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EDF Considers Taking Over U.S. Joint Venture Partner

By DAVID GAUTHIER-VILLARS in Paris and REBECCA SMITH in San Francisco

PARIS – French state-run power company Electricite de France SA is considering raising its stake or even taking over U.S. joint venture partner Constellation Energy Group Inc., which risks becoming another casualty of the radiating credit crisis, people familiar with the situation said Wednesday.

The electricity company has lost more than half of its market value since the end of last week as concerns have grown over the liquidity needs of the company's commodities trading business. The stock closed today at $24.77, down $5.99 or 19.47% after a 36% drop on Tuesday.

EDF and Constellation recently formed a joint venture – called UniStar – to build nuclear power plants in the U.S. As part of the deal, the French company had previously agreed to cap its investment in Constellation to below 10%. In addition to a commodities trading business that generates 20% of its profit, Constellation owns a large fleet of power plants in the eastern U.S. and Baltimore Gas & Electric Co., a utility company in Maryland.

Now, however, EDF is studying various options – including the possibility of buying Constellation outright – if the U.S. company consents, the people familiar with the matter said.

These people said no deal is certain, mainly because EDF needs to approval from the French government – which controls 85% of the energy giant – before going ahead with any major investment. EDF is already seeking government approval to launch a 12 billion pound bid for UK power company British Energy PLC.

An outright sale of Constellation would also require permission from U.S. federal and state authorities. Constellation can sell up to 20% of its equity without further regulatory approval.

Fears of continued fallout from the credit crisis have dragged down shares in several other U.S. firms with merchant power operations including Sempra Energy, Calpine Corp., Edison International and AES Corp. These stocks have fallen far less than Constellation, however.

Standard and Poor's credit-rating agency put Constellation on credit watch Wednesday and said it believed discussions to sell the company were at an "advanced stage."

Investors fear Constellation's commodities trading business might seize up if it loses important credit facilities. The trading business requires large sums of money to back contracts. Constellation's collateral requirements more than doubled to $4.4 billion at the end of August from $1.9 billion in July 2007, according to company filings.

Some traders reportedly decided not to enter into contracts with Constellation this week on the Intercontinental Exchange, a global commodities-trading exchange, further worrying analysts that its business could crumble.

S&P said Constellation is facing "an acute crisis of confidence." It was reassured the company intended to add $750 million to $1 billion of equity through a strategic partner or other means including "outright sale of the company." If Constellation is downgraded from its current BBB corporate rating to junk, its collateral requirement would grow by $3.3 billion, S&P said.

The company sought to reassure investors both days, with little apparent success, first saying it had only limited exposure to Lehman and adequate liquidity to meet its needs, and then on Wednesday confirming it had lined up an additional $2 billion credit line with the Royal Bank of Scotland and the Union Bank of Switzerland, a fact later confirmed by credit analysts, in addition to an earlier line. Aggregate liquidity, including cash on hand, was $2 billion at the end of August.

Write to David Gauthier-Villars at david.gauthier-villars@wsj.com and Rebecca Smith at rebecca.smith@wsj.com