

HD **UPDATE 1-Australian competition regulator blocks AGL's \$1.34 bln MacGen purchase**

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* Ruling is a blow to New South Wales asset **sale** program

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* NSW says power **firm** won't go ahead in current form

* AGL shares slip as **company** and NSW assess decision (Adds government and AGL reaction, share price, deal context)

By Byron Kaye and Lincoln Feast

SYDNEY, March 4 (Reuters) - An Australian regulator blocked a A\$1.5 **billion** (\$1.34 **billion**) deal by New South Wales to sell a power **company** on competition concerns, dealing a blow to the state's plans for a series of asset disposals this year to fund new road and rail projects.

In a widely expected ruling, the Australian Competition and Consumer Commission said on Tuesday the state government's plan to sell Macquarie Generation to AGL **Energy** Ltd would have stifled competition in the country's most populous state.

As shares in AGL fell on the news, the New South Wales government said the **sale** "will not proceed in its current form". "We are not involved in a desperate fire-**sale**," New South Wales treasurer Mike Baird said in a statement, sticking to the state's previous stance that the **company** will only be sold for more than its book value.

The state government last month ruled out rival bids from Brisbane-based ERM Power Ltd and Japan's Marubeni Corp, saying only AGL offered to pay more than the asset's retention value. AGL said it was reviewing the regulator's reasoning before deciding on its response.

New South Wales has already earmarked smaller **energy firm** Delta Electricity, which owns two power stations, and the Port of Newcastle for **sale** this year to fund its plans to improve the state's transport infrastructure. The state government has identified a total of about A\$85 **billion** in potential asset sales over the next five years.

The regulator's decision on Macquarie Generation comes a year after the New South Wales government netted A\$5 **billion** from the **sale** of Port Botany in Sydney and Port Kembla in Wollongong.

In its ruling on Tuesday, the regulator said allowing AGL to buy Macquarie Generation, which supplies 27 percent of New South Wales's electricity, would mean the state's three biggest **energy** retailers would own up to 80 percent of its **energy** generators. That would raise "barriers to entry and expansion for other electricity retailers," the regulator said.

The decision comes as a blow to AGL. The **company** was counting on the **acquisition** to step up its competition with Sydney-based Origin **Energy** Ltd and **Hong Kong**-based CLP Holdings Ltd's **Energy** Australia on selling power to retail customers. AGL shares were down 2 percent in early trading while the benchmark index was flat.

In a Feb. 26 interview with Reuters, AGL Chief Executive Michael Fraser said he was confident the **company** cleared regulatory hurdles and it was "premature" to say if he would take the commission to court in relation to Macquarie Generation.

In 2003, the **company** successfully mounted a Federal Court challenge of the regulator's ruling against its **purchase** of one-third of a Victorian power station.

"If we need to defend it in court, we will," the regulator's chairman Rod Sims told a local television station in an interview on Tuesday morning.

(\$1 = 1.1194 Australian dollars) (Reporting by Byron Kaye and Lincoln Feast; Editing by G Crosse and Kenneth Maxwell)

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CO agkega : AGL Energy Limited | macgen : Macquarie Generation

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