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PSEG: Considering M&A But Regulated Segments Will Drive Growth

By Naureen S. Malik and Matt Day, Of DOW JONES NEWSWIRES

Public Service Enterprise Group Inc.'s (PEG) top executives said they are considering acquisitions but see earnings growth largely being driven by regulated utility projects, such as the building of transmission lines.

"You never say never," Chief Executive Ralph Izzo said, adding that the company is not interested in acquiring a regulated utility. "On the unregulated side, we have been looking around," he said in an interview Thursday.

Merger-and-acquisition activity has picked up this year after coming to a halt during the recession. Deals involving utilities and merchant power plants, where power prices are driven by the market, have been completed.

Because of their stable business models, regulated utilities frequently trade at a premium to merchant power producers that sell on the open market, and Izzo said PSEG has no interest at the moment in paying another premium on top of that in order to make a deal go through. Growth can be slow in these businesses, with earnings potential capped by regulators.

Instead, the New Jersey-based company can produce higher shareholder returns by investing in its own regulated business, such as rebuilding decades-old transmission lines, Izzo said.

Izzo and Chief Financial Officer Caroline Dorsa declined to comment on what assets they are considering, including whether they might bid on the Vermont Yankee nuclear plant that Entergy Corp. (ETR) recently put up for sale. "We look at everything," Dorsa said.

In the meantime, the company has entered the second phase of auctioning its two natural-gas fired plants in Texas, but PSEG has not yet made a final decision on whether to sell them. Izzo said the company "won't be a seller at any price," but did not disclose what the minimum acceptable value would be. An announcement could be made early in the first quarter.

While executives mull acquisition opportunities, PSEG is investing in its regulated business to drive earnings growth now that it has completed major environmental upgrades at its coal-fired plants.

Much of that will be driven by transmission upgrades because of unattractive conditions for building new nuclear plants, for instance. PSEG is spending tens of millions of dollars to pursue an environmental license to expand a southern New Jersey nuclear plant, but right now nuclear energy "is a loser" in the power market because of low gas prices, Izzo said. He added that the company's capital spending plans are being based on the view that gas prices will remain low for the foreseeable future, as strong production from U.S. shale formations, including the Marcellus in the Northeast, has overwhelmed demand.

Even without building or acquiring new generation capacity, PSEG's nuclear assets and environmental upgrades to coal plants leave the company well positioned to benefit as tougher emission regulations are phased in.

The company has spent $2 billion in the past three years to add scrubbers and other emissions-control units at its coal-fired generation in New Jersey to reduce nitrogen oxide, sulfur and mercury emissions, for example. The work has been completed at its Mercer plant and will be completed at its Hudson plant next week, said Rich Lopriore, the president of PSEG Fossil, the subsidiary that operates 12,000 megawatts of electricity generation capacity for the company's wholesale power business..

Thanks to these new units, the New Jersey coal plants will be able to use domestic coal, which has higher energy content than the lower-sulfur coal it was importing, Lopriore said.

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11-18-101908ET
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