Markets

Utility M&A Is So Hot Not Even Berkshire's Billions Won a Bid

By Mark Chediak, Ryan Collins, and Jim Polson
January 3, 2018, 6:01 AM EST
Updated on January 3, 2018, 3:57 PM EST

- Last year's $68 billion transaction tally was most in decade
- Dominion takes spree into 2018 with $7.9 billion Scana buy

Why Scana Agreed to Be Acquired by Dominion

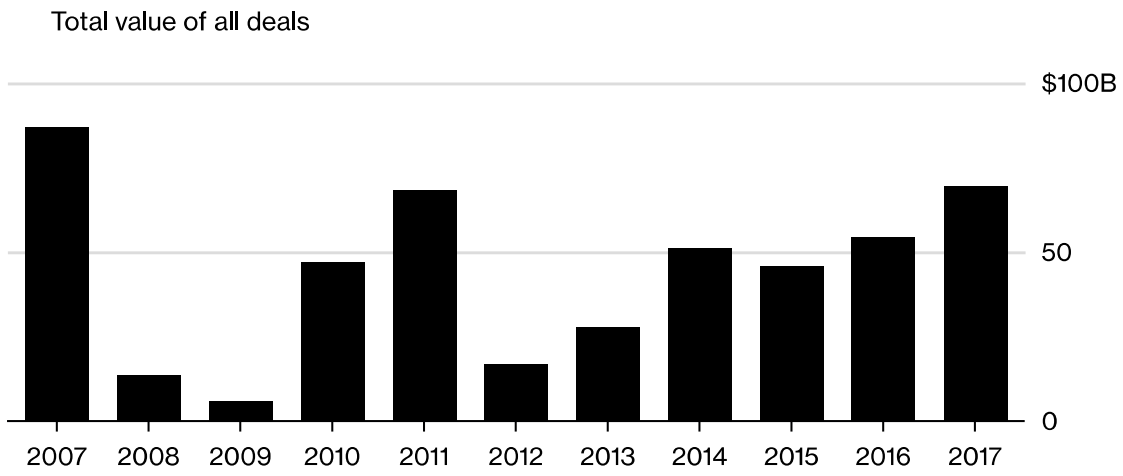
There are few things that better illustrate the banner year 2017 was for deals among North American power companies than this: Even billionaire Warren Buffett's Berkshire Hathaway Inc. wasn't able to come away with a winning bid.

The industry saw $68.2 billion of acquisitions in 2017, the most in a decade, according to data compiled by Bloomberg. With electricity prices low and profit margins tight, the buying spree is continuing into the new year with Dominion Energy Inc. announcing on Wednesday it will buy Scana Corp., a utility battered by a failed nuclear project, for $7.9 billion in a stock-for-stock deal.

"It's a seller's market," said William Lamb, a partner at New York law firm Baker Botts LLP, before the Dominion deal was announced. "There just aren't that many companies out there to buy, so when things come on to market, buyers tend to be willing to reach."

Utility Deals Surge

Buyers seeking growth amid flat energy demand



Source: Data compiled by Bloomberg

The Scana transaction is valued at about $14.6 billion including the assumption of debt, according to a statement Wednesday. It follows a 47 percent share decline for Scana over the past year.

Last year's top prize was Oncor Electric Delivery Co., the biggest transmission-line operator in Texas. It had drawn at least four suitors in recent years, including the Berkshire energy unit run

by Greg Abel, who is often mentioned as a possible successor to the 87-year-old Buffett. Abel made an all-cash bid valued at $18.2 billion -- including the assumption of Oncor debt. But Sempra Energy offered $18.8 billion, and Abel declined to top it.

The intense pursuit of Oncor shows how determined companies are to acquire rivals and expand. One reason is that regulated utilities are under increasing pressure from shareholders to cut costs by consolidating, especially with interest rates still low enough to make borrowing money attractive. The industry has been hit hard by stagnant or declining electricity sales, and many face rising costs to replace aging infrastructure.

At the same time, independent power producers are also struggling. They run plants that sell electricity into competitive wholesale markets, where electricity prices have collapsed. That's mostly because of a flood of cheap natural gas being used as a fuel by more generators. Plus, about 17 percent of U.S. power was expected to come from renewables like solar and wind in 2017, twice the market share of a decade earlier, government forecasts show.

For an outlook on deals in 2018, click here.

"There is a continued belief in economies of scale," said Roger Wood, managing director at Moelis & Co., who has spent three decades as an investment banker and has advised on some major power deals. "If you are larger, you could be more relevant to investors, and better able to deliver good service to your customers."

An expanded footprint was the goal for San Diego-based Sempra, which operates gas and electric distribution assets in places like California and Mexico, along with liquefied natural gas projects in Louisiana and Texas.

In August, Sempra outbid Berkshire for Oncor to move into the Texas power market, which has been more robust because of population growth. That same month, Houston-based Calpine Corp., an independent power producer, agreed to be taken private by a group led by Energy Capital Partners for $17.1 billion in equity and debt.

In October, Dynegy Inc. and Vistra Energy Corp., both in Texas, agreed to merge in a transaction valued at $10.5 billion. The combined company and NRG Energy Inc. would be the only publicly traded merchant-power producers left.

"It's difficult to have a publicly traded, independent-power producer because of the focus on short-term earnings from a Wall Street point of view," said Matt Mooren, an energy markets adviser at PA Consulting Group. "With low gas prices and renewables entering the market, that has made the earnings environment a bit more difficult."

Going South

In Canada, where there aren't many takeover targets available, utilities went shopping south of the border. Calgary-based AltaGas Ltd. agreed to buy gas-utility owner WGL Holdings Inc. in Washington, D.C., for $6.3 billion. Hydro One Ltd., based on Toronto, agreed to acquire Avista Corp. of Spokane, Washington, for $5.2 billion.

Biggest 2017 Utility Deals

Buyer	Target	Enterprise Value
Sempra Energy	Energy Future Holdings Corp.	$18.8 billion
Energy Capital Partners, et. al.	Calpine Corp.	$17.1 billion
Vistra Energy Corp.	Dynegy Inc.	$10.5 billion
AltaGas Ltd.	WGL Holdings Inc.	$6.3 billion
Hydro One Ltd.	Avista Corp.	$5.2 billion

Source: M&A data compiled by Bloomberg

Bloomberg

To be sure, not all the deals have been completed. The Public Utility Commission of Texas has yet to sign off on the Oncor-Sempra and Dynegy-Vistra deals. The regulator already nixed an earlier bid by NextEra Energy Inc. to acquire Oncor.

But the industry continues to consolidate. The number of publicly traded utility companies in America has dropped by a quarter over the past decade to about 100, according to data compiled by Bloomberg.

"The market conditions are still favorable from a financing point of view," said Thomas Flaherty, a senior advisor to Strategy&, a consulting group at PricewaterhouseCoopers LLP. "Money is cheap."

The quest for growth from predictable, regulated businesses led two of the largest electric companies, Duke Energy Corp. and Southern Co., to acquire natural-gas distributors in 2015. Last month, Eversource Energy bought Aquarion Water Co., calling itself the first U.S.-based electric utility with a water utility.

The deals probably will keep coming this year, with low borrowing costs and more clarity on tax reform, according to a Dec. 14 research note from analysts at JPMorgan Chase & Co.

"There is a decent probability that we see some big deals in 2018," said Wood, the Moelis & Co. investment banker.

South Carolina's governor is working on the sale of the state-owned utility, Santee Cooper, after it and Scana abandoned work on the project. NRG Energy Inc. is expected to announce a deal as soon as this month to sell its wind and solar company NRG Yield Inc.

More Deals

"You are going to see a lot of generation assets trade hands" in 2018, said James Schaefer, senior managing director and head of energy, power and energy technology at Guggenheim Partners.

The investor-owned utilities probably will continue to merge as they grapple with sagging demand and aging power grids. Renewables like wind and solar are becoming a bigger share of the U.S. electricity supply, which means more investment and more competition with suppliers who use coal, nuclear power and natural gas.

At the same time, consumers will become more efficient in the future, limiting growth in power use, according to Bloomberg New Energy Finance. A measure of the amount of power needed to drive economic activity in the U.S. will drop 36 percent by 2040, as consumption rises at less than half the rate as the population, BNEF said in its 2017 outlook report. That assumes a big jump in demand for electric vehicles.

"In the end, you'll have some more consolidation," said James Torgerson, chief executive officer of Avangrid Inc., a Connecticut utility that was formed through a $3 billion merger in late

2015. "The things you have to invest in today, it just requires more capital access and bigger balance sheets."

– With assistance by Matthew Monks

(Updates with consultant comment in 16th paragraph.)

In this article

BRK/A
BERKSHIRE HATH-A
326,706.00 USD ▼ -1,644.00 -0.50%

SRE
SEMPRA ENERGY
115.24 USD ▲ +0.37 +0.32%

SCG
SCANA CORP
43.71 USD ▲ +0.75 +1.75%

D
DOMINION ENERGY
74.42 USD ▲ +0.81 +1.10%

NG1
Generic 1st 'NG' Future
4.65 USD/MMBtu ▼ -0.05 -1.13%

Terms of Service
Trademarks Privacy Policy
©2018 Bloomberg L.P. All Rights Reserved
Careers Made in NYC Advertise Ad Choices Contact Us Help