THE WALL STREET JOURNAL.

HD **Corporate News: Utility Merger Aims at Clean Energy --- Northeast, NStar Set $4.3 Billion Pact With Plans to Tackle New England's Green Power Targets**

BY By Rebecca Smith
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Two major electric utilities, **Northeast Utilities** and NStar, have agreed to a $4.3 billion merger intended to create a power company with enough heft to help New England states achieve their ambitious clean-energy goals.

The all-stock merger, announced Monday, would create the largest utility company in New England, with a total of 3.5 million customers in Massachusetts, Connecticut and New Hampshire and $8.5 billion in annual revenue. The combined company will be called **Northeast Utilities**.

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The two companies said they may build and operate renewable energy projects, which would be a new business for them; now, both companies mainly distribute conventional energy produced by others.

Company executives said the combination of the two companies will reduce some of the fragmentation that makes it hard for utilities to build the costly transmission lines and renewable-energy projects that will be needed if states in the region are to meet their clean energy targets.

While the states have set goals, they haven't developed plans for achieving them, said Thomas May, chief executive of Boston-based NStar. Massachusetts aims to get 22% of its electricity through cleaner means by 2020, with increases in ensuing years. Connecticut's goal is 27% by 2020 and New Hampshire's goal is 25% by 2025.

"There's some question whether deregulated markets can meet those objectives," Mr. May said. Since deregulation, utilities in states such as Massachusetts and Connecticut have sold off their power plants and now buy power from third parties for their customers. **Northeast Utilities**, which is based in Hartford, Conn., continues to own 1,400 megawatts of generating capacity in New Hampshire, a state which didn't deregulate electricity.

Northeast Utilities Chief Executive Charles Shivery said a combined utility would probably invest in wind-energy projects in addition to signing power-purchase agreements with outside developers. This could increase **Northeast Utilities**' ownership of power-producing assets in coming years and provide a stimulus to renewable energy construction in the region

The combined company would have a stronger balance sheet and greater borrowing capacity, the two chief executives said, and would be able to fund about $9 billion in transmission and distribution projects in the next five years.

Northeast Utilities will be able to avoid a $300 million stock offering it had been planning, while NStar will cancel a pending $75 million stock buyback, the final piece of a $200 million repurchase.

In the merger, stockholders of NStar would receive 1.31 shares of **Northeast Utilities** stock for each share of NStar, an exchange that values NStar shares at $40.28, or 1.9% more than at Friday's closing price.

The deal is expected to close within 12 months.

In 4 p.m. composite trading Monday on the New York Stock Exchange, **Northeast Utilities** shares were down 28 cents, or nearly 1%, at $30.42.

NStar shares were down 23 cents at $39.30.

The transaction requires approval from federal and Massachusetts regulators, but the review standard in that state -- that the transaction cause "no net harm" to customers -- isn't expected to be hard to satisfy.

Northeast Utilities will raise its dividend 20% to match NStar's, said the two CEOs, who will both stay at the combined company. Mr. May will be chief executive and Mr. Shivery will be non-executive chairman.

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Naureen S. Malik contributed to this article.

CO neuts : Northeast Utilities Co. | becegy : NStar

IN i16 : Electricity/Gas Utilities | i1 : Energy | i16103 : Electric Power Distribution | ieutil : Electric Utilities

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CLM Heard on the Street
HD **It's All Light But No Heat**

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[Financial Analysis and Commentary]

Are utilities investors so comfortably numb that even news of a $17.5 billion merger can't raise a cheer? Maybe they recognize squeezing value from utility deals is tough.

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Part of the reason stocks of newly betrothed **Northeast Utilities** System and Nstar barely budged Monday is that pitching a utility merger to investors is necessarily a low-key affair. State regulators are listening for any gains going to shareholders that ought to be shared with customers.

Hence, neither utility quantified synergies. They also said they would keep two headquarters -- never better than one in terms of cutting costs.

Rather than a chance to juice margins with cost savings, Northeast and Nstar's deal looks defensive, as nil-premium mergers often are. Northeast can tap Nstar's cash-flow to boost its dividend and fund spending plans without resorting to issuing more shares, as was expected. Nstar, meanwhile, gets to deploy its cash into Northeast's higher-return transmission projects rather than a stock buyback.

It also mitigates any risk arising from Nstar's coming rate negotiation in Massachusetts for 2013 onward.

A bigger, more diversified utility should be able to invest more efficiently and, all else being equal, its stock should enjoy a premium. Problem is, both Northeast and Nstar already trade at double-digit percentage premiums to the sector's 2010 earnings multiple of 13.3 times. That looks like enough excitement for now.

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