


Monday, March 22, 2010 2:17 PM ET  **Exclusive**

Macquarie 'exploring' potential \$5.5B deal for E.ON's 2 Ky. utilities

By Jay Hodgkins

Macquarie Group Ltd. is "exploring" the possibility of acquiring E.ON AG's two Kentucky utilities that are rumored to be on the block, sources close to the situation told SNL Energy on March 22.

E.ON has said it hopes to divest €10 billion of assets by the end of the year in order to reduce debt and has already divested about €6 billion of that amount. The sources confirmed other reports that [Louisville Gas and Electric Co.](#) and [Kentucky Utilities Co.](#) would probably fetch in the neighborhood of €4 billion, or somewhere around \$5.5 billion.

Despite Macquarie's desire to become involved in the deal process and ultimately acquire the utilities, the sources said, the Australian bank has not contacted E.ON or its rumored adviser on the potential sale, [Goldman Sachs & Co.](#) At this point, the sources said, the process seems to involve only one or two potential buyers and the development is fairly quiet.

The sources said [Duke Energy Corp.](#) makes rational sense as the most likely buyer, and it is rumored to be in talks with E.ON, followed by [American Electric Power Co. Inc.](#), which also has been named as a potential suitor.

Macquarie hopes that if E.ON's desire to sell the utilities progresses, the negotiation process will open up and give it a chance to strike a deal, the sources said.

The bank believes that, through its funds and co-investors, it could offer substantial benefits by acquiring LG&E and Kentucky Utilities, the sources said. They said a Macquarie-led deal for the utilities would result in long-term ownership and substantial future investment in the coal-heavy businesses at a time when CO2 emissions are a significant concern.

A consortium of infrastructure investors led by a Macquarie fund in February 2009 completed a \$6.5 billion acquisition of [Puget Energy Inc.](#), and the bank led another consortium in its \$2.7 billion acquisition of [Duquesne Light Holdings Inc.](#), completed in May 2007.

Although they are in different states and different regulatory environments, the sources said, the businesses of all those utilities are fundamentally the same as highly regulated utilities, which is why Macquarie is interested. The sources said Macquarie's plan for the Kentucky utilities would also be similar to its plan for Puget Energy and Duquesne Light Holdings, where the bank and its co-investors continue to deploy additional capital in hopes of gaining strong regulator-authorized returns over the long term.

Macquarie is not the only private equity company rumored to be eyeing E.ON's U.S. assets, as sources previously told SNL Energy that various types of long-term and short-term private equity firms were circling the utilities.

The city of Louisville, Ky., via public comments made by Mayor Jerry Abramson, has also expressed interest in buying the two Kentucky utilities.