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Utility M&A Drivers: Migration of Economies of Scale

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Overview:
The economic drivers for enterprise M&A transactions in the North American electric and gas utility industry have evolved over time. Most of the transactions through the mid-1990s were premised on the cost savings from combining operations (T&D and generation). Consequently, those transaction typically involved geographically proximate firms. Access to broader markets and customer bases provided the rationale for many mergers in the late 1990s heyday of restructuring. With the industry's "return to basics," many recent transactions have been justified more by synergies in the information-based back office processes (customer service, finance, human resources, etc.) or by improved access to capital. These latter sources of synergy are accessible to separated as well as proximate firms, with the result that utility M&A transactions are not just between neighbors anymore. The advent of carbon controls and trading in carbon credits opens the door to a new and potent streams of cost savings and increased profits from M&A transactions.

Method:
The actual levels and functional distribution of savings realized from past utility M&A transactions will be quantified through statistical analysis of publicly available historical cost data, plus summary-level proprietary data from Black & Veatch. Merger-related synergies in costs of carbon controls will be analyzed through an integrated electric/gas regional market model, and profiled for representative illustrative cases.

Results:
Work to date has demonstrated that information-based synergies are relatively more prominent in recent utility mergers, and that the functional mix of cost savings differs between mergers of distant vs. close firms. Carbon control cost analyses are not yet concluded.

Conclusions:
Utility strategic planners should think broadly about how emerging information technology and environmental trends will influence their choice of strategic transactions.