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Dow Industrials 11,121

Philadelphia Electric Index 430

Note on Possible Merger

Consolidated Edison/KeySpan Merger? (ED-\$45-NYSE-Hold) (KSE-\$36-NYSE-Not Rated)

Looks like the NY Times again scooped both the press and the financial community in announcing M&A discussions. In December 2005, it reported the FPL Group and Constellation Energy merger and, unlike the savvy Street traders, its acquisition price was right on the money at \$11 billion. In today's article, the Times wrote that Consolidated Edison and National Grid (UK-NG), a UK based company, were bidding for KeySpan Corporation. KeySpan assets in New York State include Brooklyn Union Gas and what's left of Long Island Lighting. Other assets include Boston Gas, Essex Gas and Colonial Gas in Massachusetts.

National Grid, a few years back, made an unsuccessful bid for Florida Progress (now part of Progress Energy-PGN-\$44), but succeeded in acquiring Niagara Mohawk Power in 2000 and earlier this week announced an agreement to buy the Rhode Island gas assets of New England Gas. The ConEd action represents an aggressive change in attitude for this ultra-conservatively run company. (Kevin Burke, ConEd's new CEO, added the title of Chairman yesterday.) Acquisition of the gas and electric properties appears a perfect fit and would increase ConEd's generic growth rate in both electric and gas sales. Generic earnings growth for both ED and KSE is about 2% to 3% annually although corporate goals are closer to 5%.

But whether the deal makes sense for shareholders depends on price. The \$6.5 billion cited in the article would make little sense for KeySpan shareholders since it would represent a miniscule premium over KeySpan's closing price of \$36 a share on February 16, 2006. At that level the acquisition would be earnings neutral, even before the typical propaganda over synergies and merger-related one-time write-downs. KSE shares are at \$39.75 (as this piece is being typed), approximately a 10% premium to yesterday's close. Our guess, based on prior mergers, is that the premium, assuming a deal is done, would be in the 10% to 15% range, suggesting a price in the \$40-\$42 a share area.

ED/KSE Pro Forma

	Price	
	2/16/06	
ConEd.	45	
KeySpan	36	
Earnings 2006Est.	PS	\$Mil.
ConEd.	3.01	735
KeySpan	2.45	431
Combined		1,166
Purchase Price \$ millions	6,500	
Per Share	36.93	
Share Issuance	143	
Pro Forma Shares	387	
Pro Forma Earnings	3.01	

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Range of Formal Recommendations 15 total 1-buy-13-holds-1 sell

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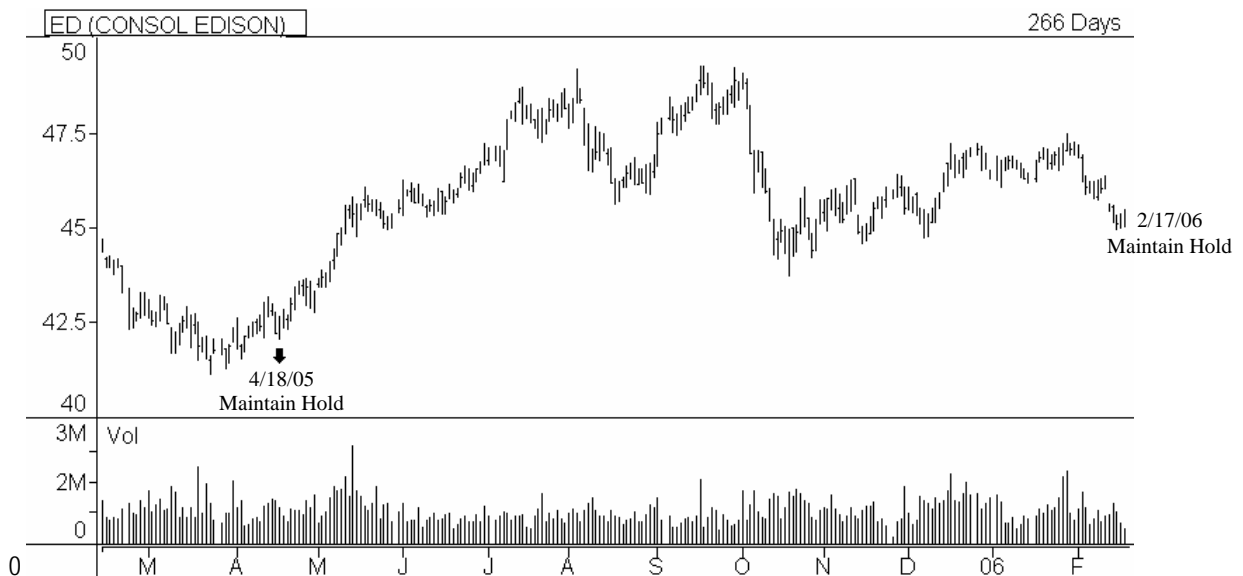
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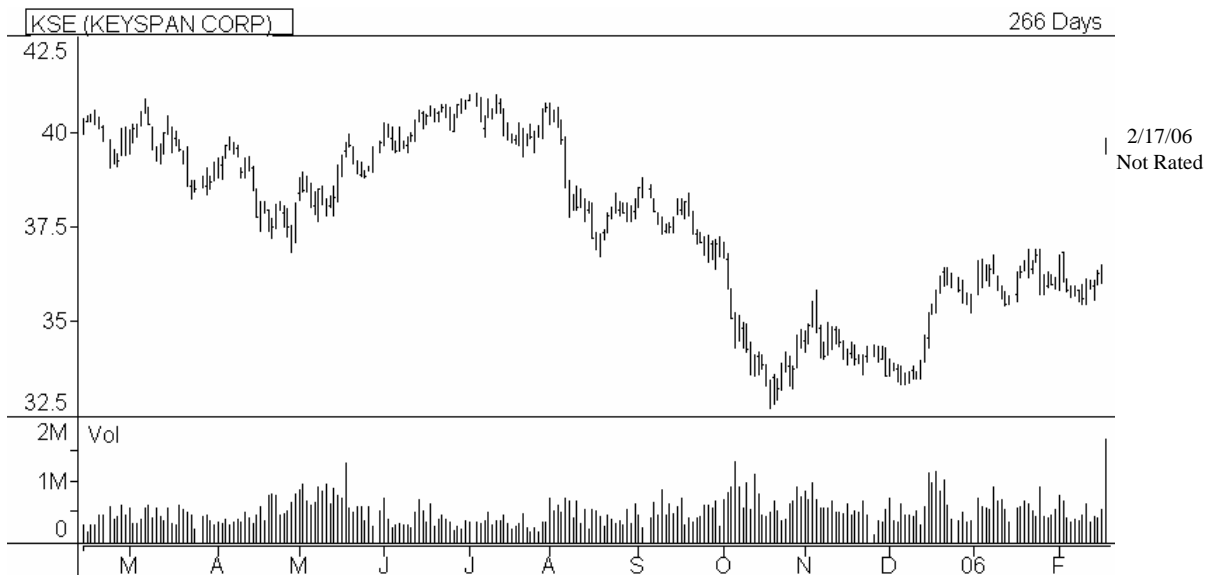
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Market Perform & Hold Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

Under Perform Total return is expected to be below the average total return of the analyst's industry coverage universe over the next 12 months.

Sell Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.





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