

FINAL TRANSCRIPT

Conference Call Transcript

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PRESENTATION

Mary Ann Arico - Mirant Corporation - Director IR

Good morning. And thank you for joining us today for Mirant's second quarter earnings call. If you do not already have a copy, the press release, financial statements and second quarter filings with the SEC are available on our website at Mirant.com. The slide presentation is also available on the website, and a replay of our call will be available approximately two hours after we finish. Speaking today will be Ed Muller, Mirant's Chairman and Chief Executive Officer and Jim Iaco, Executive VP and Chief Financial Officer. Also in the room and available to answer questions are Linn Williams, Executive VP and General Counsel; Bill Holden, Senior VP and Treasurer; John O'Neal, Senior VP and Chief Commercial Officer and Paul Gillespie, Senior VP of Tax.

Moving to slide one, the Safe Harbor slide. During the call we will make forward-looking statements which are subject to risks and uncertainties. Factors that could cause actual results to differ materially from management's projection, forecasts, estimates and expectations are discussed in the Company's SEC filings. I encourage you to read them. Our slide presentation and discussion on the call may include certain non-GAAP financial measures. For such measures

reconciliation to the most directly comparable GAAP measure is available on our website or at the end of our slide presentation.

I will now turn it over to Ed Muller.

Ed Muller - Mirant Corporation - Chairman, CEO

Thanks, Mary Ann, and good morning everyone. I will try and remember to tell you what page of the webcast I am on. We will start on page 3 with an overview of significant events since the last earnings call in May. First, we have continued and will continue our exploration of strategic alternatives to enhance shareholder value. This has been ongoing, and it will continue to be ongoing. Second, we closed in June the sale of our Philippine business. Third, we closed yesterday on the sale of our Caribbean business. And let me pause with those two.

A year ago or thereabouts, we announced that we would divest three businesses, our Philippine business, our Caribbean business and six natural gas-fired US power plants. And we did exactly what we said we were going to do, and we have now completed our divestiture program. We have delivered, as promised.

And finally, as was announced in a news release yesterday, we have reached a resolution with parties who were challenging our 2006 settlement with Pepco, an old matter arising from the bankruptcy of the Company, and should be implementing that settlement shortly. We will go over some of the details later in this presentation.

Turning to page 4, this was a map as we have presented it previously of the operations of the Company in the United States. It is Mirant's continuing operations. But with the completion yesterday of the sale of our Caribbean business this is Mirant today, and this is Mirant going forward. These are our operations. This is where they are located.

Turning to page 5 and our results for the continuing operations of the Company for the second quarter and the first six months, we've had very good results. For the quarter, as you can see and as our news release says, we are up 177%. For the half compared to the same half in 2006, we were up 71%. The primary drivers for the increase quarter-over-quarter are higher realized gross margins in the Mid-Atlantic and second, results from our fuel management activities, fuel oil management activities. As in the past, and as consistent with our approach to running the business, hedges have continued to provide predictable and relatively stable results for us. We will continue to do this and think it appropriate for a business like ours.

And finally, let me address some of the market fundamentals. As I think probably everyone knows, near-term gas prices have softened, particularly because the amount in storage has been up, and weather up until very recently this summer has been relatively mild. But the longer-term gas prices have remained fairly stable, around \$8.00 on a calendar year basis. And we expect that to continue. Consistent with that since gas tends to drive electricity prices, near-term electricity prices have softened some but longer-term prices have remained stable as we see them in our markets. And finally, in Southwest MAAC that is the area where our Mid-Atlantic plants are, capacity prices have continued to reflect the lack of adequate capacity in the Pepco zone. We will speak some more about that as we go forward.

Turning to page 6, as we have been doing consistently, we are showing you here our hedge profile. There aren't a lot of significant changes since the last quarter. We are up, on our baseload coal both in 2008 and 2009.

Moving to page 7, the Mid-Atlantic, and I will start on the top; key messages from the quarter. First RPM, that is the new capacity market in PJM which took effect on June first. So we are

beginning to see the results of that in our own results. Second, generation volumes were up about 10%. Energy prices were up about 15%. This is a quarter-over-quarter comparison from last year. When you look at our data you will see that our EFOR, our equivalent forced outage rate is higher, something that generally does not make us happy. A major factor in this was coming out of our spring outage on unit one at Morgantown. This is one of our 600 MW units at Morgantown. We had an extensive spring outage, as planned for a significant number of upgrades to the plant. And those upgrades included installing the SCR, selective catalytic reduction to control nitrogen oxides emissions for unit one. It included upgrading the five mills that pulverize the coal for the unit. It included a lot of work on the boiler tubing. We had over 11,000 welds we made in doing tube work in the boiler for unit one, and it included a significant upgrade of the controls. These are all important things to do.

They all portend a good future for the unit. They are what should be done with the unit, and it will all come in. In bringing the unit back online we ran into, if you will, start up issues with each of those. In the SCR we ran into some issues in the lube oil system where gunk had been left in the line and had to be drained and cleaned out. With the 11,000 welds in the boiler we found a blocked spot where a solder had been left inside the tube rather than just on the outside. One of the five mills for the upgraded mills had problems with, vibration problems on start up. We've addressed them all. The unit has been running, but it gave us about a two-week extension in June of this spring outage to upgrade the unit.

In terms of the environmental upgrade we announced and filed an 8-K recently about signing an agreement for the FGDs, that is the fluidized -- I'm drawing a blank -- but the scrubbers to control sulfur dioxide emissions at the Mid-Atlantic plant with a price tag estimated at about \$1.1 billion. That is consistent with the \$1.6 billion that has been our estimate and our estimate remains as it has been, and we remain comfortable with it.

At Potomac River where we have five units, we are currently able to operate and are operating three of the units. We are in some both discussions and some litigations in Virginia over how we will operate the plant going forward. But we have every intention of finding a path forward for the full operation of the stations.

Moving to page 8, you can see what are some of the public numbers already on the most recent round of the RPM, the capacity auction and it is noteworthy that for the entire RTO, the regional transmission organization, a tremendous increase in pricing. We also had an increase in pricing in Southwest MAAC. This reflects the tightness of supply particularly in SW-MAAC, but also in the RTO as a whole. Demand continues to grow and supply does not grow. There is a certain inevitability to this. The capacity markets are showing some indications already, it is early stage, of having some of the desired effects, that is some retirements have been deferred, which is exactly what you would expect the capacity market that is working to do. And there has been some demand response likewise that reflects the fact that capacity costs -- what it is costing so people seek to reduce demand and we would expect to continue seeing this. There will be more auctions as scheduled.

Moving to page 9, our Northeast which is New England and New York for us, the only significant update for us here is we have filed with the United States bankruptcy court in Fort Worth to bring our Lovett plant out of bankruptcy. This is the last of the Mirant entities in bankruptcy, and when it emerges from bankruptcy there will be no further Mirant unit remaining in bankruptcy. And just one comment on the capacity market, and this is what we are seeing in general, given the greatly rising costs of construction for both equipment and labor, cost of new entrants continues to rise, and the New York ISO is now reviewing that. We understand, and we expect -- expect may be too strong, but we would not be surprised at all to see that we will see an increase in those capacity prices to reflect reality, which is that the cost of new entrant is rising. And it has risen significantly.

California, page 10, nothing much to report. We proceed along.

On page 11, development opportunities, pretty much as we have said before with low and declining reserve margins there is a need for capacity. The capacity markets are pointing in the right direction. They are new. They have to stabilize for people to rely on them. Brownfield development at our existing sites and anyone's existing sites we think is an obvious, efficient way to add new capacity. Likewise repowering old facilities so that they become more efficient is an efficient way. You already own the site, have equipment that will continue to be used. We are seeking to do both. We are most active right now in California where PG&E, Pacific Gas and Electric is expected to request offers for new capacity, and we are working to respond to that expected request with proposals for both our Contra Costa and Pittsburg sites.

Page 12, a map as we have shown it before where we see the development potential based on the size of the sites that we have, the megawatts here have not changed from what we have said previously. One change is to note in the box on California that within or for that area we, as I just said, are looking at responding to the request expected from PG&E for both, as I say the Pittsburg and Contra Costa sites.

Page 13. This will be the last time we will see a discussion of the Caribbean. This is the result of the transaction, the sale to Marubeni, which closed yesterday providing net proceeds to Mirant of \$553 million, a small book gain and a small tax loss.

Page 14, the Pepco settlement, on which we issued a rather extensive release the other day, these involved out of market supply contracts that Mirant sought to assume when it acquired the Mid-Atlantic assets from Pepco. I say sought to, they were part of the deal and the deal was that Mirant would assume them. They got tangled up in all sorts of litigation about whether Mirant could assume them or not, but in any event Mirant bore the economic effects of these contracts and has continued to. During the bankruptcy the Company sought to reject these contracts, unsuccessfully, and there has been a plethora of litigation about it.

In 2006 the company, Mirant entered into a settlement with Pepco that would end Mirant's obligations under these contracts. There was a challenge to this by some of the holders of claims in the bankruptcy. We have now resolved all of that, and the only thing left to be done to implement this settlement is the final dismissal of an appeal pending in the United States Court of Appeals for the fifth circuit, which we expect to receive within the next day or two.

As a result of this, we have had about 20.8 million shares still reserved in the bankruptcy to handle unresolved claims. We will be distributing all but 1 million of the shares, 19.8 will be distributed. Some portion depending on the price of the stock of Mirant will go to Pepco, and the remainder will be distributed to the holders of those claims. The result of this is we will no longer have obligations under these contracts which have been a negative for us. We had made an advanced payment under the settlement last year to Pepco of \$70 million. That will be returned to us. We will also receive back \$36 million, which represents payments we have been making under these contracts since May 31 of last year.

The net of all this will be a substantial book gain of \$370 million, and estimated tax deduction of about \$600 million and no ongoing obligations for these contracts which have been to in varying degrees a drag on our results. And with that, I will turn starting on page 15, to Jim Iaco to go over the financials.

Jim Iaco - Mirant Corporation - EVP, CFO

Thank you Ed. Good morning. As I had mentioned earlier, the process regarding the continued exploration of strategic alternatives is ongoing, therefore earnings guidance continues to be

suspended. Accordingly, my presentation today will only address the financial highlights for the quarter and six months ended June 30, 2007, and will not include any forward-looking information.

As shown on slide 15, net loss from continuing operations for the second quarter of 2007 was \$83 million as compared to net income of \$107 million for the 2006 period. The \$190 million difference is principally driven by three factors. The first factor is a \$201 million decrease in unrealized gross margin as a result of mark to market accounting related to our hedging activities. Our hedging activities, as Ed mentioned earlier, reduced our exposure to commodity price fluctuations and allow us to achieve more predictable adjusted EBITDA results.

The second factor, the result of an amendment to the 2003 consent decree concerning our Lovett facility is an impairment loss of \$175 million to reduce the carrying value of that facility to its estimated fair value. And the third factor which partially offsets the first two negative factors is an increase in realized gross margin of \$146 million. I will cover realized gross margin in more detail on the next slide.

Turning to the six months ended June 30, 2007, net loss from continuing operations was \$216 million as compared to net income of \$530 million for the 2006 period. The \$746 million difference is again due to three factors. The first factor is an \$806 million decrease in unrealized gross margin. The second factor is the Lovett impairment loss of \$175 million, and the third factor which partially offsets the first to is an increase in realized gross margin of \$184 million.

Adjusted net income or loss is net income or loss excluding unrealized gains or losses from our hedging activities and other nonrecurring items, including for 2007 the \$175 million impairment related to the Lovett facility. Adjusted EBITDA, the best metric for measuring the performance of our business is adjusted net income or loss excluding interest, taxes and depreciation and amortization. Additional data is provided in the appendix reconciling for all periods presented net income or loss to adjusted net income or loss and further to adjusted EBITDA.

Adjusted EBITDA from continuing operations for the second quarter of 2007 was \$230 million as compared to \$83 million for the 2006 period and \$451 million for the six months ended June 30, 2007 as compared to \$264 million for the 2006 period. The increase for both the quarter and year-to-date periods as Ed mentioned earlier, was principally driven by an increase in realized gross margin. Our average diluted share count at the lower in the 2007 periods as compared to the 2006 periods due to share repurchases during the latter part of 2006, partially offset by an increase in assumed diluted shares for options and warrants due to additional grants and increases in our stock price.

And finally, our adjusted net earnings per share from continuing operations was \$0.57 for the second quarter of 2007, as compared to zero for the comparable 2006 period and \$1.03 per share for the six months ended June 30, 2007 as compared to \$0.28 for the comparable 2006 period.

Now turning to slide 16, this slide displays the components of the Company's realized gross margin from continuing operations for the second quarter and year-to-date periods. As I mentioned earlier, the increases in adjusted EBITDA for the 2007 periods as compared to the comparable 2006 periods is principally due to increases in realized gross margin. Energy, which is shown as the light blue bar in the chart, represents gross margin from the generation of electricity at market prices, sales in purchases of emission allowances, fuel sales, purchases and handling of fuel, steam sales and our proprietary trading and fuel oil management activities. The quarter-to-quarter and year-to-date increases are principally due to higher gross margins from our Mid-Atlantic operations as a result of higher prices, increased generation and a decrease in emission costs and to the settlement of favorable fuel oil management positions. Contracted and capacity, which represented by the dark blue bar in the chart represents revenue received through reliability must run contracts and other installed capacity arrangements, revenues from ancillary

services and revenue from the back-to-back agreement. The quarter-to-quarter and year-to-date increases are principally due to increases in capacity revenue in the Mid-Atlantic and the Northeast regions. And finally, the incremental realized value of hedges, the yellow bar, reflects the actual margin realized upon the settlement of our power and fuel hedging contracts.

Turning now to slide 17, let's take a look at our free cash flow from operations for the second quarter of 2007 and the year-to-date period. Taking net cash provided by operating activities and reducing it for bankruptcy payments results in adjusted net cash provided by operating activities of \$182 million for the second quarter of 2007, and \$377 million for the six months ended June 30, 2007. Reducing these amounts further for CapEx results in free cash flow of \$80 million or \$0.28 per share for the second quarter of 2007 and \$199 million or \$0.70 per share for the year-to-date period.

Turning to slide 18, this slide presents our debt and liquidity for our continuing operations as of June 30, 2007 and December 31, 2006. The \$136 million decrease in debt is principally due to repayments at Mirant North America. After subtracting cash restricted due to the bankruptcy of our New York entities and that reserve for working capital and other purposes, our available cash and cash equivalents for our continuing operations, including amounts available under Mirant North America's revolver and synthetic letter of credit facility amounted to \$6,386,000,000 at June 30, 2007.

Let me take a moment and discuss the cash balances at Mirant North America and Mirant Mid-Atlantic. Mirant North America's ability to pay dividends is restricted under the terms of its debt agreements. At June 30, 2007 Mirant North America had distributed to its parent all available cash it was permitted to be distributed under the terms of those debt agreements, leaving approximately \$1,096,000,000 at Mirant North America and its subsidiaries. Approximately \$193 million of that amount was held by Mirant Mid-Atlantic, which as of June 30, 2007 met the ratio test under the leveraged lease documents for distribution to Mirant North America. After taking into account the financial results of Mirant North America for the six months ended June 30, 2007 we expect Mirant North America will be able to distribute to its parent approximately \$111 million in the month of August.

Turning now to slide 19, this slide and slide 20 will provide an update in our federal NOL. Previously we had advised that we would more likely than not elect treatment of our pre-emergence federal NOLs under section 382L5 of the Internal Revenue Code. We have now determined that we will more likely than not elect treatment of our pre-emergence NOLs under section 382L6 and we plan on making that election when we file our 2006 tax return no later than September 17 of this year.

Under L5 treatment we would have unlimited use of pre-emergence NOLs. However, such NOLs would have been reduced by \$1,100,000,000 due to interest accrued on debt settled with stock for the three years prior to emergence from bankruptcy. Under L6 pre-emergence NOLs would not be reduced by the \$1.1 billion but would be subject to a \$317 million annual limitation. This annual limitation ignores the effect of unrealized built in gains which can increase the amount and alter the timing of the annual limitation under section 382L5. The change from L5 to L6 results from various tax planning initiatives, the completion of its Pepco settlement and a favorable built-in gain profile of approximately \$1.3 billion. An election under L6 has the following effects.

First, it preserves \$1.1 billion of pre-emergence NOLs that would have been lost under an L5 election. Second, cash income taxes in the years 2006 through 2010 under L6 treatment are now substantially similar to those expected under L5. And finally, L6 gives us the capability in the period 2006 through 2010 of using \$2.9 billion of total pre-emergence L6 NOLs of \$3.4 billion versus the maximum of \$2.3 billion of L5 NOLs in the same period.

And finally, turning to slide 20, this slide presents a recap of our federal tax NOLs under L5 and L6. As reported at December 31, 2006 we estimated that our pre-emergence NOLs for \$2.3 billion and \$3.4 billion under an L5 or L6 election, respectively. In addition, we estimated at that time that we would have postemergence NOLs for 2006 which are unaffected by the election of L5 or L6 of approximately \$800 million. Therefore our total NOLs both pre-emergence and postemergence estimated at December 31, 2006 were \$3.1 billion and \$4.2 billion under L5 and L6, respectively.

At March 15, 2007 we filed what is known as a check the box election under which Mirant Asia-Pacific Ltd. will be treated as a corporation for US federal income tax purposes effective January 1 2007. As a result of this election Mirant will be deemed to recognize taxable gain on the sale of our Philippine business for US federal income tax purposes in 2006. It is anticipated that this gain will fully absorb the \$800 million of estimated operating loss expected to be reported for US federal income tax purposes for 2006, and that the estimated 200 million balance of net income realized in 2006 as a result of this election will be offset by pre-emergence NOLs.

As a result, it is estimated that NOLs after the March 15, 2007 check the box election are \$2.1 billion and \$3.2 billion under L5 and L6, respectively. As indicated earlier, Paul Gillespie who is Mirant's Senior Vice President of Tax is with us today and during the Q&A session can further elaborate on this or any other tax questions you may have. And with that, I will turn it back to Ed who will wrap up and open up the session for your questions.

Ed Muller - Mirant Corporation - Chairman, CEO

Thanks, Jim. I'm on page 21 to summarize. First, we had what we think is just a superb quarter with 177% increase over the prior year, superb is my careful choice of words. Second, we have as promise completed our divestiture program one year after we started it. We have now brought the Pepco settlement to fruition, which will clean up a major piece hanging over from the bankruptcy and end the continued drag from these out of market contracts that we were obligated to cover. Our continuing operations are in US markets with low and declining reserve margins. Little is being built, demand continues to grow. There is a certain inevitability to what will that mean. Prices will rise, earnings growth will come from these market conditions.

We continue to seek to add brownfield capacity and to repower and redevelop existing assets. We are particularly focused right now on doing that to respond to the request for offers expected to come from PG&E shortly. And finally, we continue to explore strategic alternatives. And with that, we are ready for your questions. Mary Ann, do you want to handle this?

Mary Ann Arico - Mirant Corporation - Director IR

Cynthia, we are ready to start the Q&A.

QUESTION AND ANSWER

Wei Romualdo - Stone Harbor - Analyst

The NOL election in the K, they also talked about some of the restrictions under the L5 versus L6 I think in particular; under the L6 there is something about you cannot have significant shareholder change of ownership in the 5% shareholders. How does that play in?

Ed Muller - Mirant Corporation - Chairman, CEO

I will let Paul elaborate, if as I frequently do on the tax side, get beyond my capabilities. Under L5, which is a smaller NOL because of the interest haircut that Jim described but which would enable us to have unlimited usage of the NOLs, there was the -- there is a limitation on what would be a change of control in the Company for the two years following emergence. The Company emerged from bankruptcy on January 3, 2006 so the two years would run through January 3 of 2008. L5 has those limitations. L6 does not have those limitations, and with the change that we've described here that we will now be expect to elect L6, we will not be having to address those limitations.

Wei Romualdo - Stone Harbor - Analyst

Okay, and does the fact that the Company is exploring strategic alternatives, does that play into at all your reelection or your change of election here?

Ed Muller - Mirant Corporation - Chairman, CEO

We would have made this change whether we were exploring strategic alternatives or not.

Brian Chin - Citigroup - Analyst

Just a clarification on the Pepco settlement. I appreciate that you have the taxable gain and book gain on the total value in your disclosures. But in terms of cash flow impact and EBITDA impact or margin impact per year for the Pepco settlement, can you just give us some color on that? I have in my notes it was about a \$30 million uplift per year if you were to actually get the settlement, and I am just looking for some clarification on that.

Ed Muller - Mirant Corporation - Chairman, CEO

Well, to give you clarification we would have to be giving you guidance, and the numbers vary depending on what is happening in the market. It has been and we would expect it to be a negative for the Company. You can get some sense from the \$36 million that we will receive for the payments we have made since May 31, 2006. But beyond that we are not going to go.

Brian Chin - Citigroup - Analyst

Just to clarify then, between now and May 31, '06 there were \$36 million in payments that you were making to Pepco under this contract that now on a go forward basis you won't be -- you won't have to do. And it would be our assumption if we want to use that \$30 some odd million as a proxy for what the uplift could be?

Ed Muller - Mirant Corporation - Chairman, CEO

We are not -- to be -- let me make sure I am absolutely clear on this. The 36 -- approximately -- is for the payment represents the payments that Mirant in fact made since May 31, '06. Whether

you choose to use that going forward is up to you. We are not giving guidance, and we are not commenting one way or the other on that. We are saying that it has been a negative for us, and we would expect it to continue to be a negative. But beyond that, we are not going.

Brian Chin - Citigroup - Analyst

Okay and also the last time that you executed a share buyback, can you comment on whether you were satisfied? If I remember right it was a Dutch tender that you guys used; were you, can you comment on whether you were satisfied the last time you did a share buyback with that mechanism or not?

Ed Muller - Mirant Corporation - Chairman, CEO

We were satisfied.

Brian Chin - Citigroup - Analyst

And then lastly, when you talk about development opportunities, I know you have stated in the past that you would only use project -- you would only use project finance with long-term PPAs if you were to explore brownfield opportunities. Can you comment on -- in the current credit environment are you seeing incremental negative pushback on securing financing for some of those opportunities or not? Can you just give a little bit of color there?

Ed Muller - Mirant Corporation - Chairman, CEO

Well, let me comment more broadly, Brian. First, if I said that, how we would finance things is very dependent on the structure of any given project. And the market in which it is, finding absolute rules of thumb, project finance this or that and how I don't think appropriate. Second, the development process, whether it is brownfield, whether it is repowering, whether it is greenfield from long experience in this industry does not happen in thirty-day increments or two-month increments. These tend to be long processes. And so and I understand the desire of people to see a clear benchmarks and things happening, but the reality is it does not work that way.

We are talking here large capital investments. We are talking here a variety of interested parties all justifiably interested. And the process tends to take a while to unfold. So the current situation in the credit markets, which I tend to think of as being unresolved credit markets, is unless we think we are seeing something that is going to be multi-year, not particularly relevant to this process.

Elizabeth Parrella - Merrill Lynch - Analyst

If I could ask about the NOLs you mentioned this unrealized built in gain profile, which I don't believe you've talked about in the past. I was hoping you could elaborate a bit on what that is, what gave rise to it and how it could affect your annual use limitations.

Ed Muller - Mirant Corporation - Chairman, CEO

First, good morning, Elizabeth, and second, I am pleased to turn this over to Paul Gillespie.

Paul Gillespie - Mirant Corporation - SVP of Tax

Good morning, Elizabeth. Under 382L6 as you know we are subject to an annual use limitation. That annual use limitation can be increased if two things happen. Number one, the Company has something called a net unrealized built-in gain or a NUBIG, and number two, the Company has what is called a realized built-in gain or an RBIG. The underlying policy with respect to this is as follows.

In most cases before an ownership change there is an unlimited use of NOLs permitted to the taxpayer. After the ownership change under the general rule which is also the L6 rule, there is a limited use of NOLs. If a taxpayer had an appreciated asset immediately before the transaction, and sold that asset, the taxpayer could use all of the NOLs. If but for the special provisions about NUBIG, if the taxpayer sold the same asset the day after an ownership change the taxpayer would be limited.

Now the policy in the law is to avoid that kind of economic distortion. So what happens is if you have this kind of built-in gain, then under L6, under the annual limitation from future years can be accelerated to the present, if you have a realization of that gain within the first five years after the change in ownership, which in our case was the emergence from bankruptcy.

In the course of doing our tax planning we conducted a study to determine whether or not we had a NUBIG. We do believe we have one. We estimate it at about 1.3 billion. The next component of that study was to determine whether or not we had RBIGs and when they occurred. There are two sources of RBIGs. In some cases you can amortize your built-in gains, and in essence use the amortization portion to add to your annual limitation in each year. And then if you actually dispose of an asset that has a built-in gain, you can also increase your annual limitation by the amount of that built-in gain.

The final component of these rules is that if you have increased your annual limitation but you don't have enough taxable limitation or taxable income to use it all, then you can carry forward any unused limitation. In the course of doing our tax planning, we determined that we had the NUBIG of \$1.3 billion. We believe we have a realized built-in gain of about \$500 million. That is a minimum number in 2006, and we think we have amortizable built-in gains of \$150 million. The effect of all three of these components is to take our \$317 million annual limitation and to push that up to almost \$1 billion for 2006.

Now as we previously indicated, we cast back the gain from the Philippine transaction to 2006; most of that was absorbed by the existing loss that was in 2006. The remainder was absorbed by the pre-emergence NOLs. But since we've increased our annual limitation for 2006 that will roll forward.

When we talk about a built-in gain profile we are talking about how that usage limitation rolls forward. And where we are now is that roll forward of the usage limitation for us looks very similar to the result that we would get under the unlimited use of L5. For that reason we have decided that we can go to L6 and in the process of doing that get two advantages, keep \$1.1 billion of NOLs that would go away and avoid some of the forfeiture risks that we were concerned about under L5 in the event that there was a change of ownership in the first two years after emergence from bankruptcy. Now sorry about the long detailed explanation, but I hope that gives you some background.

Elizabeth Parrella - Merrill Lynch - Analyst

If I could just follow-up, you mentioned that now the AUL looks pretty similar under L6 to what you would actually experience on an unlimited basis under L5. What does that number become? The 317 effectively you think is what, going forward?

Paul Gillespie - Mirant Corporation - SVP of Tax

Well, we think the 317 on a stand-alone basis we think we can add 150 to it each year for the five years 2006 through 2010. You can't add anything after 2010. And then we had the \$500 million that we feel was going to roll out of 2006. Now when you combine that fact in 2007 with the Pepco settlement in 2007, which will provide us with a \$600 million tax deduction in that year, we think we are going to get some of the roll forward from 2006, as well as some of the 2007 limitation rolling forward into 2008. Once again, we are looking very much like we have an unlimited use profile given the taxable income we forecast in the period 2006 through 2010.

Elizabeth Parrella - Merrill Lynch - Analyst

Okay, it sounds like the cash taxes that you anticipate are still pretty modest under this?

Paul Gillespie - Mirant Corporation - SVP of Tax

We will always be stuck with AMT as I've told Mr. Muller; if he can find somebody that can get rid of the AMT he should hire them. But the cash taxes we anticipated under L5 and L6 at this point are very, very similar.

Elizabeth Parrella - Merrill Lynch - Analyst

If I could just ask one follow-up for Ed. I think it is four months today that you announced the strategic review process. I know you didn't elaborate on it in your remarks, but I was wondering if there's anything initially you can share with us including how you think the timing on this plays out.

Ed Muller - Mirant Corporation - Chairman, CEO

Elizabeth, we have not heretofore laid out anything on the timing, nor do we think it is useful nor appropriate to do so.

Leslie Rich - Columbia Management - Analyst

I wondered if you could talk about how you look at your capital allocation decisions as you are considering brownfield development? How do you decide if a project is a go or no go? Do you need to have, for example, the majority of the output fully contracted, or would you be willing to take a fundamental view on borrowing capacity markets and build sort of a merchant plant? How do you think about that?

Ed Muller - Mirant Corporation - Chairman, CEO

Well, I think you have -- it is a good question, and it is a question that should lead to a lot of thought. And reason is this. If you are contracted, of course you now know pretty well what your return is. And assuming you can operate and so on. And that is a good thing, though historically that has tended to shade the returns down some because less risk is being taken. If you're not contracted you have more uncertainty.

I think the biggest factor as we think about this is if you are uncontracted it is not only what you think will happen in the markets in general, demand and so on, but what you think will happen in the incremental supply in the market. The markets were faced in the US with a significant overbuild. And everyone could look luck and see the need for more capacity. And everyone added that capacity. So to use an analogy from commercial real estate, people looked and said you need one million square feet and five guys saw that you need one million square feet so you got 5 million square feet and then you had to absorb that. So that may sound simplistic but I think it is what applies here, and it requires a lot of careful thought to see what's possible, where the markets are going and how much risk is being taken.

And to be cavalier and think you'll be the only one who adds a unit and everyone else won't be able to is how we got into the last mess here. So I think probably a fair word on this is cautious, that we are cautious. We are willing to go forward. We are looking at a variety of things, think some of them may make sense, but we are not blind to the fact that others can look at the markets in ways that are similar to ours.

Paul Patterson - Glenrock Associates - Analyst

My question has been asked. I'm sorry.

Robert Howard - Prospector Partners - Analyst

Just wanted to I guess double-check; that NOL, the Pepco NOL, the 600, that was not included - I guess since the original settlement was in '06, that was never built into that '06 800 addition. This 600 is on top of everything that you've got here online?

Paul Gillespie - Mirant Corporation - SVP of Tax

That is correct. We expect the Pepco deduction to be a 2007 tax deduction for us.

Robert Howard - Prospector Partners - Analyst

Okay, and again there is no restrictions for L5 L6 as well, no restrictions on that?

Paul Gillespie - Mirant Corporation - SVP of Tax

The L5 and L6 apply only to the NOLs that arose prior to Mirant's emergence from bankruptcy.

Robert Howard - Prospector Partners - Analyst

Okay, and are there any other sort of works and things in negotiation or that kind of have the possibility to create another big batch of NOLs like this Pepco thing did?

Paul Gillespie - Mirant Corporation - SVP of Tax

We don't forecast any other big tax deductions in the future. We would like to forecast as much taxable income as possible so we could use up the NOLs.

Robert Howard - Prospector Partners - Analyst

So in terms of things that you are kind of -- we are still cleaning stuff up after the whole bankruptcy case and all, but any other item that might add something like this Pepco one just did, or would be --

Paul Gillespie - Mirant Corporation - SVP of Tax

I think it is safe to say that the Pepco was the last large item that had arisen from the bankruptcy situation.

Robert Howard - Prospector Partners - Analyst

Okay, great. And with the Caribbean sale being I guess when you say it is completed that means you guys have the cash in hand. Is that correct?

Ed Muller - Mirant Corporation - Chairman, CEO

That is correct.

Robert Howard - Prospector Partners - Analyst

Excellent. And I guess lastly would the Pepco settlement, how soon after the court, that final court appeal process do, those of us who will receive extra shares get those shares?

Ed Muller - Mirant Corporation - Chairman, CEO

Linn Williams will address this.

Linn Williams - Mirant Corporation - EVP & General Counsel

That should be within the next one to two weeks, say two weeks.

Robert Howard - Prospector Partners - Analyst

And is there any way that in terms of the methodology, in terms of how you might be able to estimate how many shares -- if we know we had so many of those class three claims that being able to allocate what percentage of the shares we could expect?

Linn Williams - Mirant Corporation - EVP & General Counsel

Yes, you should assume that the total value of the allowed unsecured claims that would be the denominator you would use would be \$5.9 billion.

Jeff Coviello - Duquesne Capital - Analyst

Just had a question, a few questions and the first one is on the environmental CapEx that you estimated to be \$1.6 billion. In the past you've mentioned that perhaps the opportunity to seek or to acquire tax advantaged financing on some portion of that CapEx, I was wondering if you could comment on your progress in that analysis so far.

Ed Muller - Mirant Corporation - Chairman, CEO

Bill, do you want to address that?

Bill Holden - Mirant Corporation - SVP, Treasurer

Yes, we've had some preliminary discussions with the authorities in Maryland. We don't have an allocation that has been authorized yet, but we have started the process in motion. And I think we will have to see once we go through more of the detailed engineering analysis, what percentage of the expenditures would qualify.

Jeff Coviello - Duquesne Capital - Analyst

Got it. And on the same topic or related topic I know there was a provision in the Maryland law that allowed some flexibility, I think left to the judgment of the DEQ there or the condition as to what timing had to be on installing these scrubbers. As the law was written it seems like they have to all be online by the end of '09. Obviously that would put a pretty big backlog of scrubber builds in '09, which would potentially have some reliability issues. Is any progress been made on dealing with that with the appropriate authorities?

Ed Muller - Mirant Corporation - Chairman, CEO

Your memory of the Act is correct, but our plan is to have these completed and online by the end of '09.

Jeff Coviello - Duquesne Capital - Analyst

Okay, and I guess as far as the Mid-Atlantic it seems like there has been a little slight uptick in the amount of megawatt hours generated year-over-year. I was wondering if in the markets you're seeing more hours that are economic or have you seen more hours that have become economic over time such that the plants can run at higher capacity factors over time? And just is that indeed what you're seeing and if you think that trend will continue over time.

Ed Muller - Mirant Corporation - Chairman, CEO

John, do you want to take this?

John O'Neal - Mirant Corporation - SVP & CCO

Yes, Jeff, in general prices were a little bit higher this year relative to last year. So we picked up some run-time this year relative to last year. I think in general the thesis that as reserve margins continue to tighten in these markets we will see more run-time is correct. We are in a fairly constrained zone, and while in the past our units have typically especially in the off peak hours not run as say as high as capacity factors as other coal units we'd expect that that would change going forward.

Jeff Coviello - Duquesne Capital - Analyst

Is there any kind of rough ballpark estimate as to what capacity factors and things you could -- if every hour of the day was economic what type of capacity factors you think you could achieve our these coal units, hypothetical? Just to ensure the reliability.

John O'Neal - Mirant Corporation - SVP & CCO

I guess it would depend -- each and every year, Jeff, we have to model in our planned maintenance outages for normal. Generally -- you think about some sort of a forced outage rate and then back out from there even what kind of planned outages you think you're going to have during the year. And in general I think if you've got coal units up at 80% capacity factors that would be extremely good, but that's very hard for us to predict.

Jeff Coviello - Duquesne Capital - Analyst

Understand -- I was just trying to get a sense if you think there's -- from where you've been running now, if the hours are all economic, if there's actual physical upside as to how much you could run these (technical difficulty).

John O'Neal - Mirant Corporation - SVP & CCO

The answer to that is yes. Often times our coal units get cycled down in the off peak hours. You can see what the off peak prices are in PJM. And as prices move up you'd expect our units will be called on to run at higher prices. So your capacity factors would pick up correspondingly.

Jeff Coviello - Duquesne Capital - Analyst

And I guess just two quick ones on the repowering initiatives in California, obviously there's this RFP. Is there anything -- any thoughts about -- I know the Mid-Atlantic is probably hard given the location close to load centers and the ability to permit plants there. But in the Northeast is there any ability to -- are any processes underway to look at brownfield there?

Ed Muller - Mirant Corporation - Chairman, CEO

We are -- I would not be as negative as your question suggested on the Mid-Atlantic. At our Dickerson, Chalk and Morgantown sites there is ample room and we are, at varying levels, reviewing a variety of possibilities at all of those stations. And in the Northeast particularly we are looking at potentially adding new gas-fired capacity at either the Lovett station or the Bowline station along the Hudson or both.

Jeff Coviello - Duquesne Capital - Analyst

Got it, Great. And a final question is just on RGGI, I was wondering if you could give us an update, if there is one, as to where you see that playing out. I think we're working on allocations now. I was wondering how you involved you are in the process and if you had any indication of when things would be decided and where they might go.

Ed Muller - Mirant Corporation - Chairman, CEO

Linn, do you want to take this?

Linn Williams - Mirant Corporation - EVP & General Counsel

It's still being discussed and I don't think we can or should comment on where we think it's headed. But the discussions are still underway.

Jeff Coviello - Duquesne Capital - Analyst

Understood. Okay, got it, guys. Thank you very much.

Lasan Johong - RBC Capital Markets - Analyst

Thank you. Good morning. Obviously looking forward in the transmission side of the equation there are going to be significant amounts of new transmission builds coming into the PJM that links the West to the East. Do you have any concerns about what capacity prices would look like in the 2010, 2011 auction?

Ed Muller - Mirant Corporation - Chairman, CEO

John, why don't you --?

John O'Neal - Mirant Corporation - SVP & CCO

I think you're correct, Lasan, that there are some improvements to the transmission system in the '09-'10 time frame. But we're not going to -- because we suspended guidance we're not going to speculate as to what those changes might -- what impact they might have on prices.

Ed Muller - Mirant Corporation - Chairman, CEO

Let me go back, though, on your point. You said it obviously will be new. It is obvious that there will be some fixes done, some enhancements to the existing system, which are good things to do and ought to be done. There are also a variety of proposals to add new lines, including a big backbone 765 KB line. It is a challenge to add new power plants with a fence around them in a given area. It is a bigger challenge to add new transmission lines.

Lasan Johong - RBC Capital Markets - Analyst

I agree.

Ed Muller - Mirant Corporation - Chairman, CEO

And it's easy to make proposals, and I think the people making them are sincere and are working them hard. Getting them online is a whole different ball of wax.

Lasan Johong - RBC Capital Markets - Analyst

Very much agree. Ed, strategic options are being explored for Mirant, but obviously things may not necessarily work out the way you would desire. So if things were -- if things got to a point where you end up with \$6 billion of cash on your balance sheet and nobody to go to the dance with, so to speak, how much of that do you think you could allocate to share repurchases without driving up the stock price too far above what you would think is rational?

Ed Muller - Mirant Corporation - Chairman, CEO

I don't think it would be appropriate to answer. I would remind everyone that as we have said, if we conclude that we among our strategic alternatives is to return cash, we have not put forward an amount. You know how much cash we have. You know what kinds of restrictions we have on it. And beyond that I don't think it is appropriate to go.

Lasan Johong - RBC Capital Markets - Analyst

But say, would be fairly significant, no?

Ed Muller - Mirant Corporation - Chairman, CEO

Beyond that I don't think it is appropriate to go.

Daniele Seitz - Dahlman Rose & Co. - Analyst

Have been answered, but I was wondering in terms of the amount of environmental expenditures, how much have you already spent or you have not really started yet?

Ed Muller - Mirant Corporation - Chairman, CEO

Bill, why don't you --

Bill Holden - Mirant Corporation - SVP, Treasurer

The expenditures to date have been about \$200 million.

Daniele Seitz - Dahlman Rose & Co. - Analyst

Okay, and so the bulk of it is likely to be next year? I mean basically (inaudible) supposed to be done by '09?

Ed Muller - Mirant Corporation - Chairman, CEO

Bill, go ahead.

Bill Holden - Mirant Corporation - SVP, Treasurer

The expenditures would continue for the balances of this year, next year and into '09 to support a schedule to complete the installations by the end of the year in '09.

Daniele Seitz - Dahlman Rose & Co. - Analyst

Okay, and as far as the plants that were given like Potomac River that could still operate, is this permit supposed to be carrying on for next year or this is just a one-year scenario? The Potomac River plant, which is in operation again.

Ed Muller - Mirant Corporation - Chairman, CEO

Well, Potomac River, what we had was we had an arrangement with the Department of Energy and the Environmental Protection Agency on how we could operate. And that came to an end at the beginning of the summer. While we had that arrangement we were able to run all five units depending on a variety of circumstances. But generally we could. We are now in a situation where we can run three of the five units and generally are running three of the five units. And we are both in discussions with the authorities in Virginia and in litigation with those authorities over the operating regime for the plant. With our objective being to get to a regime where we can once again operate the five units and to enter into an arrangement that would be a relatively long-term on this.

Daniele Seitz - Dahlman Rose & Co. - Analyst

So it is to be continued it could be settled by next year?

Ed Muller - Mirant Corporation - Chairman, CEO

I don't think it is appropriate for us to put a time frame on it but we are in active discussions and we are in active litigation.

Brian Russo - Ladenburg - Analyst

You've added very little to your forward base load hedges in 2009 and 2010, and I am just wondering what are your general thoughts on the forward curve, and what were the motivating factors to not hedge? Incremental hedges, that is?

Ed Muller - Mirant Corporation - Chairman, CEO

If you look back at our history you will see that we go into the market when we think it is an appropriate time, and we at times go in on substantial scale. So I don't think you should draw anything from it. This is consistent with our past approach. We look, we watch both the short-term and the longer-term trends and when we see a good opportunity consistent with our objective of hedging, particularly our base load on peak output at the coal plants we do so. You shouldn't draw any particular inference on the fact that we've had some increases but they haven't been significant; the increases being for '08 and '09.

Alex Navier - Sando Asset Management - Analyst

I guess it is more of a statement, a comment than a question. Looking back at the space, Ed, S&P 500 is down about 4.3% from its recent highs; NRG is down about 9% from its recent highs. Dynegy is down about 13% from its recent highs. Mirant on the other hand is down about 19% from its recent highs. I understand the strategy of not wanting to provide guidance while you're engaged in the strategic -- while you're considering strategic alternatives. But I think the market is telling you something and I am just hoping that this process doesn't drag on long enough given that the Company is sitting on \$6 billion of cash and a market cap of \$10 billion where we need to go back to last year where a shareholder like Pirate Capital ended up going ballistic.

Ed Muller - Mirant Corporation - Chairman, CEO

Thank you for your comment.

Mary Ann Arico - Mirant Corporation - Director IR

Cynthia, we will take one more question.

Charlie Fenner - Morgan Stanley - Analyst

Most of my questions have been asked and answered, but just in terms of the year-over-year gain in adjusted EBITDA, how much of that came from fuel oil? Activities?

John O'Neal - Mirant Corporation - SVP & CCO

For the quarter it was about \$78 million, and again there is a settlement of favorable positions that we put on back in 2006, and for the year-to-date period the number is just about the same.

Charlie Fenner - Morgan Stanley - Analyst

Year-to-date also?

John O'Neal - Mirant Corporation - SVP & CCO

Yes.

Mary Ann Arico - Mirant Corporation - Director IR

Cynthia, we would like to wrap up, and if anybody has any further questions feel free to call me later today. Thanks.

Operator

Ladies and gentlemen this will conclude today's conference call. We do thank you for your participation, and you may disconnect at this time.