



SE Business
HD **Duke, Progress Agree to \$13.7 Billion Deal**
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LP A deal between Duke Energy Corp. and Progress Energy Inc. could provide a big boost to both companies' nuclear-power ambitions.

Duke and Progress agreed to an all-stock merger Monday, valued at about \$13.7 billion.

TD Under the deal, Duke will exchange 2.6125 of its shares for each of Progress' shares. Based on Duke's closing share price Friday, Progress shareholders would receive \$46.48 a share, a 3.9% premium to Progress's closing price of \$44.72 Friday. The suitor will also assume about \$12.2 billion in debt. The transaction is expected to boost Duke's adjusted earnings in the first year after closing—targeted by the end of the year. Duke plans to effect a reverse stock split immediately after the close.

The combined company will serve 7.1 million **electric** customers with a mix of coal, natural **gas**, oil and renewable resources in South Carolina, North Carolina, Florida, Indiana, Kentucky and Ohio. It will also have what the companies called the nation's largest regulated nuclear fleet. The companies' combined generating capacity will be 57.2 gigawatts with annual earnings-per-share growth of 4% to 6%.

The acquisition of a company roughly half its size will increase Duke's ability to deploy a "tsunami of capital" to retire and replace old plants, upgrade the grid, meet stricter environmental regulations and improve energy efficiencies, said James Rogers, the company's chief executive.

"When I look at that range of capital we will have to deploy I believe scale becomes very important to attract capital and the combined companies will have a very strong balance sheet," he said in an interview.

North Carolina-based neighbors, Duke and Progress had talked about the advantages of a merger, namely swinging massive investments in nuclear-development projects. Joining forces also allows them to trim **utility** duplicative functions at a time when growth in electricity sales is tepid.

Progress CEO Bill Johnson will serve as chief executive of the combined company, and Mr. Rogers will be named executive chairman. The two companies, which began talks last July, have already set up a new organizational structure and a transition team to streamline the merger process, Mr. Rogers said. The deal will be put to a shareholder vote in the second quarter or early third quarter.

Both companies operate fleets of fossil-fuel and nuclear-power plants—and have ambitions to build expensive new nuclear units. Messrs. Rogers and Johnson have discussed the advantages of having utilities bulk up, allowing them to spread costs of projects that can run billions of dollars over a larger company and more customers.

The new combined company will be in a "better position to pursue new nuclear," most likely with other partners, Mr. Johnson said about building reactors to replace aging plants over the next three decades. But the company will need to see "appropriate state mechanisms to help finance these plans," as well as consumer and policy support before pursuing this option, he said.

Progress, of Raleigh, N.C., has been looking at \$16 billion to \$17 billion in potential nuclear costs. It has postponed plans to build Westinghouse reactors in North Carolina and Florida.

Duke is proceeding with plans to build similar reactors in South Carolina. The company is also building an advanced coal gasification power plant in Indiana whose cost has soared. It also faces regulatory issues.

Merger savings are a plus but they also create a complication. Regulators in the Carolinas could try to claw back a larger chunk of expected merger savings for ratepayers than the utilities may be willing to share. That has killed other deals in other states, such as Chicago-based Exelon Corp's proposed acquisition of Public Service Enterprise Group of New Jersey.

Another potential problem is that the combination makes Duke, of Charlotte, N.C., more dominant in the Carolinas than perhaps any **utility** in another state. That might create market-power worries among state-**utility** regulators.

J.P. Morgan Chase & Co. was the lead financial adviser to Duke. Bank of America Merrill Lynch and law firm Wachtell, Lipton, Rosen & Katz also advised Duke. Lazard Freres was the lead financial adviser to Progress Energy. Barclays Capital and law firm Hunton & Williams LLP also advised Progress.

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