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HD **Buffett Rescues Power Firm for $4.7 Billion**

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CX Corrections & Amplifications

Dominion Resources Inc. wasn't involved in merger discussions with Constellation Energy Group Inc. A Marketplace article Friday about Constellation incorrectly said the two companies had engaged in merger discussions.

(WSJ Sept. 22, 2008)

(END)

LP Warren Buffett moved to rescue Constellation Energy Group Thursday, boosting other power-company stocks, but questions remain about whether the industry will continue to have access to the capital it needs to conduct business amid Wall Street's crisis.

Constellation and MidAmerican Energy Holdings Co., a unit of Mr. Buffett's Berkshire Hathaway Inc., announced early Thursday that their boards unanimously agreed to a deal in which MidAmerican will buy all outstanding shares of Constellation for $4.7 billion in cash, or $26.50 a share. Constellation shares were trading for twice as much a week ago, and went for more than $100 at the start of the year. On Thursday, shares fell 57 cents to $24.20 in 4 p.m. New York Stock Exchange composite trading.

TD As part of the deal, Des Moines, Iowa-based MidAmerican agreed to purchase $1 billion worth of preferred shares from Baltimore-based Constellation, possibly as early as Friday. The cash injection is expected to head off a downgrade by credit-ratings firms that could have thrust Constellation more deeply into turmoil by increasing the amount of collateral it has to offer by about $3 billion, on top of the $4 billion it has already posted. It needs the collateral as part of its trading operations in electricity, natural **gas**, oil and coal.

A year ago, Constellation had less than $2 billion posted as collateral but the need has grown due to volatility in commodity markets and increased demands from counterparties to its trades. The cash infusion also should reassure regulators, who may take up to a year to review the MidAmerican takeover. MidAmerican owns **electric** and **gas** utilities in the U.S. and U.K.

The rapid unraveling of Constellation illustrates how quickly the market can turn against energy companies once signs of liquidity problems surface. Constellation, which owns regulated **utility** Baltimore **Gas** & **Electric** Co. as well as energy-generating and trading operations, was pounded by investors early this week amid fears it wouldn't be able to get a $2 billion line of credit promised by banks.

Mayo Shattuck III, Constellation's chief executive and a former investment banker, blamed a "contagion" that spread from the problems of some of the nation's largest financial institutions. He said the "angst" affected Constellation's energy-trading business and credit outlook and created an urgent need for more capital. The company had intended to shed assets and raise money but was slammed by the turmoil before it could do so.

"If they'd issued equity [months ago], they could have avoided the shocks that were to come," said Paul Fremont, managing director of **utility** research at investment firm Jefferies & Co. "They chose to operate with high leverage and it was their undoing."

Mr. Shattuck said a stock-for-stock transaction, more common in the **utility** sector, would not have been as desirable as the cash deal it struck with MidAmerican. He said Constellation also had engaged in merger discussions this week with Paris-based Electricite de France SA, Virginia-based Dominion Resources Inc. and Florida-based FPL Group Inc. In 2005, Constellation had an $11 billion agreement to merge with FPL but the deal fell apart.

The sudden emergence of Mr. Buffett had an effect that extended far beyond Constellation, restoring some confidence to an industry that had taken a bruising this week. Stocks of companies that sell electricity at market prices rallied, along with the broader market, partly reversing earlier losses. Dynegy Inc. rose 12% after falling 19% on Wednesday. NRG Energy Inc. rose nearly 8%, a partial rebound from an 11% drop. Edison International rose more than 5%, nearly regaining its 6.4% loss Wednesday.

Analysts said there was psychological **value** to doing a deal with Mr. Buffett's concern. "The entire **utility** sector, along with everything else, was in freefall [Wednesday]," said Sam Brothwell, a managing director at Wachovia Capital Markets in New York. "It served as a reality check that there's **value** here to see Warren Buffett emerge."

Many on Wall Street had been waiting to see if the legendary **value** investor would make acquisitions. Mr. Buffett said in 2005 that he had at least $10 billion to $15 billion to invest in the **utility** and power sector, which he says he likes because the business is essential and understandable. A Berkshire spokeswoman declined to comment Thursday on his intentions.

Gregory Abel, chief executive of MidAmerican, said Berkshire is "very comfortable with and committed to Constellation's current strategic plan" and intends "to allow Constellation Energy to operate autonomously" as it pursues its goals, including development of nuclear plants. Constellation's current management is expected to remain.

Constellation owns roughly 9,000 megawatts of generating capacity, including nuclear reactors. It also is a partner with EDF in a nuclear-development company called UniStar Nuclear Energy LLC, which intends to build plants in the U.S. with technology developed by French-based Areva Inc., which is undergoing regulatory reviews at the Nuclear Regulatory Commission.

Some analysts said they think Constellation's situation is unique. It was one of the last companies heavily involved in energy trading that didn't have the backing of a big bank. Sempra Energy, another major trader, brought in Royal Bank of Scotland a year ago under an arrangement in which the bank assumed the balance-sheet risk of the trading operation. "They look prescient now," said Mr. Brothwell at Wachovia. Constellation also has sought to expand its trading operation by taking on more leverage, rather than pulling back, analysts said.

The credit crunch comes as power prices are softening on deregulated energy markets based on falling natural **gas** prices. That takes some pressure off power generators that had faced high fuel costs, but it also means lower-than-expected revenues. Some companies that are less-than-investment grade may have difficulty hedging transactions, in other words, locking in profitable sales.

The industry faced its last major crisis in 2001, in the wake of the bankruptcy filing by Enron Corp, which had been the nation's largest energy trader. Many energy firms subsequently backed away from speculative trading, including Dynegy Inc., Calpine Corp. and Aquila Inc.; big banks stepped into the void. But the bank energy-trading businesses are now also coming under scrutiny in the current credit crisis.

The tentative deal between MidAmerican and Constellation is subject to continued due diligence by MidAmerican, the companies said, as well as shareholder, local, state and federal regulatory approvals. The companies expect the transaction to close within nine months.

MidAmerican owns **electric** and natural **gas** utilities serving nearly seven million metered customers, including Pacific Power, Rocky Mountain Power, PacifiCorp Energy, CE **Electric** UK, Northern Natural **Gas** Co. Kern River **Gas** Transmission Co. and CalEnergy.

Matthew Karnitschnig contributed to this article.

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