can also make excellent returns in select restructured power markets. The proposed **Texas Genco** acquisition by **NRG Energy**, or the recently restructured sale of La Paloma, which previously defaulted to **Citigroup**, offer examples of the type of returns available in the markets. In both cases, equity investors took advantage of an emerging floor value (supported by credit-backed toll values in WSCC and term contracts in ERCOT) to leverage their initial equity investment to a point where term value is now achievable at price levels exceeding debt par value and approaching long-term fundamental values.

In our view, a generation asset or portfolio must be viewed as a bond yield, with the projected yield curve driven by the dynamics between shorter-term liquidity measures (e.g., such as the spark spread and debt-trading values) and longer-term structural and fundamental value drivers.

For the full article please go to *www.iipower.com*.

Co-authored by ***Bo Poats,*** *executive director and* ***David Portnoy****, director, at* ***Pace Global Energy Services****.*

Quotes of the Year

"These areas are blossoming because of high fuel costs. I think this is going to be the next wave of interest in the energy market."—**Peter Fusaro**, *chairman of* ***Global Change Associates*** *and the* ***Energy Hedge Fund Center****, on increased hedge fund interest in companies involved in alternative energies (PFR, 11/21).*

"You cannot look at the energy markets and think anyone would put a nickel into building new plants."—**Jacob Worenklein**, *ceo of* ***US Power Generating Company****, arguing generation returns are too low to justify new building (09/19).*

"There's a tremendous amount of money from private equity challenged to find good deals and that capital base will grow as a result of PUHCA repeal and changes to PURPA [Public Utilities Regulatory Policies Act]."—**Kim Johnson**, *principal at* ***eBarton LLC.****, on her launching a private advisory firm geared toward helping private equity and hedge fund investors identify opportunities in the energy and power sectors (09/05).*

"We're agnostic to regions or assets. We'll go where the value is."—**Darpan Kapadia**, *managing director of* ***LS Power Development*** *in New York, on where its newly launched fund will be targeted (08/15).*

"CEO to CEO discussions have never been easier, when you can just get in an elevator and go to [Dynegy's executive suite] on the 67th floor."—**Joe Bob Perkins**, *president of* ***Targa Resources****, on its negotiating edge during the bidding process for Dynegy's midstream assets (08/08).*

"It's not like buying gas for your car."—**Rich Bresnahan**, *manager of treasury at* ***Energy Northwest****, on purchasing uranium fuel for a 1.1 GW nuclear plant (06/20).*

"Our competitive advantage is simply that we stood up and said we will buy the entire portfolio."—**Jim Leech**, *senior v.p. and head of the* ***Ontario Teachers' Pension Plan*** *private capital group in Toronto, on how* ***AIG Highstar*** *and Ontario beat out rival bidders for the 5.5 GW* ***InterGen*** *portfolio (PFR, 05/02).*

"One of the advantages of being a subsidiary of a very large company is that we can borrow money from them."—**Bob Seega**, *assistant treasurer for* ***Massachusetts Electric****, on the utility's plans to pay down debt with a loan from* ***National Grid Transco*** *(06/06).*

"We don't want to go out and buy someone else's problem."—**Paul Bowers**, *president of* ***Southern Company Generation****, on the company's aversion to buying distressed assets (05/23).*

"There was a bubble in the industry and we were left holding the bag."—**Robert Belk**, *cfo at* ***The Shaw Group*** *in Baton Rouge, La., on the construction company's credit downgrade in 2001 after some developers of gas-fired power plants Shaw was working on went bankrupt (05/09).*

"It doesn't seem as if anyone has found the magic keys to the kingdom."—**Steven Pike**, *managing director at* ***AIG Financial Products****, on the difficulty of financing power plants in the uncertain commodities environment (04/11).*

"We're the most popular girl in town."—**Brian O'Sullivan**, *president of Vancouver-based developer* ***Coram Energy****, on the interest investors have expressed in financing the expansion of Coram's 15 MW wind farm in Tehachapi, Calif. (03/21).*

"It's kind of a chicken and egg game."—**Bill Ross**, *director of the structured power transaction group at* ***Cantor Fitzgerald Brokerage****, on the tendency of investors to monitor PPA progress as counterparties monitor financing progress (02/21).*

"I have more clients fantasizing about [M&A] than actually doing it."—**Laurel Coben**, *managing director for* ***Merrill Lynch****, expressing skepticism that the deal between* ***Exelon Corp.*** *and* ***Public Service Enterprise Group*** *will stimulate future M&A deals (01/31).*

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
Atlantic City Electric Company	B.L.England	New Jersey	447	Coal	Concentric Advisors	In Second Rounds.
	Key Stone	Pa.	-	Coal		
	Conenaugh	Pa.	-	Coal		
Aquila	Racoon Creek	Ill.	340	Gas	Not chosen	Intention To Sell.
	Goose Creek	Ill.	340	Gas		
	Crossroads	Miss.	340	Gas		
BP	Great Yarmouth	U.K.	400	Gas	J.P. Morgan	Intention To Sell.
BNP -led bank group	Mystic River 7	Mass.	560	Oil/Gas	Lazard	Ongoing.
(Exelon developed plants)	Mystic River 8	Mass.	832	Gas		
	Mystic River 9	Mass.	832	Gas		
	Fore River	Mass.	832	Gas		
Carlyle Riverstone/ Sempra	Topaz Power Group	ERCOT	2.9 GW	Gas&Oil	Greenhil & Co.	Preliminary marketing materials have been submitted
Citi & SocGen-led creditor group	Union	Ark.	2,200	Gas	Goldman	Ongoing.
(TECO Energy developed plants)	Gila River	Ariz.	2,300	Gas		
CMS Energy	Ensenada	Argentina	128	Gas	Not chosen	Announced Intention To Sell.
	CT Mendoza	Argentina	520	Gas	J.P. Morgan	
	El Chocon	Argentina	1,320	Hydro	J.P. Morgan	
	Palisades	Mich.	798	Nuke	Concentric Advisors	Announced Intention To Sell.
Citi-led bank group	Lake Road	Conn.	840	Gas	Lehman Bros.	Cargill Bought Debt Portion (PFR, 12/27).
(NEG developed plants)	Lowell Power	Mass.	82	Gas	None	Actively Pursuing A Sale.
Delta Power						
Duke Energy North America	Bridgeport Energy Project	Bridgeport, Conn.	490 MW	Gas	CSFB	In Play Save For The Midwest Facilities.
	Maine Independence Station	Penobscot County, Maine	520 MW	Gas	Goldman Sachs	
	Bayside Power Project	St. John, New Brunswick	260 MW	Gas		
	Fort Frances Cogeneration Project	Fort Frances, Ontario	110 MW	Gas		
	Lee Energy Facility	Lee County, Ill.	640 MW	Gas		
	Vermillion Energy Facility	Vermillion County, Ind.	640 MW			
	St. Francis Energy Facility	Glennonville, Mo.	500 MW	Gas		
	Washington Energy Facility	Washington County, Ohio	620 MW	Gas		
	Fayette Energy Facility	Fayette County, Pa.	620 MW	Gas		
	Hanging Rock Energy Facility	Lawrence County, Ohio	1,240 MW	Gas		
	Oakland Power Plant	Oakland, Calif.	165 MW	Gas		
	Moss Landing Power Plant	Monterey County, Calif.	2,538 MW	Gas		
	Morro Bay Power Plant	Morro Bay, Calif.	1,002 MW	Gas		
	South Bay Power Plant	Chula Vista, Calif.	700 MW	Gas		
	Griffith Energy Facility	Mohave County, Ariz.	600 MW	Gas		
	Arlington Valley Energy Facility	Maricopa County, Ariz.	570 MW	Gas		
	McMahon Cogeneration Plant	Taylor, British Columbia	117 MW	Gas		

Generation Auction & Sale Auction (cont'd)

Seller	Plants	Location	MW	Plant Type	Advisor	Status
El Paso Europe	EMA Power	Hungary	70	Coal		
El Paso North America	Berkshire	Mass.	261 (56.41%)	Gas		Final Bids Due.
(Merchant assets)	CDECCA	Conn.	62	Gas		Negotiations Are Taking Place With
	EnCana	Cavalier	Alberta	106	Gas	HSBC Launched Sale In April.
	Balzac	Alberta	106	Gas	HSBC	
	Kingston	Ontario	110 (25%)	Gas	HSBC	
Energy Investors Fund	Multitrade	Va.	79.5 (60%)	Biomass	None	Stake Sold To GE
	Crockett	Calif.	240 (24%)	Gas		
Entergy Asset Management	Robert Ritchie	Ark.	544	Gas/oil	None	Ongoing.
	Warren Power	Miss.	314	Gas		
	RS Cogen	La.	425 (49%)	CHP		
	Harrison County	Texas	550 (70%)	Gas		
Exelon/PSEG	Eddystone Generating Station	Delaware County, Pa.	1,510 MW	Coal and Gas		Interviewing Banks To Advise On Sales.
	Linden Generating Station	Linden, N.J.	775 MW	Gas		
Gama Construction Ireland Limited	Tynagh	Republic of Ireland	400 MW	Gas	Fieldstone Private Capital Group	Ongoing
KBC-led creditor group	Milford	Conn	542	Gas	Lazard	Ongoing.
Mirant	Shady Hills	Fla.	474	Gas	BofA	Ongoing.
	West Georgia	Ga.	640	Gas		
	Bosque County	Texas	538	Gas		
	Wichita Falls	Texas	77	Gas		
Morrow Power	Boardman	Ore.	28	Gas	Marathon Capital	Evaluating Bids.
Nations Energy	Bayport	Texas	80	N/A		Considering Liquidation.
	Mungo Junction	Ohio	32			
	Southbridge	Mass.	7			
National Energy Gas &	Salem Harbor	Mass.	745	Coal/Oil	Lazard	Dominion Has It Under Contract.
Transmission	Brayton Point	Mass.	1,599	Coal		
(USGen New England)	Manchester St.	R.I.	495	Gas		
	Connecticut River	N.H.	479	Hydro		
	Deerfield River	Mass.	89	Hydro		
Oman (Ministry of Housing,	Rusail	Oman	730	Gas	CSFB	-
Electricity & Water)	Ghubratt	Oman	507	CHP		
	Wad AlJazzi	Oman	350	Gas		
Reliant Energy	Carr Street	N.Y.	95	Oil	Goldman	Madison Dearborn And US Power Gen. Have Won A Bid To Acquire The Assets.
	Astoria	N.Y.	1,276	Gas		
	Gowanus	N.Y.	549	Gas		
	Narrows	N.Y.	281	Gas		
InterGen	Redbud	Okla	1,220		Citigroup	Harbert Venture Acquired The Assets.
	Cottonwood	Texas	1,235			
	Magnolia	Miss.	900			
SG-led bank group	Athens	N.Y.	1,080	Gas	Blackstone	Assessing Bids.
(NEG developed plants)	Covert	Mich.	1,170	Gas		
	Harquahala	Ariz.	1,092	Gas		
	Millennium	Mass.	360	Gas		
STEAG	Iskenderun	Turkey	1,320	Gas	Morgan Stanley	Ongoing.
Teco Energy	Dell Power Station	Ark.	540	Gas		Reviewing Options.
	McAdams Power Station	La.	599	Gas		
Tractebel North America	Chehalis	Wash.	520	Gas	N/A	Looking To Sell Or Swap.
WPS Resources	Sunbury Generating Station	Shamokin Dam, Pa.	450 MW	Coal	Lazard	Buyers Are Stalling Over Fuel Contracts.

Weekly Recap

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

The Americas

- **San Jose, Calif.,** independent power producer **Calpine** filed for Chapter 11 bankruptcy protection in New York ending months of speculation about the fate of America's largest IPP.

- **BG Group** has started the Atlantic LNG's Train 4 liquefaction project at the Port Fortin facility in Trinidad & Tobago. Train 4 has a liquefied natural gas output capacity 5.2 million metric tons per year, making it one of the world's largest liquefaction facilities. The completion of the $1.2 billion project brings the facility's 4 train output capacity to over 15 mtpa and enhances Trinidad & Tobago's status as the major exporter of LNG to the US (*AFX*, 12/16).

- The **U.S. Export-Import Bank** approved on Thursday a loan guarantee of up to $403.5 million to support U.S. equipment services that will be exported to help build a natural gas liquefaction plant and related facilities in OPEC-member Qatar. The $5 billionQatargas 3 project involves producing natural gas offshore from Qatar's North Field and transporting the gas by sub-sea pipelinen onshore to Ras Laffan Industrial City in Qatar, where it will be processed into 7.8 million metric tons of LNG a year for export to the U.S. (*Reuters*, 12/16).

- Oklahoma-based **Quoddy Bay** filed papers with the **Federal Energy Regulatory Commission** stating its intent to develop a liquefied natural gas terminal on Passamaquoddy tribal land in eastern Maine. Quoddy Bay plans to build a $500 million LNG ocean terminal at Split Rock on the southern tip of the Passamaquoddy's Pleasant Point reservation. A transfer line would carry the gas about a mile to a storage facility planned for the town of Perry (*Associated Press*, 12/17).

- The Delaware Supreme Court has ruled **Calpine** must refund $312 million to a bondholders' trustee by Jan. 22. The ruling does offer Calpine some breathing room by denying a bondholder request that the company refund the money by Jan. 3 (*The San Jose Mercury News*, 12/17).

- **NRG Energy** is considering spending $1 billion for a new type of coal electrical generating plant. The technology involves processing coal to create a synthetic gas which is cleaned of pollutants before being ignited to power a turbine that produces electricity. **Scott J. Davido**, Northeast region president of NRG, would not say which of NRG's four Connecticut plants is being considered for the project but the company is also considering sites in other Northeastern states (*Associated Press*, 12/19).

- The parent of **Florida Power and Light** agreed to acquire the **Constellation Energy Group** for about $11 billion. The deal marks the first interstate merger among two power companies since Congress passed a bill this summer repealing a Depression-ear law that limited such deals (*The New York Times*, 12/19).

- **Freeport LNG Development** has closed a $383 million private placement note issuance with a group of nine institutional investors. The funds from the notes will be used together with previously arranged financing provided by **ConocoPhillips** to fund the construction of Phase I of FLNG's liquefied natural gas regasification terminal located near Freeport, Texas (*Houston Chronicle*, 12/19).

- The nation's natural gas import capacity remains idle. The United States has four onshore terminals for receiving and processing imported gas and they are importing only about half the volume they can handle because U.S. buyers are being aggressively outbid by Europeans and Asians for the limited number of cargoes available. The supply crunch means imports won't cool the U.S. market and natural gas prices could stay high for years to come (*The Wall Street Journal*, 12/19).

- **Northwestern Corp.**'s biggest investor, **Harbert Distressed Investment Master Fund**, disclosed in a **Securities and Exchange Commission** filing that it and others were offered an above-market price for their stock in exchange for liquidating their interest in **NorthWestern**, and energy firm with utilities in Montana and South Dakota. **Black Hills Corp.** offered $1.18 billion to $1.25 billion for NorthWestern in November, which followed a $1.18 billion offering by **Montana Public Power Inc.** in July. Both groups said their offers were never taken seriously by NorthWestern and they have gone to investors for support (*The Wall Street Journal*, 12/19).

- **BP** and **Exxon Mobil** were charged by an Alaskan state authority for conspiring to withhold natural gas from U.S. markets and reinforce their market power over North Slope supplies. In an antitrust suit filed late yesterday in federal court in Fairbanks, the Alaska Gasline Port Authority alleged that a series of illegal agreements and acquisitions by the companies has choked the flow of the state's vast gas reserves.

It seeks to stop the companies' alleged collusion through a court injunction and unspecified damages (*The Wall Street Journal*, 12/20).

• **Southern Union** has agreed to buy **Sid Richardson Energy Services Co.**, along with a related energy marketing business, for $1.6 billion in cash. The deal would expand Southern Union's pipeline network to more than 22,000 miles, extending from the Gulf of Mexico to the Southwest, Midwest and Canada. Sid Richardson has 4,600 miles of natural gas and natural gas liquids pipelines in the Permian Basin and six active natural-gas treating plants (*The Wall Street Journal*, 12/16).

• **Potomac Electric Power Co.** said its **Pepco Holdings Inc.** unit agreed to sell an allowed claim in **Mirant Corp.**'s bankruptcy case for $105 million plus accrued interest to **Deutsche Securities Inc.** for a cash payment of $112.4 million. The claim arose from a settlement reached between Pepco and Mirant to avoid the rejection by Mirant in the bankruptcy proceedings of so-called transition power agreements between the two companies (*The Wall Street Journal*, 12/19).

• **Encana Corp.** said **Brian Ferguson**, currently the company's executive vice president, corporate development, has been appointed executive vice president and chief financial officer, effective March 1. He will succeed **John Watson** who plans to step down on Feb. 28. but will stay on with the company as adviser to the new chief financial officer until the end of 2006 (*The Wall Street Journal*, 12/20).

• **Atlanta Gas Light** is dramatically slowing the pace of a program to replace hundreds of miles of old, corroding and potentially dangerous gas pipelines. The slowdown began in late summer, when the company put some pipeline contractors on standby despite protests from state Public Service Commission safety inspectors (*The Atlanta Journal-Constitution*, 12/20).

Asia

• **Reliance Energy Generation**, an **ADAE Group** company, is planning to invite bids for its 5600 MW combined cycle power plant which is proposed to be developed at Dhirubhai Ambani Energy City, Dadri. According to Reliance Energy, the project will be the world's largest combined cycle power project (*Business Standard*, 12/20).

Dominion Shops Gas Distribution Pair

Dominion Resources is auctioning off two of its natural gas distribution properties and has hired **Goldman Sachs** to handle the sale, according to a banker who has seen teasers for the facilities, which reportedly went out last month. Calls to **Tim Kingston** and **Pete Labbat**, managing directors at Goldman Sachs in New York, and to **Thomas Chewning**, cfo at Dominion in Richmond, Va., weren't returned.

The properties, Dominion Peoples in Pittsburgh, Pennsylvania and Dominion Hope in Clarksburg, West Va., were acquired along with another gas distribution facility in Ohio in its merger with **Consolidated Natural Gas Company**.

FINANCIALS EMERGE

(continued from page 1)

Energy Holdings in Houston, and **MatlinPatterson**, according to several industry officials. MatlinPatterson is believed to be bidding via its **KGen Partners**, which acquired a smaller package of DENA plants in the Southeastern U.S. that generates 5,325 MW. Prospective buyers either declined to comment or did not return calls.

AIG Highstar is being backed by **Deutsche Bank**, which has agreed to arrange a loan should the company win the bid. Timing for the announcement of a winning bidder could not be determined. *—P.R.*

NRG'S CRANE

(continued from page 1)

over-lever, especially given the commodity we sell. It's just too volatile," Crane says, referring to debt-laden Calpine.

NRG wiped out some $6 billion worth of debt, leaving it with $510 million of corporate debt outstanding, and had about $4.4 billion of project-specific indebtedness when it exited Chapter 11.

It is unclear what form San Jose, Calif.-based Calpine will take on when it emerges from what is expected to be an arduous and nasty restructuring process. But entities such as NRG and Mirant, which is set to re-surface from Chapter 11 in January, are arguably stronger financially than they were pre-bankruptcy, observers say.

Crane points out that NRG thinks a good part of its survival and success will hinge on expansions and pushing fuel diversity within its array of plants, which NRG believes is helped by targeting **Texas Genco** in a $5.8 billion proposed acquisition (PFR, 9/30) that the ceo hopes to close in the first quarter. Genco provides the company with a presence in ERCOT—a market that it has coveted. "We've said that its our intention to expand and we're big on Texas."

Spokesman **Dave Thompson** at Mirant in Atlanta, which has been linked to NRG in merger talks before Mirant's planned emergence, says the IPP will be on firmer financial footing than many of its competitors. Its consolidated business will have approximately $4.3 billion of debt as compared to approximately $8.6 billion at the start of Chapter 11. It will also have in place some $2.35 billion in operating funds, including $850 million in bonds and $1.5 billion in loans (PFR, 11/18).

One New York debt analyst speculates Mirant, with its cash in hand, might aim to go on an acquisition binge in order to carve out its place in the competitive power market. Thompson was unable to make officials available for comment or provide details about Mirant's outlook.

Headquartered in Houston, IPP **Dynegy** has been shedding non-core assets such as its midstream operation sold to **Targa Resources** for $2.35 billion (PFR, 8/1) and at one time was in talks to tie up with NRG (PFR, 12/26), but matters of share price could not be resolved, followers of the talks say.

Debt trimming and general housecleaning has helped Dynegy, which itself was on the verge of collapse when **Enron** faltered. As of Sept. 30, the company's generation business drove it to raise its 2005 earnings guidance estimates to $435 million to $455 million in the third quarter compared to its previous estimate of net income of $400 million to $410 million. But the fate of the IPP, which has been aiming to find a partner under CEO **Bruce Williamson** is still uncertain. A Dynegy spokesman declined to comment on the company's future.

At NRG, adding a diverse mix of assets is important to its long-term outlook. NRG continues to aim for assets that will match up well with its baseload facilities. Crane intimated that it might be interesting in Calpine combined-cycle plants, but noted that it is unclear if any of Calpine's assets will head into auction, as a result of its bankruptcy.

NRG also will be focusing on brownfield developments to grow. "We need to make significant steps toward brownfield developments such as we are doing with [generation plant] Big Cajun." The planned capacity of the new Big Cajun II unit is 675 MW, and the plant will burn low sulfur coal from Wyoming.

In the end, it is anyone's guess which companies will prosper in the IPP sector. But market players are sensing that the face of the market will see considerable changes over the course of the next several years. To be sure, five years ago, IPPs were seeing boom times. NRG's revenues rose from $67 million to $522 million, year over year, between 1999-2000, with earnings pushed up from $2 million to $43 million, over the same period, one energy analyst notes.

Calpine too was a high-flier charging into the merchant generation market with just $27 million in cash flow in 1995 and booming to $264 million four years later. Now it has more than $18 billion in debt.

—Mark DeCambre

TENASKA TO

(continued from page 1)

facility.

Tenaska Frontier has an offtake contract with a division of **Exelon** for the entire output until 2020. It began operating in 2000 and is considered one of the more efficient facilities in that region. The remaining 38% interest in the plant is owned by **Diamond Energy**, a unit of Japan's **Mistubishi** Corp.

Preliminary marketing material has been mailed to prospective bidders, with full marketing documents to follow.

—Peter Roth

Calendar

Euromoney is holding its USA Power and Utility Finance Conference in Las Vegas on February 16-17 at the MGM Grand Hotel. For additional information please call toll free at 1-800-437-9997 or 1-212-224-3570, for New York, or 44-0-20-7779-8999 for London.

Quote Of The Week

"What really provided the opportunity for the emergence of strategic investors was corporates essentially leaving the markets."—**David Foley**, *senior managing director at* ***Blackstone***, *on the emergence of private equity and hedge fund shops in the energy sector (see story, page 6).*

One Year Ago In Power Finance & Risk

A **Cargill Financial Markets** hedge fund group had stopped **US Power Generating Company**'s planned $220 million bid to acquire the 780 MW Lake Road facility in Killingly, Conn., by swooping in at the 11th hour and buying 25%, or about $150-200 million, of project debt from existing creditors, giving them enough voting power to nix the proposed sale. [The owners are now weighing a refinancing with new debt and a conversion of a portion of the loans linked to facility into equity. One hedge fund manager says the idea would be to rework about $40 million in existing debt and convert the remainder into equity (PFR, 10/17).]