

Exelon and PSEG Stumble to the Altar

By Richard Korman

SINCE THE MANAGEMENT of Exelon and PSEG first proposed merging in December 2004, the national landscape has changed. Rising wholesale energy prices have put new pressure on wary regulators and gathering urgency about global warming has made Exelon's numerous clean-burning nuclear power plants more valuable. Then in May an influential New York hedge fund manager, Zachary Schreiber, told Exelon the deal as proposed is "aggressively obscene" and a bad one for his fund and other holders of Exelon stock.

Officially, the two companies still believe merging is the right thing to do for investors and customers. By acquiring PSEG for \$16 billion and exchanging 1.25 Exelon shares for each PSEG share, the companies believe they would create the top U.S. utility. Exelon would add to its existing 33,290 megawatts of generating capacity, including PSEG's valuable nuclear plants. It will also boost its roster of gas and electric customers to 9.5 million.

Randy Mehrberg, Exelon's executive vice president, said at a recent investor's conference call that only a requirement that the company sell nuclear capacity or a material financial change could force Exelon to back away from its pledge to merge. "At the present time we believe we can get it done; we believe we will get it done in a way that adds value for shareholders. I don't want to say in any way that I'm flinching."

So far, the companies have agreed with regulators to a virtual divestiture of 2,600 megawatts of nuclear capacity. PJM, the regional transmission organization, concluded that the divestiture satisfies its screens for market concentrations.

Legal teams are talking with New Jersey regulators, the sole regulatory body so far to oppose the merger. The U.S. Department of Justice approved the deal in late June but said that the companies must sell six power plants that produce 5,600 megawatts of power.

John Rowe, Exelon's CEO, says rising wholesale energy prices have made regulatory review more stringent. "Why is New Jersey hard? Why is Illinois (which has approved the merger but required a virtual auction of some assets) hard? The answer is simple," said John Rowe. "Wholesale prices are going up and going up substantially."

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"There is probably better than a 50-50 chance the merger will be approved — probably with some token concessions such as additional divestitures," said John P. Hughes, vice president for technical affairs of the Electricity Consumers Research Council in Washington, an association of big industrial electricity users. The council opposes the merger and believes its benefits to ratepayers are minimal and temporary.

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