SOUTHERN COMPANY-AGL RESOURCES MERGER

Will utilities merger mean lower rates?

Deal would create 2nd-largest U.S. utility.

Experts split on impact $8 billion purchase will have on customers.

By Leon Stafford lstafford@ajc.com

Atlanta utility giant Southern Company on Monday struck a deal to buy natural gas provider AGL Resources for $8 billion, creating the nation's second-largest utility and prompting questions about the impact the agreement will have on customers' power bills.

Southern Chairman Tom Fanning, who expects the deal to be finalized by mid-2016, said a key benefit of the companies joining forces is that Atlanta Gas Light can increase the number of natural gas pipelines it has, a move that potentially could lead to cheaper energy prices.

Southern, which has invested heavily in coal, sees in AGL an opportunity to expand its portfolio into the lucrative and growing natural gas segment, complementing its investments into cleaner fuel such as wind and solar.

AGL, located just up the street from Southern's downtown Atlanta headquarters, will remain in the city as a subsidiary of Southern. The combined companies would serve 9 million customers in nine states.

Consumer advocates advised consumers to be skeptical of any talk of lower prices.

"From the standpoint of mergers and acquisitions, generally, they're not done to benefit the consumer, but rather to increase the profits for shareholders," said Liz Coyle, executive director of consumer advocacy group Georgia Watch.

"It'll be up to the Georgia Public Service Commission, which regulates both AGL Resources and Georgia Power, to make sure none of the costs of the merger, including the acquisition premium, get passed along in the form of higher rates for the state's energy consumers," Coyle said. She added that Georgia Watch will monitor closely gas and utility requests for both AGL and Georgia Power, which is owned by Southern Co., to make sure consumer interests are protected as the deal goes forward.

PSC members were more willing to give it the benefit of the doubt.

"I couldn't sleep last night because I was thinking about all this," Commissioner Stan Wise said. "But I couldn't come up with any negatives. The gas company will continue to operate as a regulated entity. And so will Southern Company."

For some, the prospect of getting both their power and gas from the same company — especially one that also owns Alabama Power, Mississippi Power and Gulf Power (representing Northern Florida communities) — raises concerns.

Before the late 1990s, all Georgia consumers bought their natural gas from Atlanta Gas Light. Then, the state allowed residents to buy gas from other providers, ostensibly to encourage competition and more choice.

However, that hasn't always translated into huge savings for consumers, partly because they still must pay fees to AGL for running and maintaining the pipelines.

A 2011 report from the federal Bureau of Labor Statistics found that Georgians paid 37 percent more for gas, on average, than consumers in other states.

"I think consumers should always be worried about consolidation that may result in higher prices," said Kurt Ebersbach, a senior attorney at the South ern Environmental Law Center, though he declined to comment specifically on the Southern-AGL deal until more details are known.

Southern made the announcement early Monday after months of behind-the-scenes negotiations that seemed to take many by surprise.

PSC Commissioner Tim Echols said he first heard about the deal Sunday night, when executives from both companies called him. "I met with company leadership Monday morning at 8 a.m. to ask additional questions and get as many details as possible," he said.

The deal still needs approval from AGL shareholders and certain state utility and other regulatory commissions.

The PSC said it would review the impact the acquisition could have on the customers, the public interest in general and whether the deal complies with all applicable commission laws and rules. None of the members of the Public Service Commission received campaign contributions from energy companies in the first six months of the year, the most recent data available.

Echols said the consolidation seems to be good for Georgia consumers.

"The commission will review the merger, and I will be looking to see if it could potentially help provide additional natural gas infrastructure, economies of scale, more expertise to Georgia Power, and ultimately more customer choice," he said.

Still, Echols said his primary concern is to "ensure a robust, competitive marketplace that benefits ratepayers in both companies. The commission will thoroughly vet the deal to make sure this happens."

The idea of electricity and gas from one corporate entity is not unique: More than half the counties in South Carolina, for instance, can get both from subsidiaries of Scana Energy.

It has been that way as long as anyone can recall, said C. Dukes Scott, executive director of the South Carolina Office of Regulatory Staff, which is responsible for auditing and analyzing utilities.

"Today, I think it's working well," he said.

The biggest potential problem is "cross-subsidization," when a utility's bookkeeping might shift costs and revenues, making some operations look healthier than they really are.

"You've got to make sure that the expenses are properly allocated," Scott said. "But I don't see any adverse consequences here for having the combined company."

And, Scott said, there are some potential upsides to the Southern-AGL deal. For example, getting consumers to shift from electric to gas in powering water heaters — a cheaper alternative, he said.

“That is something you may not be doing if they were separate companies,” he said.

Many see the acquisition as a way for the Southern Company, which has been heavily invested in coal, to make the switch to the more abundant, cheaper and cleaner natural gas.

Both Fanning and AGL Resources CEO John W. Somerhalder II, who began talking about joining forces over dinner in February, said there will be no immediate layoffs, but both left the door open for future “efficiencies” for redundant staff or other possible cuts as the companies delve deeper into their needs.

The combined business will include 11 regulated electric and natural gas distribution companies. Customers will continue to be served by their current gas and electric utility companies.

Said Fanning, borrowing a quote from hockey great Wayne Gretzky, “You skate to where the puck will be. That’s what we’re doing here.”

But at least two law firms announced investigations into whether AGL’s board had gotten a good deal for shareholders.

Southern and AGL put the deal’s enterprise value at about $12 billion, which includes the debt that Southern would assume.

Business for Southern has been on the upswing. The company reported adding 22,000 new customers so far in 2015, largely from a surge in apartment construction in Southern strongholds such as its Atlanta home base.

Staff writers Russell Grantham, Aaron Gould Sheinin, Greg Bluestein, J. Scott Trubey and Michael E. Kanell contributed to this article.

SOURCE: Atlanta Journal Constitution