Acquisitions and Divestitures in U.S. Energy

by Foreign Direct Investors in 2006

Findings

- Based on EIA's latest analysis of information on acquisitions and divestitures by foreign direct investors in the U.S. energy industry, net acquisitions were negative (i.e., the value of divestitures exceeded the value of acquisitions) in 2006, as divestitures reached a six year high.
- The rise in divestitures was driven by a single transaction, Scottish Power's sale of PacificCorp, the parent of two large electric utilities in the West.
- Divestitures also rose in the oil and gas production and petroleum refining and marketing and mid/downstream natural sectors.
- Acquisitions by foreign direct investors rose 24 percent from 2005, but were well below the high levels of several years ago.
- The three largest acquisitions were for nearly equal amounts, Marubeni (Japan) purchased oil and gas properties in the Gulf of Mexico, Société Générale (France) bought and recapitalized CDX, an unconventional natural gas producer, and International Power (England and Wales) acquired the Coleto Creek power plant in Texas.

Background and Definitions

Foreign direct investment (FDI) is the ownership or control of 10 percent or more of a U.S. company by a foreign investor.[1] Acquisitions and divestitures by foreign direct investors are purchases and sales, made directly or indirectly, of U.S. businesses (or assets) where either the buyer or the seller, but not both, is a foreign direct investor.[2] The Energy Information Administration (EIA) issues an update of FDI acquisitions and divestitures of U.S. energy assets each year. The information presented here is derived from company reports and press releases, industry publications, The Online Transaction Roster maintained by FactSet Mergerstat, and company filings with the U.S. Securities and Exchange Commission.[3]

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[1] For further information on foreign direct investment in U.S. energy, see Energy Information Administration, "Foreign Direct Investment in U.S. Energy 2005." A good overall treatment of FDI in the United States can be found in Edward M. Graham and Paul R. Krugman, *Foreign Direct Investment in the United States*, 3rd ed., (Washington, DC: Peter G. Peterson Institute for International Economics, 1995).

[2] Purchases or sales of U.S. energy businesses or assets by one foreign direct investor from or to another foreign direct investor are not included in the transactions discussed here because they do not change the amount of foreign direct investment, only its source. In some instances, foreign assets owned by the U.S. business that is being acquired or divested are included in the transaction amount.

[3] Because not all acquisitions and divestitures of businesses (or assets) nor the ownership of businesses (or assets) necessarily become public knowledge, and because the reporting of FDI mergers and acquisitions is incomplete, the set of transactions reported here may be incomplete. The Energy Information Administration does not directly collect any data regarding these types of transactions, nor does it make any attempt to independently value them.

Transactions Summary

FDI acquisitions and divestitures in the U.S. energy industry both increased in 2006, with acquisitions up by 24 percent to $9.6 billion and divestitures increasing almost four-fold to $14.5 billion (Table 1). In comparison, the total equity value of mergers and acquisitions in all industries (energy and non-energy) that involved at least one U.S. company rose less, by 20 percent.[4] The large increase in U.S. energy FDI divestitures was fueled by one very large transaction, while there were no large transactions in FDI acquisitions. Net acquisitions were negative for only the third time since 1989, when EIA began publishing FDI acquisitions and divestitures. At $-4.9 billion, net acquisitions were more than ten times the value compared to the other two years in which net acquisitions were negative.

Table 1. Value of Acquisitions and Divestitures of U.S. Energy Assets by Foreign Direct Investors, 2002-2006
(Million Current Dollars)

	2002	2003	2004	2005	2006
Acquisitions					
Oil and Gas Production[a]	809	386	3,875	R 5,254	5,505
Petroleum Refining and Marketing and Mid/Downstream Natural Gas	8,196	1,831	1,994	1,634	2,448
Coal	0	0	0	0	0
Electric Power	9,447	724	1,937	R 860	1,635
Total Acquisitions	18,451	2,941	7,806	R 7,748	9,588
Divestitures					
Oil and Gas Production[a]	0	1,998	464	684	1,476
Petroleum Refining and Marketing and Mid/Downstream Natural Gas	1,629	0	2,207	R 238	3,810
Coal	0	738	1,594	0	0
Electric Power	2,723	459	0	2,047	9,200
Total Divestitures	4,351	3,195	4,265	2,969	14,486
Net Acquisitions	14,100	-254	3,541	R 4,779	-4,898

[a]Includes oilfield services companies and petroleum refining and marketing assets of integrated petroleum companies.

Notes: Only acquisitions and divestitures greater than $100 million are included. R = revised. Totals calculated from unrounded data.

Sources: **2006:** Tables 2 and 3. **2002-2005:** Energy Information Administration, Energy Information Administration, "Acquisitions and Divestitures by Foreign Direct Investors in U.S. Energy 2005," Table 1, http://www.eia.doe.gov/emeu/finance/fdi/2005a&d.pdf.

Although increasing markedly in 2006, total FDI acquisitions in U.S. energy have not risen to the values reached in 1998 through 2002, when the single largest acquisition in each year was greater than (in real dollars) the total of all acquisitions in 2006 (Figure 1). The oil and gas production sector, which included two of three large transactions, was the leading contributor to the 2006 total (Table 2). Petroleum refining and marketing and mid/downstream natural gas had the second highest amount of acquisitions, followed by electric power. Acquisitions in coal were zero for the seventh straight year.

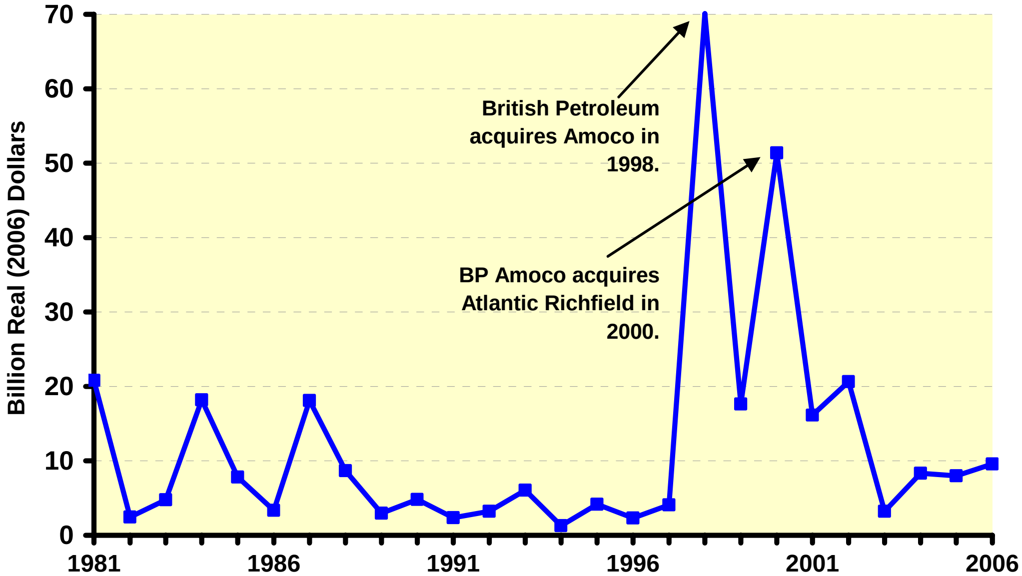
The increase in total FDI divestitures was driven by one large divestiture in the U.S. electric power sector (Table 3). Without that one transaction, divestitures would have increased only 78 percent and net acquisitions would have been positive. Increased divestitures in the petroleum refining and marketing and mid/downstream natural gas sector were the second-largest contributor to the increase, although they had been very small in 2005. Oil and

[4] Total value measured as base equity price only. "Mergerstat Free Reports: M&A Activity U.S. and U.S. Cross-Border Transactions," FactSet Mergerstat, https://www.mergerstat.com/newsite/free_reports_m_and_a_activity.asp, May 2008.

gas production divestitures, while more than doubling, were the third-largest contributor, while coal divestitures provided no contribution for the second-straight year.

A list of FDI acquisitions and divestitures of U.S. energy assets in 2006 that were valued at more than $100 million can be found in Tables 2 and 3, respectively.

Figure 1. Value of Acquisitions in U.S. Energy by Foreign Direct Investors, 1981-2006



Note: Beginning in 2002, only acquisitions greater than $100 million are included.
Sources: **2006:** Table 3. **1981-2005:** Energy Information Administration, "Acquisitions and Divestitures by Foreign Direct Investors in U.S. Energy 2005," Figure 1, http://www.eia.doe.gov/emeu/finance/fdi/2005a&d.pdf.

Acquisitions

There were three large FDI acquisitions of U.S. energy assets in 2006. One was Maurbeni's (Japan) purchase of Gulf of Mexico properties from Pioneer Natural Resources for $1.3 billion. Marubeni has been expanding its international upstream investments in oil and gas assets as one of its core lines of business in recent years. During December 2005, the acquired properties produced at an annual rate of almost 14 million barrels oil equivalent. A number of other large, foreign-based companies that had not been active in the Gulf before have begun acquiring oil and gas properties there in recent years including Statoil and Norsk Hydro (now StatoilHydro) based in Norway, Petróleo Brasileiro (Petrobras, Brazil), Repsol YPF (Spain), and fellow-Japanese company Mitsui. Pioneer plans to use a portion of the proceeds to complete the repurchase of $359 million of its shares. Proceeds will also be used to fund a portion of its 2006 capital budget and reduce short-term debt.

The second major acquisition was the purchase and recapitalization valued at $1.2 billion of CDX, an oil and gas exploration and production company focusing on unconventional gas, by TWC, an asset and mutual fund management group. It provides institutional capital to the energy and other sectors globally and had previously extended a bridge loan to CDX. TWC is a U.S. affiliate of Société Générale, the French bank with operations in global investment management, retail banking, and specialized financial services.

The U.S. affiliate of International Power (England and Wales) made the third large acquisition in 2006 by acquiring the Coleto Creek power plant, a 632 megawatt coal-fired electric power generation facility in Texas for $1.1 billion. International Power is an independent electric generating company with operating facilities around the globe. The U.S. sellers were Sempra Energy, the California-based parent of two utilities, San Diego Gas &

Table 2. Completed Acquisitions of U.S. Energy Assets by Foreign Direct Investors, 2006*

Acquiring Foreign Parent Company (Country)	U.S. Subsidiary	Company or Asset Being Acquired	Business of Acquired Company or Asset	Divesting U.S. Parent Company	Estimated Asset Value (million $)	Closing Month
Marubeni (Japan)	Marubeni Offshore Production (USA)	deepwater Gulf of Mexico oil and gas properties	oil & gas production	Pioneer Natural Resources	1,321	March
Société Générale (France)	TCW Group	CDX	unconventional natural gas production	private individuals	1,175 [e]	April
International Power (England & Wales)	American National Power	Coleto Creek power plant	electric power	Sempra Energy & Carlyle/Riverstone	1,140	July
Statoil (Norway)	-	Gulf of Mexico oil and gas properties	oil & gas production	Carlyle/Riverstone	706	November
National Grid (England & Wales)	National Grid USA	Rhode Island properties of New England Gas	natural gas distribution	Southern Union	575	August
Alon Israel Oil	Alon USA Energy	Paramount Petroleum	petroleum refining	-	504	August
Mitsui (Japan)	Mitsui (U.S.A.)	Gulf of Mexico oil and gas properties	oil & gas production	Pogo Producing	500	June
Nabors Industries (Bermuda)	-	NFR Energy (50 percent)	oil & gas production	-	500	September
Fortis (Belgium & the Netherlands)	-	Cinergy Marketing & Trading	electric power & natural gas trading	Duke Energy	475 [c]	October
Energy XXI (Bermuda)	Energy XXI Gulf Coast	oil & gas properties	oil & gas production	Marlin Energy et al.	448	April
TransCanada	TC PipeLines	Northern Border Pipeline (20 percent)	natural gas pipeline	ONEOK	427	April
EPCOR Utilities (Canada)	EPCOR Operations	Primary Energy Ventures	electric power	American Securities Capital	380	November
Energy XXI (Bermuda)	-	oil & gas properties	oil & gas production	Castex Energy et al.	311	July
PrimeWest Energy (Canada)	-	producing oil and gas properties	oil & gas production	CanWest Petroleum	300	July
EnCana (Canada)	EnCana Oil & Gas (USA)	oil & gas properties	oil & gas production	Leor Energy	243 [b]	July
Frère-Bourgeois (Belgium)	-	U.S. Oil and Refining	petroleum refining	-	200	March
TransCanada	TC PipeLines	Tuscarora Gas Transmission (49 percent)	natural gas pipeline	Sierra Pacific Resources	137	December
Alimentation Couche-Tard (Canada)	-	90 retail outlets[a]	petroleum marketing	Spectrum Holdings	130	June
BP (England & Wales)	BP America	Orion Energy	electric power	-	115	December

*Includes only transactions valued at $100 million or greater.
[a]May include some convenience stores that do not sell gasoline.
[b]Does not include value of acreage transferred.
[c]Includes purchase of Cinergy Canada.
[d]Estimated.
[e]Includes the provision of $340 million in working capital to CDX.
NA = not available.

Electric and Southern California Gas, and Carlyle/Riverstone Global Energy and Power Funds, a private equity partnership that provides capital to the energy industry. The Funds are jointly owned by The Carlyle Group and Riverstone Holdings, private equity firms with worldwide investments.

Divestitures

The largest FDI transaction in the energy industry in 2006 was the sale of PacifiCorp by Scottish Power to MidAmerican Energy Holding's, a subsidiary of Berkshire Hathaway, for $5.1 billion in cash and $4.1 billion in acquired debt and preferred stock outstanding. PacifiCorp owns Pacific Power and Rocky Mountain Power, two regulated utilities that provide electricity to 1.6 million customers in six western states. Its facilities include electric power generation units with more than 9,000 megawatts of capacity and 15,700 miles of power transmission lines. PacifiCorp also owns coal-mining operations to supply some of its power plants. Scottish Power, whose purchase of PacifiCorp in 1999 was the first major purchase of a U.S. electric power company by a foreign investor, divested the business in order to focus on its United Kingdom natural gas and electric utility operations. Berkshire Hathaway is a holding company that owns and operates numerous companies in the United States and internationally; its primary business is insurance.

Table 3. Completed Divestitures of U.S. Energy Assets by Foreign Direct Investors, 2006*

Divesting Foreign Parent Company (Country)	U.S. Subsidiary	Company or Asset Being Divested	Business of Divested Company or Asset	Acquiring U.S. Parent Company	Estimated Value (million $)	Closing Month
Scottish Power	-	PacifiCorp	electric power[b]	Berkshire Hathaway	9,200	March
Petróleos de Venezuela	CITGO Petroleum	Houston Refining (41.25 percent)	petroleum refining	Lyondell Chemical	2,767	August
BP (England & Wales)	BP America	Coleto Creek power plant	oil & gas production	Apache	845	April
EnCana (Canada)	-	natural gas storage	midstream natural gas	Carlyle/Riverstone	327 [a]	May
Total (France)	Total Exploration & Production USA	oil & gas properties	oil & gas production	XTO Energy	300	February
EnCana (Canada)	-	Entrega Gas Pipeline	midstream natural gas	Kinder Morgan Energy Partners & Sempra Energy	245	February
EnCana (Canada)	-	natural gas storage	midstream natural gas	Carlyle Group & Riverstone Holdings	215	November
BP (England & Wales)	BP America	working interests in oil &gas properties	oil & gas production	Stone Energy	188	July
BP (England & Wales)	BP America	working interests in oil &gas properties	oil & gas production	Swift Energy	143	October
BP (England & Wales)	BP America	pipeline systems	crude oil pipelines	Plains All American Pipeline	130	July
Royal Dutch Shell (England & Wales)	Shell Oil	Shell Energy Services	natural gas distribution	MXenergy	126	August

*Includes only transactions valued at $100 million or greater.

[a]Estimate base on U.S. share of total capacity sold.

[b]Iincludes coal mining operations.

NA = not available.