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HD **Entergy's Nuclear Spinoff Faces Hurdles**

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LP Two power companies are better than one for Entergy Corp., which wants to tap the stock-market potential of its deregulated nuclear plants. Officials in two states have raised objections.

The New Orleans energy company plans to spin off five nuclear power plants located in deregulated markets, creating a publicly traded company called Enexus Energy. Enexus would be the first pure-play nuclear generator in the U.S., allowing Entergy to separate the highly profitable reactors from its slower-growing regulated utilities.

TD Analysts said other companies, such as Exelon Corp. and PPL Corp., might follow the strategy if Entergy is successful.

But before sparking a potential industry trend, Enexus faces a hurdle in getting regulatory approval in New York and Vermont, where a portion of Entergy's nuclear fleet is located. Officials in both states challenge the new ownership structure, saying it will create a debt-heavy company that won't be able to handle unforeseen costs or follow through on Entergy's past promises.

Enexus "will have less financial ability than Entergy to withstand adverse market changes," said Stephen Wark, consumer-affairs director for the Vermont Department of Public Service, which opposes the plan.

Wall Street analysts view the regulatory approvals as a delay, rather than an insurmountable roadblock. Entergy remains confident it will gain the approvals. The process, however, will take longer than previously expected, with Entergy in July extending the timetable for the spinoff closing to the fourth quarter instead of the third.

"We ultimately believe approvals will come as [Entergy] agrees to contract restructurings that transfer additional benefits to customers," Credit Suisse Group analyst Dan Eggers wrote in a note to clients.

Once viewed as white elephants, nuclear power plants have become prized assets in deregulated power markets where prices are often set by more expensive natural-**gas** plants.

Entergy, such as other large power companies, operates in regulated and deregulated states. Its regulated business, which generates and delivers power in the Southeast, is granted an allowed rate of return by regulators. Entergy operates nuclear plants in the Northeast and Midwest, where deregulated markets allow plants to receive the market rate for power, which can produce strong margins.

Entergy believes the nuclear plants in deregulated markets are undervalued because they are connected to a larger, regulated **utility** company. At the same time, state commissioners may view strong returns from deregulated plants as justification for setting allowed returns lower in regulated markets.

"As a pure-play, nonregulated nuclear company, the market will give it a better valuation," said Ron Barone, an analyst with UBS.

Enexus will be made up of the Indian Point and James Fitzpatrick nuclear plants in New York;

Vermont Yankee in Vernon, Vt.; the Pilgrim plant in Plymouth, Mass.; and the Palisades plant in Covert, Mich. Shares of the new company will be distributed to Entergy shareholders at the completion of the spinoff.

Entergy's estimates the **utility** portion of the business contributes roughly the same level of earnings as the company's nuclear plants in deregulated markets. Shares of Entergy following the spinoff would be valued more like a traditional **utility** stock, but positioned for growth because of the need for more generation in its regulated markets, a company spokesman said.

Entergy has a price-to-earnings ratio of 15, compared with 14.7 for the industry, according to FactSet Research.

Entergy has estimated the new company will have a market **value** approaching $20 billion. In addition, the **value** of nuclear plants is likely to increase once the federal government puts comprehensive climate change legislation in place. Nuclear power plants don't emit carbon dioxide and other greenhouse gases blamed for global warming.

The spinoff would result in Enexus paying $4.5 billion to Entergy, with $2.5 billion going to a share-buyback program and $1.5 billion to pay off debt.

"Clearly this is a more shareholder-friendly transaction," said Dimitri Nikas, a director in the utilities and infrastructure ratings group at Standard & Poor's, referring to the buyback of Entergy shares.

Enexus would bring with it risks associated with nuclear plants in deregulated markets. The plants face swings in wholesale-power prices as well as public scrutiny over safety.

The question that Entergy will have to answer in the coming weeks is whether the spinoff is a good transaction for the public in Vermont and New York.

Vermont regulators held hearings in late July where consumer advocates argued the spinoff shouldn't happen in its current form. The Department of Public Service, which represents consumers, argued that Enexus's debt wouldn't be investment grade, proposing revisions to reduce debt and increase liquidity of the new company, said the department's Mr. Wark.

In New York, the state attorney general's office and Westchester County, where Indian Point is located, raised concerns about whether Enexus can carry out environmental and decommissioning steps. Additionally, Enexus wouldn't follow an agreement that Entergy is under that results in payments to the New York Power Authority, said Sarah Wagner, legal counsel for New York Assemblyman Richard L. Brodsky, whose district includes the Indian Point plant.

"At least at first glance it doesn't appear to be in the public's interest," Ms. Wagner said.

Administrative law judges as part of the process in front of the New York Public Service Commission recently extended the period for discovery until later this month. A commission spokesman said hearings could follow.

Entergy has defended the spinoff, saying Enexus will be well-capitalized and have strong cash flow from its plants, said Alex Schott, a spokesman for Entergy.

Additionally, in filings with New York regulators, Entergy said the new structure will increase access to financial resources. Also, Enexus "will honor required commitments as part of its federal decommissioning obligations," Mr. Schott said, including costs associated with the eventual closure of plants.

The outcome of Entergy's spinoff could become a barometer for other companies that want the market to take a more favorable view of their nuclear plants. Exelon and PPL, which have similar corporate structures to Entergy, could consider spinoffs, although the power plants they operate include nuclear and fossil fuel generation, said S&P's Mr. Nikas.

"Other companies are actually probably waiting on the sidelines to see how Entergy performs, and whether they're able to realize the **value** they're arguing for," Mr. Nikas said.

A spokesman for PPL said the company has no plans for a nuclear spinoff. Exelon said "as always, [the company] evaluates all strategic opportunities to increase **value** for the company, its shareholders, employees and customers."

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