

Calpine Says NRG Offer Inadequate, May Seek Talks (Update3)

By Edward Klump

May 30 (Bloomberg) -- Calpine Corp., the U.S. power producer that exited bankruptcy protection in January, said an unsolicited \$11 billion takeover offer from NRG Energy Inc. is inadequate and the company may seek further negotiations.

NRG's offer, disclosed May 21 by the two companies, would combine the largest independent U.S. power producers. NRG, based in Princeton, New Jersey, offered 0.534 share for each Calpine share, valuing the deal at \$22.70 per share at the time. Calpine rose 8.1 percent the next day, exceeding the offer price, and NRG dropped 5.1 percent, reducing the bid's value.

Calpine is the nation's largest producer of electricity fueled by natural gas, which pollutes less than coal. The company may benefit as lawmakers consider ways to cut carbon-dioxide emissions. NRG would increase its presence in California and double its U.S. capacity to about 45,000 megawatts.

"I don't think anyone should be surprised by Calpine's announcement," said Gordon Howald, an analyst with Calyon Securities USA Inc. in New York who has a "buy" rating on NRG shares and doesn't own any. "If they were to accept the first bid as laid out, they would probably be doing their shareholders a disservice."

Calpine, based in Houston and San Jose, California, said today in a statement that it authorized its advisers to contact NRG to ascertain whether there's a basis for talks. Ed Trissel, a spokesman for Calpine, declined to comment beyond the statement, which said "there can be no assurance that a transaction will result from any discussions, if held."

NRG rose 78 cents, or 1.9 percent, to \$41.59 today in New York Stock Exchange composite trading. Calpine gained 21 cents to \$22.90. At those prices, the deal is worth about \$10.8 billion.

NRG 'Disappointed'

"We respect the Calpine Board's decision but are disappointed that they have decided not to move quickly to deliver the benefits of our proposal to Calpine's shareholders," David Crane, NRG's chief executive officer, said in a statement. The company remains interested in the deal, Crane said.

The offer disclosure followed a statement by Harbinger Capital Partners that NRG had made a bid May 14. Harbinger, which invests in distressed assets, said May 21 that its funds owned more than 24 percent of Calpine's outstanding shares, making it the largest stockholder.

Harbinger said in a letter to Calpine's board that it had "yet to identify anything objectionable about the offer that cannot be resolved through negotiation." It also asked that Calpine's search for new management be put on hold so the NRG offer could be considered. Andy Merrill, a spokesman for Harbinger, declined to comment today.

Possible Other Suitors

"It doesn't mean the deal's off," Howald said. "It also doesn't mean that there aren't other people, whether it's private equity or possibly even another independent power producer that would consider an acquisition.

Companies that may take a look at Calpine include Constellation Energy Group Inc., Reliant Energy Inc. and Mirant Corp., said James Halloran of National City Private Client Group in Cleveland, an analyst who helps oversee \$38 billion in assets, including about 13,500 NRG shares. A less likely possibility is Dynegy Inc., Halloran said.

"There's going to be a lot of negotiations in this," he said. "I think you'll get at least one or two other possible bidders on it."

Nobody "is a perfect fit for everything Calpine has," Halloran said.

Calpine Bankruptcy

Calpine went into bankruptcy in December 2005 after gas costs surged and a power glut held down electricity prices. NRG also was forced into bankruptcy after Enron Corp., the largest U.S. energy trader, collapsed and power prices slid. Crane joined the company as chief executive in 2003 and led NRG out of bankruptcy in December of that year.

In 2006, NRG rejected a \$7.86 billion takeover offer from another power producer that had been through bankruptcy reorganization, Atlanta-based Mirant.

NRG is being "opportunistic," especially after previously dismissing an offer from Mirant it thought was too low, said Amit Chokshi, a managing member with Kinnaras Capital Management LLC in Norwalk, Connecticut, that has an undisclosed number of Calpine shares. Chokshi said he thinks Calpine is worth \$36 to \$40 a share.

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