adds Dillavou with Deloitte. "They got caught in the hype. Today, there is a much clearer focus. They are trying to provide stable earnings and focus on cost and cost savings. They realize there is financial strength from owning and building assets."

Indeed, one of the strongest lessons is that the ability to manage risks requires a diversified portfolio. However, the acquisition of assets may lead to market power. Take Exelon, which had gobbled up Pennsylvania-based PECO in the 1990s. Part of that entity had to divest generation assets.

MARKET POWER

Consumer organizations say the concentration of generating assets and marketing power within a regional wholesale electricity market will lead to higher prices for consumers. And, the acquisition of PSEG by an out-of-state holding company will severely limit the ability of New Jersey regulators to protect consumers, some say.

Ratepayers will bear the costs associated with the proposed buy-out, says New Jersey Citizen Action. According to PSEG's most recent annual report, PSEG and Exelon expect to incur $70 million in transaction fees and another $700 million in integration costs over four years. The expected benefits will go unrealized because of this high cost, it says.

"Exelon's buy-out bid offers no evidence that this merger is in the public's interest," says Ev Liebman, program director for Citizen Action. "Synergies for CEOs do not translate into positive benefits for the millions of ratepayers who could end up footing the bill."

There's less concern about market dominance occurring in the Northeast and Midwest, where there are vibrant wholesale markets and more worries in places like Florida, which are isolated.

"The bigger they are, the more political power those companies will have," says Sean Boland, partner with Howrey law firm in Washington, D.C. "They will hold tremendous sway over regulators; however, we won't have a huge antitrust problem. What if at the end of the day, we end up a few utilities? That's not the end of the world."

The market will likely work its will, producing more and more mergers that will create corporations with the potential to get even bigger.

If abuses or problems arise, there will be a clamor for change and new regulations. Furthermore, regulators will have the difficult job of promoting competition among a shrinking number of players.

FOREIGNERS COME CALLING

National Grid's KeySpan Deal

By Richard Korman

WITH THE ANNOUNCEMENT that National Grid, the U.K.-based electricity and gas utility, plans to buyout KeySpan Corp., the Long Island-based gas and electricity utility, you may be tempted to believe that more cross-Atlantic energy company unions could be in the works. After all, deregulation, mergers and acquisitions are unfolding on both sides of the ocean. Well, think again.

The $7.3-billion KeySpan buyout is motivated more by individual corporate goals and the drive for bigger size – and should not be taken as a harbinger of more to come.

"KeySpan was a bit of an exception," says Michael Heim, a gas utilities analyst and vice president of broker A.G. Edwards. This is because non-U.S. investors are likely to show an interest in larger electric utilities, not smaller-size gas utilities. "'No one plans to come over from Europe and buy a $100 million market cap gas distributor," says Heim.

Another reason is that investments in U.S. utilities haven't always proven to be no-brainers. In March, Glasgow-based ScottishPower received regulators blessing to sell Portland, Ore.-based PacifiCorp to MidAmerican Energy Holdings Co., Des Moines, for $5.1 billion in cash.

ScottishPower had bought PacificCorp in 1999. The investment has proven to be a liability to ScottishPower's leaders, who reportedly learned that PacifiCorp needed billions in capital expenditures.

Finally, utilities need to know their regulators well, and that means regional focus. "A core competence of utilities is their regulatory relations," says Tom Champion, director of energy policy for Medley Global Advisors, New York City-based policy advisors. "What does a buyer from another country know about Maryland or Oregon regulations?"

A local utility owned by overseas investors doesn't spark the same kind of concern as U.S. ports being managed by a company whose parent is based in Dubai. But regulators are likely to examine more closely non-U.S. control of a U.S. utility.

National Grid USA has substantial gas and electricity distribution businesses in New York and New England and operates 9,000 miles of electrical transmission lines in those areas. Relations between National Grid and New York state regulators have been good, says Champion.

The deal doubles the size of National Grid's business in the United States and creates the third largest energy delivery company in the nation, noted National Grid's CEO Michael E. Jesanis.

KeySpan CEO Robert Catell said KeySpan had for a long time sought a deal that would allow it to become part of a larger company. However, repeal last year of the Public Utility Holding Company Act sped the process.

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