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Happy New Year!
Power Finance & Risk will not be publishing next Monday. Your next issue will appear Jan. 10. We wish all our readers a Happy New Year.

L.A. Shop Bags TECO Paper
Imperial Capital has purchased $60 million worth of project debt from **Teco Energy.** *See story, page 2*

Exelon Mega-Deal May Open M&A Floodgates
In the wake of the mega-merger between Exelon and PSEG, bankers are hoping the $12 billion planned deal will provide a M&A boost.
See story, page 3

CARGILL GROUPING THROWS MONKEY WRENCH IN LAKE ROAD ACQUISITION

A hedge fund group led by a **Cargill Financial Markets** subsidiary has put the kibosh on **US Power Generating Company**'s planned $220 million bid to acquire the 780 MW Lake Road facility in Killingly, Conn. Swooping in at the 11th hour, Cargill and its partners bought up some 25% or about $150-200 million of project debt from existing creditors, giving them enough voting power to nix the proposed sale, which was due for confirmation at a creditor meeting held Monday. Cargill's intentions could not be ascertained because calls to company

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Behind The Scenes

EXELON, PSEG COMBO TRIGGERED BY NUKE PERFORMANCE

Flagging performance and shutdowns at their jointly owned 2,212 MW Salem Generating Station that led to **Exelon Corp**. and **Public Service Enterprise Group**'s proposed $12 billion merger, says one company official.

The Hancocks Bridge, N.J., plant, which is 57% owned by PSEG and 43% owned by Exelon, was a cause of frustration for top brass at Exelon, which decided a corporate-level

(continued on page 12)

SOUTHERN UNION CHARTS $450M PERMANENT PIPELINE FINANCING

Southern Union Co. will seek about $450 million in permanent financing to partially fund its $2.45 billion joint venture purchase of **Cross Country Energy**, the **Enron** pipeline. The Wilkes-Barre, Pa., company, which teamed up with **GE Commercial Finance Energy Financial Services** to purchase the 7,400 mile pipeline from Enron, is mulling a number of options, including an equity offering, convertible securities and a private placement, says **Rick Marshall**, treasurer.

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U.S. GENERATION DEALS FLOW, BUT NOT ENOUGH TO PLEASE ALL

Choice U.S. generating facilities were gobbled up by opportunistic investors this year and with the plethora of bidders chasing a handful of assets a few noses were left out of joint. "I've been frustrated this year. There just hasn't been that much for sale," **Scott Harlan**, principal at **Rockland Capital Energy Investments**, grouses, referring to the smaller ticket end of the market.

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

At Press Time
Bank of Scotland's NY Project Pro Departs

Bank of Scotland's **Gary McDonald**, director of project finance, has left the New York office to work in Edinburgh. A lack of deal flow in the power market and an expiring expatriate contract contributed to his move, says a bank official. His last day was Dec. 17.

Stuart Hastie and **Eric Muth**, both v.p.s in New York, will now report to **Bill Heatherington**, head of portfolio management for project finance in Edinburgh. Heatherington, McDonald and Muth could not be reached by press time and Hastie declined to comment.

In the spring the New York office saw the departure of project finance bankers **Paul Greig** and **Steven Gray** (PFR, 4/19). The project unit concentrates largely on monitoring its existing portfolio and arranging a handful of renewable deals.

90210
L.A. Boutique Pockets Teco Paper

Imperial Capital, a Beverly Hills-based investment bank, has bought $60 million of **Teco Energy**'s Union and Gila project debt. About three weeks ago, the $60 million block was being offered at around 65 by **CoBank** (PFR, 12/13). Imperial and Greenwood Village, Colo.-based CoBank officials declined comment.

"It was basically just year-end portfolio management decisions combined with a market that they thought was fair," one observer speculates. The market range at the time was considered to be 66-68. So far, Imperial has acquired approximately $200 million of the Teco debt in the past few weeks, observers say.

The so-called TECO-Panda paper is a part of larger bank financing put in place during the summer of 2001 to support the construction and operation of two troubled merchant facilities, the 2.2 GW Union in El Dorado, Ark., and the 2.3 GW Gila River plant in Gila Bend, Ariz. The effort was a joint venture between **TECO Wholesale Generation**, known at the time as **TECO Power Services Corp.**, and **Panda Energy International**. Teco bought out Panda's interest in 2003.

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? As we enter our 24th year of providing breaking news to the fixed income community, 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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AES To Pass Wolf Hollow Plant To Lenders

AES Corp. will transfer ownership of the Wolf Hollow gas-fired power plant in Texas to a **KBC Bank**-headed creditor group by year-end. An official familiar with the deal says AES has been unsuccessful in shopping the 730 MW combined-cycle plant. Earlier this year the company attempted to unload it along with the 720 MW Granite Ridge facility in New Hampshire (PFR, 2/16). **Scott Cunningham**, v.p. of investor relations at AES in Arlington, Texas, declined to comment on the foreclosure.

KBC arranged the construction financing for Wolf Hollow, which delivers half of its output to **Exelon Generating** under a 20-year offtake contract (PFR, 10/15/01). The remainder is sold into the Texas spot market. **Wim Verbraeken**, head of project finance at KBC in New York, was on vacation and could not be reached for comment by press time. It is unclear what lenders plans are for the facility.

About a month ago, Granite Ridge plant was returned to **ABN AMRO**, which arranged the $300 million project loan that financed the merchant facility, says a banker.

Bankers Hope Exelon Deal Will Open Up M&A

The planned **Exelon** and **Public Service Enterprise Group** mega-merger has bankers hoping the $12 billion deal will provide a boost to the sector's sluggish M&A environment. Many acquisition plans were put on the backburner amid fallout from the **Enron** scandal, but market watchers are predicting the deal will encourage activity. **Ed Tirello**, managing director at **Berenson & Co**. in New York, says, "This [deal] will create the largest utility in the country, so it's not a small potatoes deal." The merger may compel other players weighing acquisitions to execute in order to stay competitive, Tirello says.

American Electric Power is among those on the lookout for acquisition targets, say market watchers. One official familiar with AEP says it has shown renewed interest in **NiSource**, which it was looking to acquire in 2002 following its divestiture of **Seeboard Energy**, its electric and gas distribution subsidiary in southeast England (PFR, 5/20). But one analyst said it is unlikely that NiSource will be willing to sell. Another possible acquisition target for AEP is **Dayton Power & Light**, says the analyst. Spokespeople at AEP in Columbus, Ohio, and Nisource in Merrillville, Ind., declined to comment.

Another energy company with a focus on M&A is Cincinnati-based **Cinergy**, which is looking to merge with a contiguous Midwest utility. **James Turner**, executive v.p. and ceo of **Cinergy**'s regulated utility assets, told delegates at **UBS**' annual *Natural Gas & Electric Utilities Conference* in February that, among other targets, Cinergy is weighing mergers with **LG&E Energy**'s **Louisville Gas and Electric**, **DPL Energy's Dayton Power & Light** and **AES** subsidiary **AES IPALCO**, based in Indianapolis (PFR, 2/15). Turner stressed that executing a merger is the Cincinnati-based company's top priority.

WestLB Taps Gable To Fill New NY Origination Post

Dempsey Gable has joined **WestLB** as the latest senior hire in the firm's New York power group. Gable, who joined last Monday, says he came on board to take up the newly created position of executive director, focusing on origination deals for the bank's power and utility business. He reports to **Jim Brown**, managing director, who was also recently recruited from **Société Générale** to lead its power infrastructure group (PFR, 11/8).

Gable previously worked as senior v.p. and head of energy, utilities and project finance at **Commerzbank** in New York, but left the German lender after the position was eliminated earlier this year (PFR, 5/24).

Rare Public Finance Bond To Get FGIC Wrap

A rare public finance issue is expected to hit the U.K. bond market in the second or third week of January and will be sold as a wrapped transaction to assuage investors. **Premier Transmission Holdings Limited,** a newly formed company limited by guarantee (CLG), is expected to issue about GBP120 million of debt to fund the acquisition of **Premier Transmission Limited,** the owner-operator of a 135 kilometer-long natural gas pipeline between Scotland and Northern Ireland.

Financial Guaranty Insurance Company U.K. is planning to wrap the deal, which is expected to have a maturity of over 20 years and receive a single-A rating from **Standard and Poor's** and **Moody's Investors Service**, according to **Tim Travers**, FGIC U.K.'s ceo. **Royal Bank of Canada** and **Barclays Capital** have been pegged as underwriters on the upcoming Premier Transmission deal.

Bonds from CLGs are uncommon, with just two having come to market in recent years, including a deal from **Moyle Holdings** and Welsh Water Utility **Glas Cymru.**

Premier Transmission Holdings is unusual in that it is 100% debt financed. It has no shareholders and no return on equity, being wholly owned by the government and gas consumers of Northern Ireland. The not-for-profit customer trust structure is somewhat akin to municipal deals in the U.S., according to FGIC's Travers. The aim of the structure is to reduce the business's cost of capital and reduce energy prices for the end-consumer.

Corporate Strategies

Shady Deal

AES Extends Project Debt On Okla. Plant

AES Shady Point, a subsidiary of **AES Corp.** which owns a Poteau, Okla., plant, has pushed out the maturity of existing project-level debt and nudged up its capacity to $143.5 million. **Joel Abramson**, director of project finance at **AES Corp**. in Arlington, Va., says the unit revamped the eight-year loan on the 312 MW coal-fired plant ahead of its 2008 maturity date because it believed, given favorable market conditions, it could lock in attractive terms now and did not want to hesitate.

The new facility is set to expire in 10 years, Abramson says, adding the credit line was also boosted by seven million to more effectively manage the plant's working capital needs. **Union Bank of California** was the sole lead arranger on the fully underwritten financing, which was still being syndicated as *PFR* was going to press. The deal is expected to close by early February. He declined to disclose the pricing of either facility.

AES hires relationship banks to lead its debt financings, Abramson says, adding that UBOC has been a lender to the company for many years. Moreover, the bank led the original loan. A UBOC official declined comment.

AGL Places Notes To Wipe Short-Term Borrowing

AGL Resources has issued $200 million in 10-year senior notes in an effort to pay down outstanding short-term debt. The natural-gas distributor issued the bonds now to lock in low interest rates, particularly in light of the **Federal Reserve Board**'s most recent decision to raise the federal funds rate to 2.25%, says **Brett Stovern**, assistant treasurer in Atlanta. "Interest rates have rallied quite a bit" in the past six months, he adds.

Proceeds have been earmarked to wipe out a similar amount of commercial paper, issued earlier this year and set to mature late next year. That paper financed AGL's acquisition of **NUI Corp.** The new notes carry a 4.95% coupon and were priced at 99.87. They were rated Baa1/ BBB+ by **Moody's Investors Service** and **Standard & Poor's**, respectively and A- by **Fitch Ratings**.

Bank of America and **Morgan Stanley** were elected book-runners because of their participation in a $900 million loan facility for AGL in 2000. "We try to rotate among the banks involved in the facility based on their ability to execute," Stovern says.

Mergers & Acquisitions (DECEMBER 15 - DECEMBER 21)

Date Announced	Date Effective	Target Name	Target Advisors	Target Industry Sector	Target Nation	Acquiror Name	Acquiror Advisors	Acquiror Industry Sector	Acquiror Nation	Rank Value ($mil)
12/15/04	12/15/04	SET SpA		Electric, Gas, and Water Distribution	Italy	HERA		Electric, Gas, and Water Distribution	Italy	69.149
12/16/04	12/16/04	Bridgeline Holdings LP		Electric, Gas, and Water Distribution	United States	Targa Resources Inc		Oil and Gas; Petroleum Refining	United States	100
12/17/04	12/17/04	EDP		Electric, Gas, and Water Distribution	Portugal	Cajastur		Commercial Banks, Bank Holding Companies	Spain	601.115
12/17/04		JV-InterGen, Enka Insaat	ABN-AMRO Holding NV	Electric, Gas, and Water Distribution	Turkey	Enka Insaat ve Sanayi AS		Construction Firms	Turkey	50.8
12/17/04		Fafen Energia Power Station		Electric, Gas, and Water Distribution	Brazil	Petrobas		Oil and Gas; Petroleum Refining	Brazil	34.501
12/20/04	12/20/04	BKW FMB Energie AG		Electric, Gas, and Water Distribution	Switzerland	Undisclosed Acquiror		Investment & Commodity Firms,Dealers,Exchanges	Unknown	
12/20/04		Public Svc Enterprise Grp Inc	Morgan Stanley	Electric, Gas, and Water Distribution	United States	Exelon Corp	Lehman Brothers/ JP Morgan	Electric, Gas, and Water Distribution	United States	27,356.59
12/20/04		United Utilities-Green		Electric, Gas, and Water Distribution	United Kingdom	Novera Macquarie Renewable		Electric, Gas, and Water Distribution	United Kingdom	122.667
12/21/04		Olivo		Electric, Gas, and Water Distribution	Spain	Global Wind Partners		Investment & Commodity Firms,Dealers,Exchanges	Australia	267.308

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

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U.S. GENERATION

(continued from page 1)

But, at the major end of the market, there was flow, particularly contracted assets, notes private energy advisor **Thomas Fogarty** in New York. Such was the case with **Sempra Energy** and **Riverstone Holdings**' picking up a portfolio of Texas plants, which was centered around acquiring the 632 MW coal-fired Coletto Creek station (PFR, 4/15). The plant, which was partially covered by a PPA, is considered widely the gem of the portfolio.

Other significant deals include, the more than $3 billion acquisition of **Texas Genco Holdings** from **CenterPoint Energy**'s by a private equity consortium, including **Kohlberg Kravis Roberts & Co.**, **Texas Pacific Group**, **The Blackstone Group** and **Hellman & Friedman**.

Rockland, a Houston-based investment company, which has been focused on acquiring qualified power facilities of at least $100 million, has seen deals gobbled up by large well-heeled private equity firms, hedge funds and heavy-hitting utilities. "Now you really have to cold call for deals. Now, it's less about just sitting back and waiting for the investment bankers to call," says Harland.

Outside the blockbuster deals, **ArcLight Capital Partners** stood out, wrapping around half of a dozen deals this year. "'04 was quietly a big year [for us]," comments **Robb Turner**, senior v.p. at ArcLight in New York. ArcLight via subsidiary **Teton Power Funding**, completed the acquisition of 12-power plants from **Aquila** for more than $300 million, and scooped up the Lincoln generating facility and a tolling agreement from Greensburg, Pa.-based **Allegheny Energy Supply Company** for about $175 million.

Also a big buyer was **Dominion Resources**, which stepped up to pay some $650 million for **USGen New England** coal and oil-fired assets from **Wisconsin Public Service**.

On the merchant side, power plants have lingered in auction this year with high gas prices and oversupply causing potential bidders to shy away from merchant gas. "These plants were built when gas was $2," notes **Ed Tirello**, a managing director in **Berenson & Company**'s power group. Still a handful of investors have braved the merchant markets in search of opportunities including **Jay Worenklein**, ceo at New York-based **US Power Generating Company**, which failed to acquire the 780 MW Lake Road facility from creditors **Citigroup** and **Société Générale** (see story page 1).

Jay Worenklein

Commodity Trading

Financial Players Rev Up Energy Desks

Investment banks, hedge funds and private equity firms have increasingly made their mark in energy trading this year and official say they expect the trend to continue into 2005. These types of firms are uniquely suited to the market with their deep pockets, which can lure experienced traders and risk management specialists. "There are a lot of entities out there who want to be in the game," says **Jonathan Weitz**, president and founder of executive search firm **Jilson Advisors** in Westchester, N.Y. "[The hedge funds] are the ones moving the markets."

Typical of the hedge fund onslaught, New York-based **Trivium Capital Management** hired **David Becker**, ex-global head of commodity trading at **Citigroup**, to lead its push into energy (PFR, 10/22).

New York-based **Vega Asset Management**, extending its global reach, launched a commodity trading fund and established a London arm (PFR, 9/13), while **Highbridge Capital Management** also mapped out plans to make a foray in the power markets (PFR, 7/18).

Financial firms have been keen on filling the void left by energy concerns which dumped trading in the wake of **Enron**, says **Peter Fusaro**, founder and president of New York-based energy consulting firm **Global Change Associates**. "There's a lot of liquidity in the market with utilities leaving the space," he says.

Fusaro believes the energy sector is underinvested. Global shortages of energy commodities including oil and gas have sparked fairly high volatility, he notes. The disparity between supply and demand will ensure that the sector will not cool down any time soon, he says. "We're using our natural resources at an astounding pace," Fusaro adds.

Attracted by the allure of leveraging off that volatility, a few displaced industry veterans also have founded their own hedge funds. **Lew Williams**, formerly v.p. of energy trading at **American Electric Power**, announced in September that he was planning to launch **Alpha Energy Partners**—a Columbus, Ohio-based hedge fund, which will trade power, natural gas and oil (PFR, 9/24). More recently, ex-**Calpine Corp.** head trader **Thomas McAndrew** and a pair of Calpine alums are planning to launch a Houston-based hedge fund that will kick off sometime in 2005 (PFR, 12/13).

Investment banks also have been aggressive over the past year in bulking up their energy trading operations. French banking

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heavyweight **Calyon** is looking to build a trans-Atlantic gas, power and oil trading operation and has hired **Etienne Amic**, former head of power trading at **TotalFinaElf**, to build the business (PFR, 10/8). **Martin Stanley**, former president of **TXU Europe Energy Trading**, joined Sydney-based **Macquarie Bank** in London to spearhead a push into the European energy and generation sectors (6/27).

In the U.S., **First New York Securities** began building a power, energy and metals trading operation and tapped **Jeffrey Foose**, former head of energy trading at **PSEG**, to lead the effort (PFR, 6/20). Following its failed trading venture with **TXU Corp.**, **Credit Suisse First Boston** announced it would launch an energy trading desk on its own (PFR, 12/13).

On the downside, in addition to Kyle, SocGen lost **Jim Brown**, who was tapped by WestLB to lead its power infrastructure group in New York, which is part of an effort to beef up its overall operations in North and Latin America (PFR, 11/ 7).

National Australia Bank dismantled its project finance and energy team at the end of November, which included the departure of the group's head, **Michael Lorusso** along with a staff of four (PFR, 12/20). The bank is unwinding its portfolio, evaluating which assets it might sell.

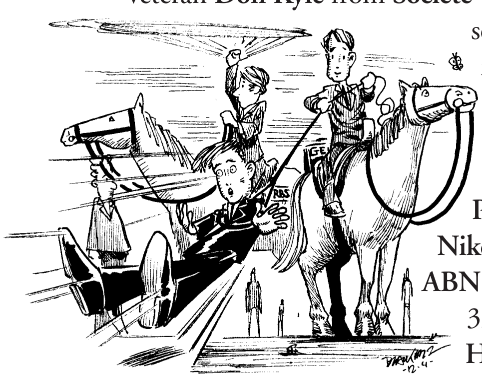
Also joining the list of senior level departures this year was **Tony Muoser**, who left his post as managing director at **Citigroup**'s infrastructure and energy group in New York (PFR, 11/7).

People

Slim Pickings Put Growing Firms In Catbird Seat

The few financial firms in expansion mode had the pick of banker talent this year as deal flows were thin, or non-existent. Among the main players to stand out in the North American mart were **GE Energy Financial Services** and **Royal Bank of Scotland**.

"The market is very hungry for new projects and we want to be a part of the deals coming," says **Tony Shizari**, managing director and head of GE Energy Financial Services' debt products group. As part of its push to grow its debt business, GE tapped veteran **Don Kyle** from **Société Générale** to take up a senior capital market role in Stamford, (PFR, 11/1). Among the other additions were **Fran Ballard** from **BNP Paribas**, (PFR, 7/30), **Nikolas Novograd**, a former **ABN AMRO** staffer (PFR, 3/21), and **Deborah Hemsey**, previously with **Credit Suisse First** Boston.



Shizari says GE is looking to take a lead role in arranging power financings, noting that acting as documentation agent on the **Texas Genco Holdings** deal was a part of this effort.

RBS started out the year with a clear statement of intent: hiring a new New York power project finance head in the form of **Alec Montgomery**, head of the project finance team at **Crédit Agricole Indosuez** (PFR, 1/20). Another senior level addition was **Rich Randall**, who joined as senior v.p. covering origination from Calyon (PFR, 6/14).

B-B-Bully?

High-Yield Loans Push Aside Non-Recourse Financing

Term B loan debt took center stage this year, essentially cornering the market in financing generation asset acquisitions and also being tapped for the first time to fund construction risk. "The term loan B market has been the main source of funds for acquisitions and refinancing in the power market over the last year," says **Pat Kunkel**, director of project finance at **Erste Bank** in New York.

Among the litany of deals funded in the high-octane market were the $3.65 billion **Texas Genco Holdings** acquisition (PFR, 11/29); **ArcLight Capital Partners** and **Caithness Energy**'s $558 million acquisition of 12 power plants and a natural-gas pipeline from **National Energy & Gas Transmission** (PFR, 8/2); ArcLight's 12-plant merchant portfolio from **Aquila** (PFR, 1/20); the Coleto Creek transaction (PFR, 7/19); and, the **MatlinPatterson** acquisition of **Duke Energy** plants (PFR, 7/26).

With B loan players sitting on large cash piles and traditional project financiers sitting on their hands, the market is the first stop off for most borrowers. "The bottom line is, if I own power plants, I'm going to go to whoever can provide me with the cheapest source of funds [to refinance existing debt]. And right now that's the B loan market," Kunkel says. At the beginning of 2004, there were a number of deals done at LIBOR plus 4% or higher, Kunkel notes, adding margins dropped steadily over the course of the year. Now it's more common to see deals priced below a spread of 3%, he notes.

Perhaps the high water mark for the market was **Astoria Energy**'s $700 million B loan that had funded the construction of a 500 MW gas-fired plant in Queens, New

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York. The deal was the first single-asset B loan to take on construction risk (PFR, 3/8). But the lenders did so at a price: the $500 million first-lien was priced at 525 basis points over LIBOR, while the $200 million tranche carried a suped up 7/8% spread. After landing the deal, the sponsor later in the year tapped **Caylon** to see what its refinancing options were (PFR, 11/1). Kunkel, who bought into the deal, says investors were drawn to the high yield.

PROJECT	LOCATION	DEVELOPER	Startup
Freeport LNG	Quintana, Texas	Freeport LNG Development	2007
Sabine Pass LNG	Cameron Parish, La.	Cheniere Energy	2009
Cotsa Azul	Baja, Calif.	Sempra Energy LNG	2008
Cameron	Lake Charles, La.	Sempra Energy LNG	2008
Port Arthur	Port Arthur, Texas	Sempra Energy LNG	2009
Cacouna Energy	Gros Cacouna, Quebec	Petro-Canada/TransCanada	2009
Canaport LNG	New Brunswick, Canada	Irving Oil/Repsol	2007
KeySpan Providence	Providence, R.I	KeySpan LNG	2005-06

Source:PFR

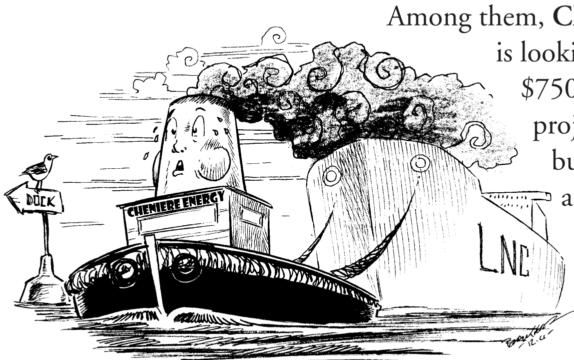
Project Finance

LNG Projects Create A Buzz, But Only A Handful Will Make It

The shrinking U.S. domestic natural gas supply coupled with growing demand have prompted a wave of proposed liquefied natural gas projects. About 40 green-field projects have been proposed for development, but only a handful will be built by 2010, predicts **Ralph Pellecchia**, senior director at **Fitch Ratings**. "I think 2005 will be a big year. We'll start to see with more clarity what's going to happen."

With the huge capital costs, landing project financing will hinge on the sponsor's ability to ink offtake contracts. "It's really just a matter of getting the customers," says **Hugh Urbantke**, cfo at **Freeport LNG Development**, which is currently seeking non-recourse debt via **Royal Bank of Scotland** (PFR, 10/31). Houston-based Freeport LNG expects to wrap up financing for the construction of an LNG terminal in Quintana, Texas, by the end of first quarter next year.

The first sniffs of LNG surfaced toward the end of the year. Among them, **Cheniere Energy** is looking to arrange $750 million in project level debt to build Sabine Pass, a regasification facility in Louisiana (PFR, 10/25). **Sempra Energy** launched and wrapped a $1 billion revolver via **Citigroup** and RBS to help finance LNG projects in Mexico and the U.S. (PFR, 11/20). **Charles McMonagle**, treasurer at Sempra Energy LNG did not return calls and a Cheniere official declined to comment.



Bill Luthern, executive analyst at Boston-based consulting firm **Levitan & Associates**, who has worked over 30 years in the LNG industry, agrees that the chances of all the projects coming to fruition is limited. "I think something in the New England states is probably going to be pretty difficult to get done," he says, noting that local opposition there is particularly strong. "At this point, Canada is looking more promising," he adds, thanks in part to thinner population density. Specifically, **Irving Oil** is developing an LNG facility in New Brunswick, while **Petro-Canada** and **TransCanada** are making progress on a plant in Port of Gros-Cacouna, Quebec, Luthern notes.

That said, the project in New England with the best chance of reaching fruition is that being developed by **KeySpan** in Providence, says Luthern. An LNG storage tank already exists there, but the liquefied gas is currently trucked from Everett, Mass., which houses one of only four operating LNG plants in the U.S. Marine deliveries to Providence, though controversial due to environmental and safety concerns, would allow for greater fuel flow to the receiving terminal thanks to larger shipping capabilities, he notes. A call to **Gerald Luterman**, cfo at KeySpan, was not returned.

Whoosh!

Wind Players Ramp Up Development Deluge

Congress' move to reinstate federal tax breaks for wind generation means the sector will see a torrent of projects. Officials estimate $2-3 billion of wind projects will go forward over the next year before the production tax credit (PTC) expires late next year. Typifying the trend is Des Moines-based **MidAmerican Energy**, which announced two Iowa wind projects with a combined capacity of 310 MW (PFR, 10/1). The Midwest utility plans to spend some $323 million building the projects in the north central and northwestern regions of the state and has tapped the bond market for financing.

Wind Farming Development over the past year has been focused on upstate New York, the Midwest and Western U.S. including California, Wyoming and Colorado, says **William Telander**, ceo of **U.S. Wind Farming** in Chicago. Developers

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have targeted those states because of wind resource and receptiveness to renewable energy, sometimes in the form of renewable energy portfolio standards. Telander picks South Dakota and Hawaii as states that may also gather momentum over the next few years.

But the long term outlook for the sector remains unclear and the PTC situation is at the heart of that. “It’s hard to imagine that the tax credit wouldn’t be extended,” says **William Sprague**, a director **Sanders Morris Harris** in Houston. Still, Sprague says, while his firm is considering investments in wind, it is awaiting indication on how many developments are penciled in for the next couple of years. “There’s enough uncertainty that we’re being cautious for now,” he says.

The PTCs are fundamental to the economics of development. Following the PTC extension, **Atlantic Renewable Energy** revived its 300 MW Flat Rock Wind Power project in upstate New York (PFR, 12/6). “There’s no way a facility this size could have gotten financed in the absence of the [tax credit],” says **Bill Moore**, principal and project manager; the project has a $360 million price tag. New York State’s renewable energy portfolio standard, which requires Empire State utilities to source some 25% of their power needs from renewable generation by 2013, was also a factor in re-igniting the project, Moore says.

King Coal?

Gas Spike Prompt Developers To Dust Off Coal Plans

Banks and developers are hoping to see a number of coal-fired plants hit the project finance market next year thanks in large part to the high natural gas prices. “There’s hardly a utility in the country that isn’t now considering its future is investing in coal,” says **Bob McIlvaine**, president of consultants **McIlvaine Co.** in Northfield, Ill. Indeed, some 80 coal plants are in some stage of development, says **Mary Power**, v.p. of project finance at **DZ Bank** in New York.

But, while there may be a scramble at the moment, few projects have the necessary PPAs and many still have to negotiate the intensive coal plant permitting process.

Still, the current market dynamics may the case for coal compelling: it costs a generator about as much to buy natural gas today as it does for it to sell power, says McIlvaine. “You’re at a loss before you even take into account the cost of operating [a gas-fired] plant,” he notes. The average industrial rate for fueling the operation of a gas-fired power plant is five cents per kwh, while coal is only a couple cents per kwh, he adds. “I don’t believe gas prices will fall below five dollars any time soon,” predicts Power.

About six developers are likely to tap the project financing mart for coal projects in 2005, Power says. She declined to name them, but notes that probably only about four have purchase power agreements.

Wisconsin Energy’s proposed 1,200 MW Elmroad facility in Oak Creek, Wis., is among the projects likely to get built, predicts McIlvaine, noting the utility already has contracts in place for roughly $1 billion in equipment. He also expects the 600 MW coal-fired plant in Council Bluff, Iowa, being developed by **MidAmerican Energy** to come to fruition.

On the technology front, industry players are beginning to take a closer look at integrated gasification combined cycle plants, a clean coal technology that requires more maintenance, but is more environmental friendly. Power predicts that only two are likely to come to the bank market next year, while only one, the Mesaba Energy project, has a power purchase agreement at hand. **American Electric Power** is developing an IGCC plant, while **FirstEnergy**, **Cinergy** and **Southern Co.** are eyeing such projects, Power says. She notes utilities have fallen under shareholder pressure to limit toxic emissions and IGCC is gaining regulator support.

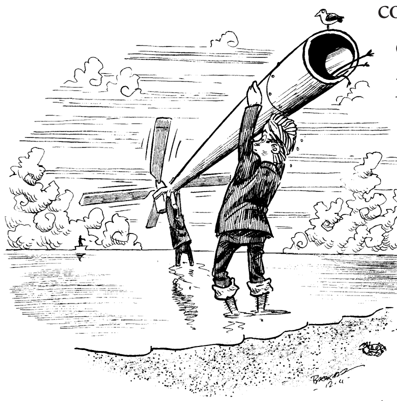
Excelsior Energy is seeking funding to build a 532 MW IGCC plant in northern Minnesota. **Renée Sass**, cfo, says it is likely to seek non-recourse debt to finance the $1.3 billion Mesaba Energy project, noting that it is currently hammering out a ppa with **Xcel**. **Eastman Gasification Services Co.** has also said that it would seek project finance for two projects it is looking to develop in the south (PFR, 11/22).

EUROPEAN 2004 YEAR IN REVIEW

Water World

Europe Wind Builders Set Sites Offshore

European wind developers are scouring offshore sites for new construction as land space evaporates. **Mark Bolinger**, principal research associate at **Lawrence Berkeley National Laboratory** in Berkeley, Calif., says Europe is running out of room to build new wind farms and rather than cough up a premium to acquire land sites, sponsors are moving rapidly to take advantage of the stronger, steadier wind found on sea. "There aren't all that many yet, but tons are in the planning stages."



Nick Gardiner, global head of energy at **Fortis Bank** in London, says his team has dedicated a lot of time on offshore wind projects over the past year. The demand for such facilities is growing also because residents don't want to see wind farms built in their communities, he notes. Gardiner predicts that roughly 200 MW of offshore projects will obtain financing in 2005, though they would likely not come online until a year or two later. Development activity and proposals have been particularly strong in areas off the coast of northern Europe, including the U.K., France, Germany and Scandinavia.

Germany, the most active wind developer in Europe, has begun eyeing offshore sites as a result of the diminishing amount of land, says Bolinger. "We hope that offshore wind farms are viable," says **Thomas Stephen**, assistant v.p. of structured finance at **NordLB** in Hanover, adding there is probably only enough land left to continue building projects the next two or three years.

Countries such as Denmark and the U.K. are pushing forward with their own wind plans, Bolinger says. He notes the U.K. market is gaining momentum thanks to policy papers passed this year pushing wind-generated power. Previously, permitting and siting issues held up projects, he adds. Overall, Europe probably has about 1,000 MW of wind energy, with several thousand more likely to come online over the next couple of years.

That said, there are a handful of impediments to future deals. In Germany, offshore construction likely is going to be stalled in the planning stages because many projects lack the necessary transmission infrastructure to transport power to large cities, says Stephen. Moreover, the feasibility of offshore technology has not yet been proven, he adds. Offshore wind projects also can be as much as 40% more costly than its onshore peer, Gardiner notes.

Maintenance of these facilities also can be burdensome since the sites can be situated as many as some 20 miles offshore. These issues were underscored during problems with Danish wind farm Horns Rev, which resulted in turbine manufacturer **Vestas** bearing the cost of shipping wind turbines back to land for repair. Bolinger notes that Vestas, rather than owner/operator **Elsam Kraft**, footed the bill because it wanted to ensure the success of the two-year old wind farm, which is the largest offshore project in the world.

Horns Rev Windfarm

U.K. Sees Robust M&A Activity

Mergers and acquisitions activity has been vigorous in the U.K. over the past year, with several industry players looking to pool the myriad of stand-alone and distressed plants. The result was a bevy of companies jockeying for deals. **Andrew Moulder**, senior European utilities analyst for **CreditSights** in London, says the surge in activity stemmed largely from high commodity prices compelling players to offset supply costs by acquiring generation assets. "[Companies] want to try to obtain a balance between supply and generation," he comments.

With that strategy in mind **ScottishPower** acquired the 800 MW Damhead Creek merchant plant in Kent, paying some GBP317 million for the asset, which had been put up for sale by its creditors, **Abbey National**, **Bayerische Landesbank**, **HBOS**, **Royal Bank of Scotland** and **WestLB** (PFR, 1/26). Glasgow-based ScottishPower, whose generation portfolio is mostly coal centered, is struggling to compete against producers with under-valued gas-fired plants and its Damhead acquisition was intended to address that, market players explain

U.S. investors also showed interest. Notably, **Rockland Capital Energy Investments**, a Houston-based boutique, made its first significant acquisition in Europe in concert with **Cargill Financial Markets** with the purchase of a GBP160 million stake in the debt of **Teesside Power**—a former **Enron**-owned gas-fired facility in Northeast England. "Teesside was a fairly unique and opportunistic deal for us," says **Scott Harlan**, principal Rockland's headquarters. He declined to offer details on the transaction.

Activity was seen also in the renewable sector, with **Energy**

EUROPEAN 2004 YEAR IN REVIEW

Power Resources putting itself up for sale and hiring **Rothschild** to advise on the process (PFR, 7/12). The auction was being driven by private equity firm **Electra Europe Partners**, which has a 54% stake in the London- based renewable energy company. U.K.-based **United Utilities** also put its green energy assets on the block and retained **RBC Capital Markets** to advise it on the offering (PFR 2/15). The assets include a 50 MW of generation fired by landfill gas and 20 MW of capacity, comprising small-scale hydroelectric capacity scattered across the Pennines moorland in northern England.

Quotes Of The Year 2004

"If that's all you're going to do, you're going to be twiddling your thumbs."—**Tom Murray**, *managing director at* ***WestLB*** *in New York, warning project financiers that if they focused solely on funding new generation projects, they would be left idle for much of 2004 (PFR, 1/5).*

"At this point in time if they went out for $2 billion, they'd get it."—**Aneesh Prabhu**, *credit analyst at* ***Standard & Poor's*** *in New York, commenting on* ***Dominion Resources****' strong standing among fixed-income investors. (PFR, 1/16).*

"I can guarantee you this. [CEO James] Rogers gets up every day thinking first and foremost about this."—**James Turner**, *executive v.p. at* ***Cinergy****, revealing the utility's desire for a regional merger (PFR, 2/16).*

"Sell-side research is done, it's over with, it's awful."—**James Jungjohan**, *co-head of technology investment banking at* ***Canadian Imperial Bank of Commerce****, explaining why he recently left his position as an equity research analyst (PFR, 2/23).*

"These markets are fickle. Something changes in the capital market, then, Boom! They're gone."—**Mike Pepe**, *a veteran project financier in New York, commenting on the transient nature of institutional investors' appetite for power plant construction loans (PFR, 3/8).*

"There are certainly some interesting vintages in there. If they were bottles of wine they'd be in great shape."—**Rick Vaccari**, *managing director at* ***Sempra Energy Partners****, reflecting on a portfolio containing some aging gas-fired plants acquired from* ***American Electric Power*** *(PFR, 3/22).*

"I don't know about you all, but I ain't going to care about 2038."—**Darrell Bevelhymer**, *president of* ***Tenaska****'s business development group, reflecting on a projected 25-year wait for the restoration of a supply/demand equilibrium in* ***Entergy****'s wholesale power market (PFR, 4/5).*

"It's a gamble that most of us in the industry are playing. It's the only game we have to play."—**Rick Bowen**, *executive v.p.-generation at* ***Dynegy****, on how sellers of contracted plants are looking to push debt maturities out until supply and demand returns to equilibrium in the wholesale power market (PFR, 5/17).*

"It's as if you have a Rolls Royce. Not everyone can afford it, even if it's worth the price."—**Daniele Seitz**, *an analyst at* ***Maxcor Financial*** *in New York, commenting on the sale of* ***Texas Genco*** *(PFR, 7/26).*

"The bank markets have become rather frothy."—**Tom Sullivan**, *treasurer at* ***Progress Energy*** *in Raleigh, N.C., commenting on banks' strong appetite for lending to the power sector, which is showing itself in longer deal maturities and sizes (PFR, 8/16).*

"Anything that flares."—**Toly Spheeris**, *a trader at* ***Vega Asset Management*** *in New York, describing the energy markets that its newly launched Anglian Commodity Fund will trade (PFR, 9/13).*

"There's going to be a mad rush to get projects done."—**Jan Paulin**, *chief executive of* ***Padoma Wind Power****, commenting on the 15-month timeframe wind farm developers have to utilize the recently reinstated federal tax break (PFR, 10/4).*

"[Bernotat's] words were, 'We are either going to grow or go.'"—*Louisville, Ky., Mayor* **Jerry Abramson**, *recounting his one-on-one discussion with* ***E.on AG*** *Chairman* ***Wulf Bernostat*** *about the Dusseldorf, Germany company's plans to either maintain or divest* ***LG&E Energy*** *in Louisville (PFR, 11/22).*

"It's been slim pickings."—**Michael Lorusso**, *senior v.p. and head of* ***National Australia Bank****'s energy and project finance group in New York, on the bank's plan's to shutter the group after four years of flagging deal flow (PFR, 12/20).*

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.

U.S.

• Regional energy company **DPL Inc.** said Tuesday that it named **John J. Gillen** as vice president and chief financial officer of DPL and **Dayton Power & Light**. Gillen, 51, had served as a financial consultant to the company's audit committee. (*Associated Press*, 12/21)

• **UniSource Energy** is considering its options after the **Arizona Corporation Commission** rejected an investment group's proposed acquisition of the company. In November 2003, UniSource agreed to be acquired by **Saguaro Utility Group**, a partnership that includes funds affiliated with **Kohlberg Kravis Roberts & Co.**, **J.P. Morgan Partners** and **Wachovia Capital Partners.** (*The Phoenix Business Journal*, 12/21)

• **Dominion Resources** and two Wisconsin utilities have asked the **Public Service Commission of Wisconsin** to reconsider the agency's rejection of the sale of the **Kewaunee Nuclear Power Plant**. The **Public Service Commission** of Wisconsin rejected the proposed sale of the aging nuclear power plant in Kewaunee Nov. 19 to Dominion. (*The Milwaukee Business Journal*, 12/20)

• **Westar Energy** is pursuing renewable energy plans after rejecting about 17 proposals received from 13 companies pitching projects. **Karla Olsen**, a company spokeswoman, says Westar is not shutting the door on renewable energy projects, but cost and reliability are major factors (*The Wichita Business Journal*, 12/20).

Europe & Australia

• **Gamesa Corporación Tecnológica** said it has reached a collaboration agreement over its renewables business with the investment firm **Babcock & Brown**, including the sale of six wind farms in Spain for over EUR200 million. In a statement, Gamesa said the sale will not affect its 2004 net profit target of EUR222 million (*AFX*, 12/21).

• Australia's **Pacific Hydro**, the world's largest producer of renewable energy, looks set to be taken over in a deal worth about A$800 million (US$606 million) after being approached by more than 10 power groups. Potential bidders include Japan's **Kansai Electric Power** and **International Power** in the UK. (*Financial Times*, 12/21).

CARGILL

(continued from page 1)

officials were not immediately returned.

Jay Worenklein, ceo at US Power, declined to comment on the transaction as did officials at **Lehman Brothers**, which is acting as advisor to the **Citigroup/ Société Générale**-led creditor group.

Debt on the natural-gas fired plant was being quoted around the 50 context in the secondary loan around July, but has subsequently spiked to the 80 context, as a result of recent plays on the paper, one market watcher says. **Bear Stearns** reportedly traded a $25 million piece of the credit at 82 (PFR, 12/20). Market players say Cargill's secondary purchases value the Lake Road asset at $100 per kilowatt hour more than Worenklein's offering, whose bid equated to under $300 per kilowatt hour.

Ownership of Lake Road was transferred from previous sponsor **National Energy & Gas Transmission** to a **Citigroup**-led creditors group last September after a loan default. Worenklein put in a bid to pay some $220 million to acquire the facility from its creditors (PFR, 12/6). The deal would have worked out to US Power paying $42 million in cash and assuming about of $180 million of debt. ***—Mark DeCambre***

EXELON, PSEG

(continued from page 1)

merger would bring about greater efficiencies, the official says. One the other side of the equation, PSEG was seeing its balance sheet deteriorate rapidly because of Salem's performance and also the performance of the nearby 1,049 MW Hope Creek Generating nuclear facility.

Hugh Wynne, senior research analyst with **Sanford C. Bernstein** in New York, says Exelon, the largest nuclear operator owning some 17 plants, has a knack for operating nuclear facilities and knows how to cut cost. "PSEG's underperforming nuclear fleet, inefficiently run utility operations and portfolio of global assets provide Exelon with the wherewithal to repeat this cost-cutting process," says Wynne in a research note.

James Ferland, PSEG ceo, said in announcing the merger a significant benefit of the deal would be improved operations at Salem and Hope Creek. The merger plans also look good on paper given the companies' complementary operations and service areas, as well as their similar regulatory structures, market players say.

JPMorgan Chase and **Lehman Brothers** advised Exelon on the deal, while **Morgan Stanley** served as PSEG advisor. The role of banks was generally limited to crunching numbers and assisting with due diligence. Both companies had high-level staffers participating in the negotiations who had formerly worked at investment banks, including PSEG CFO **Thomas O'Flynn**, who was formerly managing director of Morgan Stanley's Global Power and Utility Group, and Exelon v.p. of corporate development **Stephan Segouin**, who was a senior v.p. in Lehman's power group until last December.

Officials at JPMorgan declined to comment and other firms did not return calls by press time. ***—Christine Buurma***

SOUTHERN

(continued from page 1)

Southern Union Co. worked with **JPMorgan Chase** and **Merrill Lynch** to arrange private funding and bank debt to cover initial funding for the purchase, completed more than one month ago. "We're in discussions with investment banks now," says **Jack Walsh**, director of investor relations. He declined to name names, saying only it has traditionally tapped JPMorgan and Merrill to lead its capital market offerings.

An additional equity offering could be a logical move given the company's share price is hovering near highs at $24.27 (as of last Wednesday's close) but this has a downside dilutive effect. Marshall declines to reveal the company's bent, except to note a hybrid debt/equity security is a possibility. So far, Southern Union has issued $142 million in common equity to back its $590.5 million investment in the pipeline.

Also a major consideration is the impact any offering might have on Southern Union's credit rating. It is currently rated BBB and Baa3 by **Standard & Poor's** and **Moody's Investor Services**, respectively. "We always have an eye toward our credit rating," Marshall says.

The various financing scenarios could be transacted at the parent or subsidiary level, Marshall says. ***—Christine Idzelis***

Calendar

- The **Edison Electric Institute** is holding its Electric Industry Utility conference at the London Hilton on Feb.20-23, 2005. For more information contact **Debra Henry** or **Mari Smallwood** at (202)-508-5496 and (202)-508-5501, respectively.

Quote Of The Week

"[This deal] will create the largest utility in the country, so it's not a small potatoes deal."—**Ed Tirello**, *managing director with* ***Berenson & Co.*** *in New York, on the merger of* ***Exelon Corp.*** *and* ***Public Service Enterprise Group*** *(see story, page 3).*

One Year Ago In Power Finance & Risk

The **City of Portland** was considering countering **Texas Pacific Group**'s $2.35 billion bid for **Portland Generation Electric**, an Enron subsidiary. [Texas Pacific has agreed to acquire PGE and is urging regulators to approve the deal (PFR, 3/14).]