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CREDIT MARKETS

Energy Industry's Debt Is Long-Term Problem

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A credit crisis engulfing much of the country's energy industry isn't likely to let up until at least the end of 2006, during which time about two dozen power companies will scramble to refinance $90 billion in short-term debt, according to research by Standard & Poor's.

The report maintains many of the companies won't be able to obtain new financing, possibly leading to a new wave of loan write-offs for banks, coming on the heels of already-sizable losses on loans to the telecommunications and cable sectors.

Nearly half of the $90 billion borrowed to fund construction projects and acquisitions was financed through bank syndicates, according to the report. Already this week, Toronto-Dominion Bank said it will sharply boost its loan-loss provisions to cover deterioration in the utilities sector, including taking a charge of $169 million to cover unrecoverable loans to three unnamed utilities. **Toronto-Dominion**, one of Canada's five largest banks, is an "early warning of what is going on. This is going to be the next area of significant problems," said Tanya Azarchs, a banking analyst with S&P.

The report doesn't make any changes to energy companies' credit ratings, many of which were downgraded to junk status during the past year by S&P as well as other ratings agencies. Focused on debt exposure, the new report ranks the power companies considered most at risk because a significant portion of their capitalization depends on favorable refinancing by 2006.

OTHER RESOURCES

Major Bond Indexes:[2] See statistics on indexes tracking U.S. Treasurys, U.S. corporate-debt issues, mortgage-backed securities and more, updated at the end of the most recent session.

See real-time commentary[3] covering releases, events, and flows affecting the Treasury market, from Briefing.com[4].

COMPANIES

Dow Jones, Reuters

Reliant Resources Inc. (RRI)

PRICE	2.08
CHANGE	0.23
U.S. dollars	11/6

Calpine Corp. (CPN)

PRICE	3.61
CHANGE	0.82
U.S. dollars	11/6

Mirant Corp. (MIR)

PRICE	2.94
CHANGE	0.64
U.S. dollars	11/6

PG&E Corp. (PCG)

PRICE	12.05
CHANGE	0.16
U.S. dollars	11/6

CMS Energy Corp. (CMS)

Those companies, according to S&P: **Reliant Resources** Inc., **Calpine** Corp., **Mirant** Corp., **PG&E** Corp.'s National Energy Group Inc., and **CMS Energy** Corp. Reliant Resources, for example, needs to refinance $5.9 billion, or about 85% of the Houston company's total debt, the report says. Calpine, of San Jose, Calif., has $7.3 billion of debt that matures by the end of 2006, or about 56% of its debt. CMS, Dearborn, Mich., has $3.9 billion coming due. That is 55% of its debt.

PRICE	8.74
CHANGE	0.62
U.S. dollars	11/6

Duke Energy Corp. (DUK)

PRICE	21.86
CHANGE	0.30
U.S. dollars	11/6

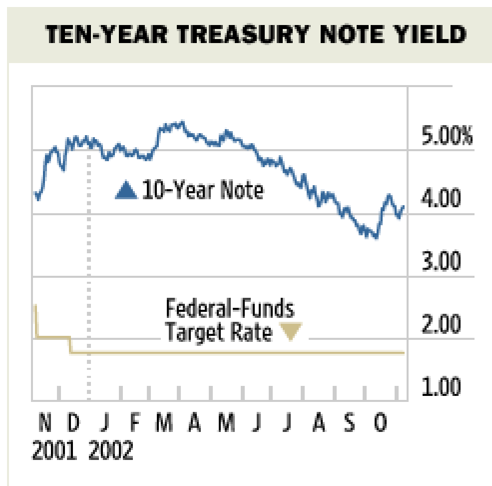
TXU Corp. (TXU)

PRICE	16.22
CHANGE	-0.03
U.S. dollars	11/6

* At Market Close

Duke Energy Corp. in Charlotte, N.C., and **TXU** Corp., in Dallas, have even larger amounts of debt coming due, $8.7 billion and $8.6 billion, respectively, the report states. But Arleen Spangler, a utility analyst at S&P who headed up the joint energy-banking research, said most of their debt is on the books of their regulated utilities and should be easier to refinance because banks trust that the companies won't let those utilities fail.

Rex Clevenger, Reliant's senior vice president of finance, said the company has offered to pledge a pool of assets as security to lenders in order to extend credit facilities. Last week, Reliant refinanced three bank credit facilities for its Orion Power Holdings unit, by giving lenders additional collateral and agreeing to more costly loan terms. "We're trying to work out something where everybody wins here," he said.



Calpine spokeswoman Katherine Potter said the company has received positive feedback from its lenders during the company's initial discussions with them over the refinancing of $2 billion in credit facilities. A Mirant spokesman declined to discuss negotiations with its lenders, but noted the company paid off $1.2 billion in debt his year and has $1.5 billion in liquidity. A spokesman for PG&E's NEG said the company was continuing to negotiate with lenders but declined to provide specifics.

In general, Ms. Spangler said, the companies can expect to pay higher interest rates and put up hard assets such as plants and pipelines as security to get new financing, in some cases turning over to the bank any cash generated by a plant. She said Reliant is in a better position than some to use its power plants as security for loans. Mirant, **AES** Corp., based in Arlington, Va., and NEG, on the other hand, are among a handful of companies whose assets already are largely encumbered, making it more difficult to refinance, she said.

Junk-rated Reliant, Calpine, Atlanta-based Mirant, San Francisco-based NEG, and CMS all have negative credit outlooks at S&P. Reliant, Calpine, Mirant and NEG are unregulated power producers and marketers, while CMS is a regulated utility with unregulated power and marketing businesses. Reliant was spun off of what was once known as Reliant Energy Inc., now CenterPoint Energy; Mirant was formerly part of the big Atlanta utility, **Southern** Co.

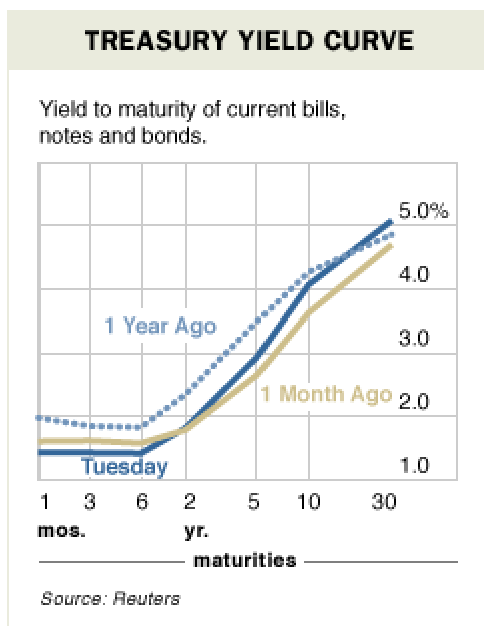
Another piece of the S&P research focuses on the financing issues from the perspective of the banks. About $43 billion in bank short-term debt matures by 2006; there is a total of $70 billion of bank loans to the surveyed power companies. The report notes that the banks may have sold down their positions substantially, "though they would generally have kept some portion for themselves."

Among the other banks that have syndicated loans for the power industry in the past two years: **ABN Amro**

Holding NV, **Bank of America**, **Bank of Nova Scotia**, **Barclays Bank** SA, **BNP Paribas**, **Citigroup** Inc., **Commerzbank** AG, **Credit Lyonnais**, **Credit Suisse Group**, **Royal Bank of Scotland**, and **Societe Generale**.

Edison International's power-plant unit, Mission Energy, financed 100% of its $1.8 billion in debt through banks. Reliant Resources has $4.5 billion, or 79%, of its debt with banks. Calpine and a small South Dakota utility, **Black Hills** Corp., have 75% and 73%, respectively, of their short-term credit facilities with banks.

Banks don't have to disclose their exposure to a specific industry, although some banks have done so, S&P's Ms. Azarchs said. **J.P. Morgan Chase** & Co. has disclosed it has $2.2 billion in merchant-energy exposure plus another $4 billion in credit lines that haven't yet been drawn upon.



The heavy debt stems from a building-and-acquisition binge that began around 1997. A number of energy companies constructed and bought power plants around the country, aiming to sell electricity into a growing wholesale-power market prompted by deregulation. The companies financed these projects mostly with short-term debt, and figured they would secure longer-term funding once the plants were running and had a track record.

But market conditions have changed significantly since then. An overabundance of power in some regions of the country has led to declining prices, and companies haven't been able to recoup their investments. Companies are postponing projects and canceling equipment orders.

Adding to woes: a slew of federal and state regulatory investigations into many of these energy companies' unregulated natural-gas and electricity-trading operations. These units were the source of much of their revenue growth until earlier this year.

The report states the combination of factors makes "this one of the worst times in recent history to refinance debt."

Treasury Securities

Prices fell on pressure from a $22 billion sale of new Treasury notes and uncertainty over the election outcomes. But prices ended well above their lows of the day, in part because the five-year note auction surprised the market by drawing solid demand. At 4 p.m., the benchmark 10-year note was down 10/32 point, or $3.13 per $1,000 face value, at 102 13/32. Its yield rose to 4.074% from 4.036% Monday, as yields move inversely to prices. The 30-year bond's price was down 12/32 point at 104 12/32 to yield 5.080%, up from 5.057%.

-- Steven Vames of Dow Jones Newswires contributed to this article.

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