

## **FINAL TRANSCRIPT**

Conference Call Transcript

MIR - Q1 2007 Mirant Earnings Conference Call

Event Date/Time: May. 10. 2007 / 9:00AM ET

### **CORPORATE PARTICIPANTS**

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Jim Iaco - Mirant Corporation - EVP and CFO  
John O'Neal - Mirant Corporation - SVP and CCO  
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Elizabeth Parrella - Merrill Lynch - Analyst  
Brian Chin - Citigroup - Analyst  
Rudy Tolentino - Morgan Stanley - Analyst  
Gregg Orrill - Lehman Brothers - Analyst  
Craig Shere - Scottwood Capital - Analyst  
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### **PRESENTATION**

*Operator*

Good day, everyone, and welcome to the Mirant Corporation's first-quarter earnings call. Today's call is being recorded. For opening remarks and introductions, I would like to turn the call over to Ms. Mary Ann Arico, Director of Investor Relations. Please go ahead.

*Mary Ann Arico - Mirant Corporation - IR*

Good morning and thank you for joining us today for Mirant's first-quarter earnings call. If you do not already have a copy, the press release, financial statements, and first-quarter filings with the SEC are available on our website at [mirant.com](http://mirant.com). The slide presentation is also available on our website. 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 Bill Holden, Senior VP and treasurer; John O'Neal, Senior VP and Chief Commercial Officer; and Paul Gillespie, Senior VP of Tax.

Now let's turn to the Safe Harbor. During the call, we will make forward-looking statements which are subject to risk and uncertainties. Factors that could cause actual results to differ materially from management's projections, forecasts, estimates, and expectations are discussed in the Company's SEC filings. I encourage you to read them.

Our slide presentation and discussion on this 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 and CEO*

Thanks, Mary Ann, and good morning, everyone. I'll try and remember to tell you what page I am on as we go forward and Jim will try and do the same. I will start on page 3 of the presentation to go over significant events so far in 2007 for Mirant.

First, as we announced in April, the Board of Directors has decided to explore strategic alternatives to enhance stockholder value. That process is underway. As we said in that announcement, we have suspended giving earnings guidance as a result. Second, we had previously announced an agreement to sell six natural gas-fired plants in the United States and we closed that transaction on May 1. Third, we are moving forward with the agreement to sell our Philippines business and expect to do so either by late June or early July. And fourth, we announced an agreement recently for the sale of our Caribbean business and we expect to close that by mid this year.

Turning to page 4, you can see a map of the continuing operations of Mirant, similar in most regards to what you've seen before, some slight alterations in the megawatts for in the Northeast, which I will come to in a moment. But you can see we remain concentrated in markets that have low and declining reserve margins and in areas where we have sufficient concentrations to justify being an active participant in the political and regulatory process in those markets.

Turning to page 5 and addressing specifically the first-quarter results, our adjusted EBITDA for the continuing business is up 21% over the same quarter last year. Adjusted EBITDA is \$220 million, compared to \$182 million in the first quarter of 2006. The increase is principally due to higher realized gross margins in our mid-Atlantic segment. As in the past, hedges have continued to help us have predictable financial results.

Let me note a few market fundamentals that we are seeing that are relevant both for this quarter and as we look forward. First, the cold weather between February and April caused a significant draw down of natural gas in storage which has contributed in general to a strengthening of forward natural gas prices by about \$0.70 a million BTUs.

Second, electricity prices, especially off-peak prices in the East Coast, in our East Coast markets, have been rising as a result of the laws of supply and demand. We are seeing what we have been talking about and the sector has been talking about, which is an expansion of forward market heat rates.

And finally, and we'll talk a little more about the capacity markets, but in the Southwest MAAC zone, that is where our mid-Atlantic plants are located, the new RPM capacity prices which were announced reflect in our judgment, the lack of adequate capacity in that area. Again, supply and demand is speaking.

Turning to page 6, as we have in the past, showing our hedge levels for power, fuel, and emissions; this is very similar to what we last showed you. The only significant differences are for fuel for our baseload coal in 2008 and 2009. For 2008, we're showing about 43% compared to 32% the last time we presented this chart and for 2009, we are showing about 30% compared to about 23% the last time we presented this chart.

Turning to page 7, our mid-Atlantic segment, note, I mentioned earlier that the major driver in our adjusted EBITDA being up 21% year-over-year for the quarter was the gross margin in the mid-Atlantic and you can see looking down at the bottom of the page there on page 7 that the gross margin in the mid-Atlantic was up 29% from \$191 million to \$246 million. And there is our major driver.

I mentioned earlier RPM, a new capacity market in the PJM. The first auction was conducted. The first results have been announced. We will start recording and receiving revenue under this on June 1, so we will have one month of it in the second quarter.

On the environmental front, we have previously apprised you of where we stand on our program to meet the requirements of the Maryland Healthy Air Act, where we are scrubbing coal units at Morgantown, Chalk, and Dickerson. That program is continuing apace and we continue to forecast the same number we reported last quarter, \$1.6 billion.

An update on our Potomac River plant, of which all five units are running this morning as we speak and it has been running that way recently and we expect it to continue to. The Potomac River plant is in a complex regulatory position, having orders from the EPA, the Department of Energy, and Virginia and rules with which we need to comply and getting them all to be consistent and coordinated is a significant task. Right now the current authority to run all five units as we are doing expires either in June per an EPA order or July per a DOE order. And we are in the process of trying to get all this reconciled.

We also have discussions ongoing with Virginia regulators regarding how we will operate this plant going forward and reconfiguring the stacks, which is part of our

program to reduce the risk of concentrations of emissions at ground level, so-called downwash.

Page 8 gives some of the data, which I won't address now, on the RPM auction schedule.

Page 9 is an update on the Northeast and let me begin with Lovett. This has been very active in recent days. The consent order signed by the company in June of 2003 required that we either put on significant environmental controls on unit 5 and unit 4, the two coal units, or shut them down. As the consent order is written, it would require us to shut down unit 5 on April 30, 2007. That is several days ago, and unit 4 on April 30, 2008. We have reached an agreement subject to court approval which we expect will be obtained today to make some changes to that consent order. Under those changes, we will shut unit 3, which is an old natural gas-fired unit which is no longer economic to run. We will switch units 4 and 5, so instead of unit 4 running through April 30 of '08, we will shut down unit 4 now. And instead unit 5 will run through April 30 of '08.

We sought the switch for two reasons. One is unit 5 is slightly larger, but more importantly, it is in better shape and unit 4 would have required a fair amount of capital and for a unit that may only run for a year, that didn't seem particularly prudent.

As part of the agreements, we have also reached agreement for property taxes with the local jurisdictions where both Lovett and Bowline are located, which will fix the property tax assessments at the same level for 2007 and 2008 that they were set for 2006. And as I said, it will require two court orders today which we expect to obtain. One will be from Judge Lynn, the bankruptcy judge in Fort Worth who has handled the Mirant bankruptcy, and the second in United States District Court in Manhattan, which has jurisdiction over the consent order that was entered in June 2003.

As a result of this, we will move forward with unit 5 and update you on the bankruptcy. The only portion of our business anywhere that continues to remain in bankruptcy is Lovett as we work on its longer-term future. Bowline has emerged from bankruptcy. We have sold the small hydros and two small combustion turbines earlier this month and as a result, they are no longer in bankruptcy. That tells you where the business is.

And the New York capacity market, to speak to it, is reflecting in its pricing. We are seeing some of the tightness in the market as well as what it costs in reality to construct new capacity. And the New England capacity market, FCM, is underway as previously described.

As part of the discussions we had on Lovett, we will be beginning a process that we cannot give any firm outcome on to seek to add new natural gas-fired capacity at Bowline and/or Lovett. In all likelihood under contract, but we are at an early stage in beginning of those discussions.

Turning to page 10, our California segment, you can see that the realized gross margin is up and that is principally because of tolling agreements that we entered into last year for

the Contra Costa and Pittsburg stations. You can see the dates there and the megawatts that those tolling agreements cover and we have had higher revenue in the first quarter and this will continue through the rest of the year.

Page 11 is the same page we've had before and that is the development opportunities that exist for the continuing business. All of the markets that we are in are characterized by low and declining reserve margins, which means they need more capacity. Doing that at existing sites, so-called brownfield development, or repowering at existing sites is a very efficient way to do that, a very realistic way to do that, and we will seek to do that in our various sites that have room.

And we have a fair amount of that room as you can see on page 12. But before we go forward in any significant way and expend significant amounts of money, we will want -- need to have a sense that the political and regulatory environment which would require society to come to a sense of what it is prepared to do in adding new capacity, makes it realistic to go forward. We are seeing those signs in the New York and as I said earlier, we will be beginning to actively work on negotiations and efforts to bring new natural gas-fired capacity to our sites there.

On our divestiture program, turning first to page 13, we are proceeding along the path to close the transaction for the sale of our Philippine business, which will give us net proceeds we expect of nearly \$3.2 billion. We had expected previously that we would close this in June. We are still hopeful that we will. It may slip into July. That is because unit 1, which was the second unit to experience a generator failure, has not yet come back online. We expect it to come back online this month, though it may slip into early June.

The generator itself has been repaired, so we have now repaired both generators, the generator for unit 2 was repaired and unit 2 is back in service and has been since March of this year. With regard to unit 1, we are in the process of bringing it back up and in that process had some vibration in the turbine and as a result, we want to make sure it is fine. So we're being a little cautious on the schedule to make sure we get it running nice and smoothly.

On page 14, U.S. gas plants. As I said earlier, we have closed this transaction. The net proceeds were \$1.3 billion, of which about \$524 million in accordance with the covenants in the Mirant North American debt instruments will be reinvested in the business. It will be used in the Maryland Environmental Program.

Then on page 15, as we have previously announced, we have reached an agreement to sell our Caribbean businesses and are moving forward to do the things necessary to close that transaction. We expect net proceeds of about \$565 million. We expect to close this in the middle of this year and we are obtaining various consents and approvals that we need and that is moving right along.

With that, turning to page 16, I will turn this over to Jim Iaco.

*Jim Iaco - Mirant Corporation - EVP and CFO*

Thank you, Ed. Good morning. As Ed indicated earlier, as a result of the announcement that our Board of Directors has decided to explore strategic alternatives to enhance stockholder value, earnings guidance has been suspended. Accordingly, my presentation will only address the financial highlights for the first quarter of 2007 and will not include any forward-looking information.

As shown on slide 16, net loss from continuing operations for the 2007 first quarter was \$134 million as compared to net income of \$424 million for the comparable 2006 period. The \$558 million difference is principally driven by a net change of \$605 million in unrealized gross margins related to our hedging activities. Our hedging activities reduce our exposure to commodity price fluctuations and allow us to achieve more predictable adjusted EBITDA results.

The decrease in unrealized gross margins from our hedging activities was principally due to the rising power prices in the first quarter of 2007 as compared to declining power prices during the first quarter of 2006.

Adjusted net income is net income or loss excluding unrealized gross margin and other non-recurring items. Adjusted EBITDA, which is the best metric for measuring the performance of our business, is adjusted net income excluding interest, taxes, and depreciation and amortization. Additional data is provided in the appendix reconciling net income or loss to adjusted net income and further to adjusted EBITDA.

Adjusted EBITDA from continuing operations for the first quarter of 2007 was \$220 million as compared to \$182 million for the comparable 2006 period. The \$38 million increase was principally driven by an increase in realized gross margin which I will discuss in more detail on slide 18.

Our average diluted share count is lower in the 2007 quarter as compared to the 2006 quarter due to share repurchases partially offset by an increase in assumed dilutive options or shares for options and warrants due to additional grants and increases in our stock price. Finally, our adjusted earnings per share from continuing operations was \$0.46 for the first quarter of 2007 as compared to \$0.29 for the comparable 2006 period.

Turning to slide 17, this slide presents a summarized comparison of our first-quarter results for our discontinued operations. Again, additional data is provided in the appendix reconciling net income to adjusted net income and further to adjusted EBITDA. Adjusted EBITDA from discontinued operations for the first quarter of 2007 was \$148 million as compared to \$158 million for the comparable 2006 period.

The decrease of \$10 million is principally due to a decrease in operating income as a result of the Sual outages partially offset by a reduction in depreciation and amortization as assets held for sale are not depreciated under generally accepted accounting principles. A significant amount of the decrease in operating income as a result of the Sual outages is

expected to be recovered from insurance coverage during 2007. And finally, our adjusted earnings per share from discontinued operations was \$0.32 for the first quarter of 2007 as compared to \$0.17 for the comparable 2006 period.

Turning to slide 18, this slide analyzes the components of the Company's realized gross margin from continuing operations for the first quarter of 2007 and 2006. Energy, shown as the light blue bar, is comprised of gross margin from the generation of electricity at market prices, emission allowance sales and purchases, fuel sales, fuel purchasing and handling, steam sales, and our proprietary trading and fuel oil management activities. The quarter-to-quarter increase of \$28 million is principally due to a 7% average price increase and a 4% generation volume increase in our mid-Atlantic region for the 2007 period as compared to the 2006 period.

Contracted and capacity, the dark blue bar, 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 increase of \$21 million is principally due to an increase of \$12 million in the Northeast region due to the implementation of FCM and a \$5 million increase in the California region due to the new tolling agreement with PG&E. And finally, the incremental realized volume hedges, the yellow bar, represents the actual margin realized upon the settlement of our power and fuel hedging.

Turning now to slide 19, let's take a look at our free cash flow for the first quarter of 2007. If you reduce net cash provided by our continuing and discontinued operations for capital expenditures, it resulted in free cash flow of \$164 million or \$0.59 per share for the first quarter of 2007. This is comprised of \$106 million or \$0.38 of free cash flow per share from continuing operations with the balance of \$58 million or \$0.21 per share being provided from our discontinued operations.

Turning to slide 20, this slide presents our debt and liquidity for our continuing operations as of March 31, 2007 and December 31, 2006. The \$134 million decrease in debt is primarily due to repayments of debt 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 equivalent for our continuing operations including amounts available under the Mirant North America revolver and synthetic letter of credit facility amounted to \$1.761 billion at March 31, 2007.

Reserve cash at March 31, 2007 included approximately \$118 million of cash related to the New York entities that emerged from bankruptcy on April 16, 2007. Post emergence, this cash was no longer restricted due to that bankruptcy.

Turning to slide 21, this slide presents an update on our federal tax NOLs under section 382 (l)(5) or section 382 (l)(6) of the Internal Revenue Code. As we have discussed before, we will make the (l)(5) or (l)(6) election in our 2006 tax return to be filed on Sept.

17, 2007. As reported at December 31, 2006, we estimated that our preemergence NOLs were \$2.3 billion and \$3.4 billion under an (1)(5) or an (1)(6) election respectively.

In addition, we estimated at that time that we would have post emergence NOLs for 2006 which are unaffected by the election of (1)(5) or (1)(6) of approximately \$800 million. Therefore our total NOLs both preemergence and post emergence estimated at December 31, 2006 were \$3.1 billion and \$4.2 billion under (1)(5) and (1)(6) respectively.

On March 15, 2007, we filed what is known as the check the box election under which Mirant Asia-Pacific Ltd. will be treated as a corporation for U.S. federal income tax purposes effective January 1, 2007. As a result of this election, unless Mirant files a gain recognition agreement with its 2006 federal income tax return, it will be deemed to recognize taxable income on the sale of our Philippine business for U.S. 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 U.S. federal income tax purposes for 2006 and that the estimated \$300 million balance of net income realized in 2006 as a result of this election will be offset by preemergence NOLs. As a result, it is estimated that NOLs at March 31, 2007 reflecting the check the box election are \$2 billion and \$3.1 billion under (1)(5) and (1)(6) respectively. As indicated earlier, Paul Gillespie, Senior Vice President of Tax, is with us today and can further elaborate on this or any other tax questions you may have during the Q&A session.

With that, I will turn it back to Ed, who will wrap up and open up the session for your questions. Ed?

*Ed Muller - Mirant Corporation - Chairman and CEO*

Thanks, Jim. On page 22, just to summarize now, we're very pleased our adjusted EBITDA was up 21% compared to the same quarter last year for our continuing business. We think those are excellent results. We're moving forward on our divestiture program. It has three major pieces. One of them has closed. The other two are on track to close shortly.

Our continuing operations are located as we planned in U.S. markets with low and declining reserve margins, which means the laws of supply and demand are working to our advantage. We will see and are seeing organic earnings growth because of these factors.

We will continue as we have to seek to add new brownfield capacity and to repower our existing sites when we can do so prudently. And we are getting as a result of the discussions we've just had about Lovett and the agreements we have reached, some positive signs to work on that.

And finally as we announced earlier, we are continuing to explore strategic alternatives to enhance stockholder value.

With that, we will be pleased to take your questions.

## **QUESTION AND ANSWER**

*Elizabeth Parrella - Merrill Lynch - Analyst*

Ed, could you give us a feel for the timing on the strategic review in terms of when you expect to reach a conclusion?

*Ed Muller - Mirant Corporation - Chairman and CEO*

Elizabeth, it is a very good question, and good morning. But we're really -- other than having announced we are going to do it and are doing it, we're not going to comment on how we're doing it, what the process is, and the timing.

*Elizabeth Parrella - Merrill Lynch - Analyst*

Okay, maybe I could ask you a question on the business, then. On Potomac River, the discussions you are having, you have this plan obviously for stack reconfigurations. What do you see is the risks around it that you may have to either take a different approach or agree to shut one or more units down, how needed are those units over the next few years? Can you talk a little bit about the risks around the kind of long-term viability of this plant?

*Ed Muller - Mirant Corporation - Chairman and CEO*

It is a very good question, Elizabeth. As you know, or as many of you may know, there is significant opposition to this plant. It is located in the city of Alexandria. It was built in 1949 at a time when the neighborhood around it was an industrial area and now it has been gentrified. So people would prefer that this plant not be there. We understand that.

I referred earlier to the capacity shortfall in the mid-Atlantic region. That is why the prices under RPM came out where they did. It is a reflection of an inadequate supply of electricity. Reserve margins are already too low in the mid-Atlantic compared to what is prudent and they are forecasted to get lower. So talking about taking capacity out of the system in those conditions does not make a lot of sense. That does not mean that people are going to love this plant, but its necessity is real and it is an integral part of supplying electricity not only in the mid-Atlantic but in particular to the nation's capital.

As I said, we are running all five units right now. This is not a walk in the park. There are many different possibilities. I can't predict them all. I think there is a general recognition by various government authorities involved about the need for the plant. There is also a

general recognition that particularly in the Alexandria area, there are lots of people who wish it weren't there. So we are busy navigating through that.

*Elizabeth Parrella - Merrill Lynch - Analyst*

Okay, one follow-up on your Lovett agreement. Is the expectation there that basically you've kind of put off dealing now with second unit until we get closer to this April 2008 timeframe and it sounds like more likely if you can do something with it, it would be more to add gas capacity at the site rather than kind of repowering it? Or more of a repowering then, say, a scrubber is what I meant.

*Ed Muller - Mirant Corporation - Chairman and CEO*

No, we do not foresee scrubbing unit 5. It does not make economic sense to scrub it and run it as a coal unit. We are exploring a variety of options involving natural gas for a new capacity, combined cycle capacity, peaking capacity, and possibly even using the existing -- some of the existing facilities at Lovett. It is early stages to know what makes the most sense there.

It is also -- the agreement is that the unit will close on April 30, 2008, one year from now. The area from Albany South likewise is deficient in capacity, not quite as bad as in the mid-Atlantic, but a growing problem. Ideas that have been tossed around -- I cannot tell you that they come to fruition -- are that if an agreement could be reached to add some gas capacity, it might make sense and be in the interest of the consumers of New York in terms of both reliability and price to bridge the time between getting new capacity, the time between now and when that new capacity would be available by continuing unit 5's operations.

But no such agreement has been reached. I can't tell if there will be such an agreement. It is simply a concept now.

*Elizabeth Parrella - Merrill Lynch - Analyst*

Okay, thanks very much.

*Brian Chin - Citigroup - Analyst*

Ed, you had made some comments about capacity market prices reflecting tight capacity in Southwest MAAC. Do you directionally expect the Southwest MAAC numbers to be higher in the second auction than in the first auction?

*Ed Muller - Mirant Corporation - Chairman and CEO*

Well, the numbers will be what they will be and there are a variety of parties bidding in. Let me let John O'Neal speak a little further to it.

*John O'Neal - Mirant Corporation - SVP and CCO*

I think, Brian, at this point we're going to not give any forward-looking statements or any earnings guidance going forward. So I think it would be unwise of us to speculate how prices might come out in this second round of the auction.

*Brian Chin - Citigroup - Analyst*

Okay, thank you.

*Rudy Tolentino - Morgan Stanley - Analyst*

I just wanted to make sure that I understood the NOL situation. Is the way -- in slide 21 - is essentially what happened is were the benefits, the \$1.1 billion benefits in NOLs, were they recognized in 2006? Is that essentially what happened? Can you just enlighten me on how to look at that?

*Ed Muller - Mirant Corporation - Chairman and CEO*

Paul, why don't you take this?

*Paul Gillespie - Mirant Corporation - SVP of Tax*

The taxable gain from the Philippine sale is \$1.2 billion. That gain if we had done nothing would have arisen in 2007. Under the check the box election, \$1.1 billion of that gain now arises in 2006 and can be offset in part by the \$800 million operating loss which we realized in 2006. The additional amount of the gain will be offset by premergence NOLs.

*Rudy Tolentino - Morgan Stanley - Analyst*

Okay. And then on a separate topic, can you help me understand why the baseload mid-Atlantic capacity factors were lower even though market conditions were higher? And can you explain -- help me understand why that was?

*Ed Muller - Mirant Corporation - Chairman and CEO*

John, do you want to address this?

*John O'Neal - Mirant Corporation - SVP and CCO*

Yes, baseload mid-Atlantic --

*Rudy Tolentino - Morgan Stanley - Analyst*

Slide 26.

*John O'Neal - Mirant Corporation - SVP and CCO*

I mean, they were roughly very, very close. As you can see, the first quarter of '06, they were 66%; and first quarter of '07, they were just around 64%. That reflects -- that's typically the kind of capacity factor we've seen in these markets. That reflects probably just some slight derates or outages that we would have had in the first quarter of 2007 as compared to 2006.

*Rudy Tolentino - Morgan Stanley - Analyst*

Okay. So you think -- so like is 65% capacity factor for this time of year is typical?

*John O'Neal - Mirant Corporation - SVP and CCO*

Yes, that has typically been the way our units have run. Remember where we are in the system, our units have oftentimes cycled down at night and so we don't oftentimes have very high capacity factors or pick up a lot of run-time in the off-peak hours. And so we have typically seen maybe some lower capacity factors than you might see from other coal units.

As we project forward, we actually see that situation changing a little bit. As Ed described, the supply/demand tightness in the middle, in the Pepco zone, we see that showing up quite oftentimes in the off-peak hours. And so as a result of that as we expect going forward, we see our capacity factors pick up over the next several years.

*Rudy Tolentino - Morgan Stanley - Analyst*

Okay, thank you very much.

*Gregg Orrill - Lehman Brothers - Analyst*

Coming back to the PJM capacity auction, could you give us some information on what your capacity hedge levels would be going forward so we might get an idea of your sensitivity to the auction prices?

*Ed Muller - Mirant Corporation - Chairman and CEO*

This is Ed. As you might imagine, the bidding process here has us using a fair amount, a lot of proprietary data and we're not going to get in the position of telling the whole marketplace information that we consider to be proprietary.

*Gregg Orrill - Lehman Brothers - Analyst*

Okay, maybe just a detail oriented question. What was the tax rate in the first quarter on continuing ops EPS?

*Paul Gillespie - Mirant Corporation - SVP of Tax*

Generally the tax rate on our continuing operations, which are strictly in the U.S., we estimate it around 38%.

*Gregg Orrill - Lehman Brothers - Analyst*

Got it, thanks.

*Paul Gillespie - Mirant Corporation - SVP of Tax*

35% federal plus the after-tax effect of the state.

*Gregg Orrill - Lehman Brothers - Analyst*

Okay.

*Craig Shere - Scottwood Capital - Analyst*

Two questions. First, Paul, I see on this NOL slide, the footnote says -- as the footnote was saying as an individual company continuing stand-alone. Does the annual limit for using the NOLs change or can you explain how they change if Mirant is consumed into a larger entity?

*Paul Gillespie - Mirant Corporation - SVP of Tax*

If Mirant is absorbed by a larger entity, the NOL limitation, the annual usage limitation will be determined at the time of the acquisition by taking the amount that's paid for the stock and multiplying that by the applicable federal long-term tax-exempt interest rate that would apply on the date of the acquisition. Now for rule of thumb estimation purposes, that rate is typically 4.25% plus or minus 0.25%. It is published monthly by the IRS and changes monthly.

*Craig Shere - Scottwood Capital - Analyst*

Okay, thank you. The second question, Ed, I know you don't want to talk into details about your planning and development and you've got a lot on the plate here. I just wonder in general if you could comment -- some of your peers in the industry have talked about the potential value in general of brownfield development opportunities. Maybe in the area of \$100 to \$150 per kilowatt on an NPV basis. Can you speak to -- without talking about your specific projects, likelihood of your projects, or any of your particular operations -- could you speak to the economics of brownfield development in the market today? And is \$100, \$150 NPV from brownfield a reasonable guess-timate?

*Ed Muller - Mirant Corporation - Chairman and CEO*

You know, I have found over many years in this business that trying to find rules of thumb -- and I understand why everyone including me wants rules of thumb -- is a very dangerous area to go. And I have seen development. We have all seen development that produced no value and we've seen development that produced lots of value. I think rules of thumb are dangerous. I think they are very much affected by the prudence with which projects are pursued. And I think to go beyond that I am not comfortable.

Is there value? You bet there's value. Is there more value figuratively speaking tomorrow than there is today? You bet there is, because barring some major problem in the economy, demand is rising and the demand is going to keep rising. And conservation movements which are commendable, are not going to stop demand from rising. They will slow the rate at which demand is rising. Meanwhile supply is not rising to meet that demand.

So new supply is going to become ever more valuable. But it is constrained now, that is the addition of new supply, by all of the societal concerns we have. And until we work through that, this problem of a gap between supply and demand is only going to be exacerbated and that is only going to make new development more valuable and in particular it is going to make brownfield and repowering ever more valuable. But putting a dollars per kilowatt on it, I'm not prepared to do right now.

*Craig Shere - Scottwood Capital - Analyst*

Let me just follow up with a broad industry question. You said when it is pursued in a prudent manner, there is definitely value. Obviously people are worried about when is the next market cycle change in this industry -- five, seven years out, whenever? Will participants attack alpha till it totally disappears and we have negative returns like you referred to? Do you believe the industry in general today, all your peers together along with you, are generally being prudent in terms of the new build proposals?

*Ed Muller - Mirant Corporation - Chairman and CEO*

Well, I don't think -- I don't want to comment on my peers. There are a variety of proposals out there. The critical thing whether doing greenfield, brownfield, or repowering, which is a development effort, is how you go about working on the project including how much money gets poured in up front. And we have all had the experience of seeing situations where lots of money gets spent and somehow projects don't come to fruition for a long time and you don't need an advanced degree in running IRRs to know that that is not pretty sight.

These are very dependent on specific situations, specific markets. I think the broadest issue that we in the industry and anyone following in the industry has to think about is we are, for want of a better word -- I apologize -- we are constipated. We can't figure out societally where we're going to go. I understand that and for good and legitimate reasons.

But that is going to make ultimate development more valuable and I think it is going to be more difficult.

But I'm not going to comment on where people are right now. And there's also a big difference between announcing that or saying you're pursuing something and laying out lots of dollars.

*Craig Shere - Scottwood Capital - Analyst*

Sure, that's helpful. Thank you very much.

*Lasan Johong - RBC Capital Markets - Analyst*

Good morning. Nice quarter. Just a quick technical question. The operating cost on the quarter was down about \$19 million. I was wondering what is driving that given the increase in outages that was previously mentioned?

*Ed Muller - Mirant Corporation - Chairman and CEO*

Jim, do you want to take that?

*Jim Iaco - Mirant Corporation - EVP and CFO*

Yes, we had a couple of things go on. One, we had a reduction in our benefits expense due to an amendment to our postretirement benefits plan and that was offset by an increase in incentive compensation because of the increase in our stock price as well as additional incentive compensation being granted to our employees.

*Lasan Johong - RBC Capital Markets - Analyst*

Okay, that's helpful. On the Philippines asset, did I hear you right that unit 2 is up and running? Unit 1 was running but there was a vibration problem which caused you to kind of curtail back and do more diagnostics?

*Ed Muller - Mirant Corporation - Chairman and CEO*

No, let me be clear. That is not quite it. Unit 2, which was the first unit to suffer a failure of its generator, is back up and running and has been since March. So unit 2 is, if you will, off the table for discussion because everything is done there. Unit 1 had the same failure, which was its generator failed, back as I recall in October. We have repaired the generator and it is ready and willing.

In the process of bringing up the unit, which has its various components, its boiler, its turbine, its generator, to bring it back into service after it had been out of service entirely for half a year, we ran into -- we detected some vibration in the turbine and so we had not brought it back into service yet. We were in the process of testing it and starting to bring

it back. And so we have taken it back down to make sure we understand what is causing the vibration and take care of it.

*Lasan Johong - RBC Capital Markets - Analyst*

So this is a condition precedent of closing the deal?

*Ed Muller - Mirant Corporation - Chairman and CEO*

It is.

*Lasan Johong - RBC Capital Markets - Analyst*

Understood. Thank you very much.

*Ed Muller - Mirant Corporation - Chairman and CEO*

Let me be clear. This is not something I regard as a big deal. This is ordinary, a unit that has been down, you get vibration in turbines when they hasn't run for awhile. And we are just going to be prudent and take care of it as we come along.

*Lasan Johong - RBC Capital Markets - Analyst*

And it won't change the price of the deal?

*Ed Muller - Mirant Corporation - Chairman and CEO*

We do not expect to have any impact on the price. The only impact we would imagine -- and we're talking here a matter of days or weeks is on the closing date.

*Lasan Johong - RBC Capital Markets - Analyst*

Understood. Thank you very much.

*Peter Monaco - Tudor - Analyst*

Ed, I understand that is problematic to talk about aspects of the strategic review specifically, so instead would you talk about what you are observing generally on the M&A landscape in the industry?

*Ed Muller - Mirant Corporation - Chairman and CEO*

Peter, I am not sure I can. I know there is a lot of talk. I know there is a lot of interest. Beyond that, I'm not sure I can add much.

*Peter Monaco - Tudor - Analyst*

Thanks.

*Paul Patterson - Glenrock Associates - Analyst*

I wanted to sort of just circle back on the brownfield development and you mentioned that you need some political and regulatory support to really make you feel comfortable getting back into building new generation. I was wondering if you could just elaborate what specifically you are sort of looking for?

And I just also wanted to follow up on the reserve margin question. You sort of said that you expected reserve margins to decline with respect to I think Elizabeth's question on Potomac, and I was wondering where you think they might actually be going?

*Ed Muller - Mirant Corporation - Chairman and CEO*

Well let me -- hang on. I got your second question. Your first question was --?

*Paul Patterson - Glenrock Associates - Analyst*

The political and regulatory support that you need to see develop.

*Ed Muller - Mirant Corporation - Chairman and CEO*

Thanks, sorry. On the reserve margins, in the mid Atlantic, we can see them, the system operator, PJM, is always looking at and properly being concerned about this. But we can see them getting down into single digits within the next few years. To remind everyone, while there is talk on where exactly you want to be in the double digits, 18%, 17%, it is hard to find anyone who thinks you can go below 15%. So when you go in the single digits below 10%, which we can see coming in the mid Atlantic, this is trouble. This is not healthy.

For the supply and demand curves and what that means to pricing, that is great for somebody in our business. It is just terrific, but it is actually risky in the marketplace, risky in the sense that you can have system outages, blackouts, brownouts, and we are in a business that has an obligation to serve, and which we take seriously. And I don't like to be in a situation where the customers, homeowners, businesses and so on may not have electricity. And it is not because we're not doing everything we can. It is because there just is not enough equipment running to supply it.

In terms of the political and regulatory, to build a power plant requires a variety of permits. One of the reasons that brownfield and repowering is easier is you at least already have the site and people are used to that being a site and accept that. But you need environmental permits, water issues, air issues among them and let's think about what you can build today as a practical matter.

You have got to go and get the permission. You don't just decide to do it yourself. And the significant choices to add meaningfully to capacity, to meaningfully address the supply situation are threefold. One is coal. We are generating today half of all the electricity in the United States from coal and I don't see any realistic way that that's going to change any time soon. It doesn't mean it is good. It just means it is. And there are sound arguments and sound counterarguments about adding new coal-fired capacity.

But right now, take a look at the situation in Texas, who is ready to actually permit new coal capacity?

The second is natural gas. As we are going to seek to do in New York right now, it is cleaner. It emits greenhouse gases, not at the same rate as coal, but nevertheless, it is a significant emitter. It is cleaner. It is easier. It is cheaper to build, but with natural gas prices where they are, we're talking about some expensive electricity. That has ultimate political consequences. Somebody has got to pay for this stuff.

And the third is to build new nuclear plants. While it seems to be the case that nuclear plants do not have the impact on greenhouse gases that coal, natural gas, and oil have, I say seems because I've seen some studies that suggest that when you take into account a nuclear plant cradle to grave, mining the uranium and so on, that there in fact may be an adverse impact. But I don't feel qualified to speak to that.

But let's assume that nuclear plants have no impact on greenhouse gases produce none. They cost. I do not know of one that ever was built in the United States on budget and on schedule. They take a long time to add. We just talked about capacity problems that are coming in the matter that are here now that are coming in the matter of a few years and I don't think anybody thinks you're going to get nuclear plant up in less than 10 years.

So when I say political and regulatory, you're not going to build a nuke without getting NRC approval. It's as simple as just that. You're not going to build a coal plant without getting air and water permits. Same with the gas plant. That is not just whether you can check some boxes in filling out a permit application. That is part of a broad process in a region where people are having to address how we get electricity. And when I say that we are stuck right now, it is as a society, we have not figured this out.

*Paul Patterson - Glenrock Associates - Analyst*

If I were -- I guess what I'm sort of trying to figure out here is that when we're looking at supply and demand, when we're looking at RPM and all these pricing schemes to incentivize new generation, if I understand you correctly, you still see enough of an impediment in terms of new merchant build and all the issues that you just elaborated on that we're not going -- that the current system that is out there may not be adequate enough to provide the reliability that is what we expect from society. Am I getting that correct?

*Ed Muller - Mirant Corporation - Chairman and CEO*

I think that that's right, Paul. I think we're going to be slow to address it for the reasons you stated which means the supply and demand imbalance is going to get worse. Better for incumbents, but worse societally before it gets better. This is going to take a while. We are not ready and it is caught up in a lot of concern, a lot of rhetoric, and a lot of politics.

*Paul Patterson - Glenrock Associates - Analyst*

I appreciate it. Thank you.

*Daniele Seitz - Dahlman Rose & Co. - Analyst*

Just what you're doing, do you recall you had given some guidance as to what you anticipated in terms of divestitures in use in terms of RPM? And I was wondering how far off were you when you are assuming the numbers? Was it clearly well above your estimates?

*Ed Muller - Mirant Corporation - Chairman and CEO*

Daniele, in light of our -- and good morning -- in light of our having suspended giving guidance, we're not going to give -- we're not going to comment on our prior guidance or on the elements that constitute it.

*Daniele Seitz - Dahlman Rose & Co. - Analyst*

Okay. I just was curious regarding this. My other questions were answered. Thank you very much.

*Mary Ann Arico - Mirant Corporation - IR*

Thank you for joining us today. If you have further questions, Sarah Stashak and I will be available by phone in just a few minutes. Thank you.