

FINAL TRANSCRIPT

MIR - Mirant Q4 2006 Earnings Conference Call

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PRESENTATION

Operator

Good day, everyone, and welcome to the Mirant Corp. fourth-quarter and year-end 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 Corp. - IR Director

Thank you. Good morning and thank you for joining us today for Mirant's fourth-quarter and year-end earnings call. If you do not already have a copy, the press release, financial statements and year-end filing with the SEC are available on our website at www.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, Chairman and Chief Executive Officer, and Jim Iaco, Executive VP and Chief Financial Officer. Also in the room and available to answer questions are Bob Edgell, Executive VP and U.S. Region Head; Bill Holden, Senior VP and Treasurer; John O'Neal, Senior VP and Chief Commercial Officer; and Paul Gillespie, Senior VP of Tax. This morning Ed will provide an overview of the business and Jim will provide you with the financial results.

Moving to slide 1, which is the Safe Harbor slide. During this call we will make forward-looking statements which are subject to risks and uncertainties. Factors that could cause

actual results to differ materially from the management 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 the call may include certain non-GAAP financial measures. For such measures reconciliations to the most directly comparable GAAP measure is available on our website or at the end of our presentation. I will now turn the call over to Ed Muller.

Ed Muller - Mirant Corp. - Chairman, CEO

Thanks, Mary Ann, and good morning, everyone. Two preliminary matters -- first, I'll try and remember to tell you what page I'm on; I'll start on page 3; and second, like Mary Ann and several others in the room, we've had a bit of the flu move through Atlanta and I may cough a few times and I apologize in advance.

Starting on page 3, we've had a very good year, as I think you'll see or have seen already. Our continuing operations, on which we'll particularly focus during this presentation this morning, performed well for us financially despite lower market prices during the year. And this continues to reinforce what we think of as a good strategy of hedging which provides us with predictable financial results. We are raising our adjusted EBITDA guidance for 2007 and initiating guidance for 2008, as we have previously announced.

But I want to note, we have agreements for the sale of both our Philippine business and six U.S. natural gas-fired plants and we expect both of these transactions to close in the second quarter. And the process of selling our Caribbean is well underway and we expect it to close by the middle of 2007.

Turning to page 4 is a map we've used before just to remind you of Mirant's continuing operations going forward, 10,650 MW in three primary markets -- the mid-Atlantic, the Northeast, (New York and New England) and Northern California right in the Bay Area.

On page 5 you can see the discontinued operations; these are the three sets of assets and businesses that we are in the process of selling. As I mentioned earlier, we have agreements, which we've announced, for the sale of the Philippine business and the six plants in the United States and we are in the process of conducting a sales process for the Caribbean business.

Turning to page 6, you can see in terms of adjusted EBITDA how we've done quarter-over-quarter fourth-quarter '05 to fourth-quarter '06 and year-over-year '05 to '06 and you can see why we're very pleased with the numbers. For the quarter we had a loss in the fourth quarter of '05 of \$31 million and in the fourth quarter of '06 our continuing operations had adjusted EBITDA of \$171 million. For the year looking at the same numbers \$169 million of adjusted EBITDA for 2005 from our continuing operations and

\$641 million for the year 2006. And our discontinued operations continued to perform in a very stable fashion as they have in the past.

Turning to page 7, here you can look at our actual continuing operations adjusted EBITDA for '06 and the guidance we are today giving for '07 and '08 and you can see a very nice progression. In '06, as I said just a moment ago, we had \$641 million of adjusted EBITDA; our guidance, which we are increasing and which Jim Iaco will go into in detail later in this presentation, we are now setting at \$1.089 billion and for '08 we are initiating guidance at \$914 million.

Turning to slide number 8, some points about our continuing operations. First, as I said earlier, our program of hedging continues to enable us to provide predictable financial results; we think that is the right way to be running this business. Second, the market fundamentals are continuing to improve; natural gas, after a slow start in January, has been drawn down because of the cold weather which is providing support for fuel and power prices.

We are seeing once again in fact this week that it is colder than expected, so this trend is continuing a little longer than we and I think the rest of the market had anticipated. And we are seeing in the mid-Atlantic, where some of our key plants are, that capacity market prices are reflecting the tightness of reserve margins. Our plants are in the so-called Pepco zone which is within the Southwest MAAC.

And I'd note in that regard that the new governor of Maryland, Martin O'Malley, who took office in January, has commissioned a series of transition reports as he plans what he will be doing and needs to be doing in the state of Maryland. And in late February he issued a transition report on energy and noted some of the very same things that we have been talking about before. And from his report, the Governor's report, he notes that between 1999 and 2005 in Maryland demand grew 15.7% for electricity and in that same period between 1999 and 2005 supply grew 1.9%.

To repeat, demand grew 15.7% those six years supply grew 1.9% and that trend continues and the Governor, whom I commend for addressing these subjects, recognizes these are continuing. The Governor's transition report also notes that Maryland gets 28% of its electricity through imports and through a transmission system that is by and large running full out and is constrained from adding much more.

In light of these market conditions we continue to be hedging; we have, as I'll show you shortly, been hedging further and have started hedging into 2010. We hedge for our mid-Atlantic plants at the PJM West hub. We often get the question are we hedging with electricity or with gas? We are hedging with electricity, but we do not hedge away the basis differential in the market which enables us to preserve the upside that we believe will come through heat rate expansion which is the reason people ask us if we would consider hedging with gas.

So turning now to page 9 and continuing to address directly hedging, I'll look first at the left on the aggregate and then on the right is our baseload coal. And what we see there in 2007, that is the year we are now in, for the remainder of the year we are 83% hedged. The last time we gave such figures we were 55% hedged; for 2008 we are now 47% hedged; the last time we gave such figures we were 21% hedged. For '09 we are 35% hedged; the last time we gave such figures we were 23% hedged and for 2010, where we have not previously given figures, we are now 14% hedged for the aggregate.

Now let's look at it in terms of baseload coal, which is a major driver in what our continuing operations do and in value for this company. For 2007 we are 97% hedged; the last time we gave numbers we were 74% hedged. For 2008 we are 63% hedged compared to the last time we gave such figures when we were 31% hedged. For 2009 we are now 51% hedged; the last time we gave such figures we were 33% hedged. And for 2010 where we previously did not give figures we are now 20% hedged.

We continue, with regard to our baseload coal, to hedge in a collaterally efficient way where the assets themselves provide the collateral rather than needing to provide cash collateral. And we are able to do this now with multiple parties and are doing so.

Turning to page 10, speaking about our mid-Atlantic plants further -- first, as you know and as we have said before, the capacity markets are coming into play and will come in in June as approved by the Federal Energy Regulation Commission. This is a significant change for the Company over 2006. Our expectation, as shown on the next page, is that for 2007, and this is incorporated in the guidance we have given, that these capacity markets will produce revenue for us in PJM of \$140 million versus the \$9 million that we received for capacity in 2006.

I'd like to address just briefly under the second bullet on page 10, the environmental update, we are required by the Maryland Healthy Air Act to put in back-end controls on our three coal facilities in Maryland: Morgantown, Chalk Point and Dickerson. We are moving forward to do so. As we have been working on this and refined it our estimated cost for this has gone up a little. Rather than a range which we previously gave of \$1.3 to \$1.5 billion, we are now setting an exact target of \$1.6 billion. You can see the numbers there for what we expect to expend this year in 2007 and next year in 2008.

But part of the reason for the increase is scope change. Just as we have worked on it we have realized there are some things we're going to have to do that we did not contemplate. For example, at Dickerson we had thought that we could use the existing stack for the scrubbers, but in testing the conditions of the stack we have concluded that that would not be prudent and we will have to build a new stack there. So we have a variety of factors like that that we are looking at.

Potomac River is running -- running just fine. We plan to continue running it until early in the summer when we will start reconfiguring the stacks which is part of our program to ensure that we can comply with the national air quality environmental standards.

Turning to slide 12 for the Northeast. As we previously have said, we have settled all of the past disputes involving property taxes in New York. And as a result of that we have filed a plan to bring Bowline out of bankruptcy. We also have filed to sell our small hydros and two combustion turbines; we have repaired the dam at Swinging Bridge, it's virtually complete, the reservoir is being filled behind it and we have an agreement to sell it which we filed with the Bankruptcy Court and there are several other bidders which is fine.

As to Lovett, we're pleased to have the property taxes behind us; we are still working on keeping a future for Lovett. We have given notice as required under the consent decree entered into in 2003 to shut down unit 5, one of the two coal units there. We are in discussions with the authorities in New York State to see if we can find a path that can keep unit 5 going. We don't have a conclusion yet. Among the reasons we're having these discussions is that we think that there's quite a strong case that it is not prudent in terms of the electric supply situation in the Hudson River Valley to be removing capacity from the market at this time.

Turning to page 13, you can see the realized gross margin numbers but there is no significant news to report there. Page 14, this is a slide as I think virtually identical if not identical to what we've said before. We are in markets that have low and declining reserve margins. As Herb Stein has said, if something can't go on forever, it won't. At some point these markets, as well as other markets in the United States, will need new capacity. Repowering or doing brownfield development at existing sites is an efficient way to do that.

The governor's transition report in Maryland really highlights the need for these subjects to be addressed, but at the same time we recognize we are, as a matter of national policy, somewhat bollocksed up about how we're going to go forward and until that resolves we're not going to spend vast sums of money so that we can lose vast sums of money. We will continue and are continuing to see what we can develop; to get ready we may be filing for some permits. We recognize policy has to adjust here in terms of greenhouse gases and what we are willing as a society to do and not do.

On page 15 you can see for the continuing operations where we have physical space to add capacity and the number of megawatts that could be added, and you can see that they are significant. When they'll be added, again, I think requires among other things that, in terms of broad national policy, we figure out where we're going.

Turning to page 16, as I said earlier today, we previously announced that we have an agreement to sell our Philippine business; it will close after the two units at Sual come back into service. I'm pleased to report that the first of the generators that failed, unit 2, has been repaired and it is back in service as we sit here today. We expect unit 1 to be back in service in early May; it is proceeding just fine.

On page 17, I don't think there's anything particular to note there that we have not already disclosed, which is we have an agreement to sell our six natural gas-fired U.S. plants to

LS Power and we will use \$500 million of the proceeds, that which is attributable to the Zeeland and Bosque plants in accordance with the covenants in the debt instruments that cover them and we'll utilize those funds either in the business or possibly for debt reduction. Most likely we will use them in the business to put in the environmental back-end controls in Maryland.

As I mentioned, turning to page 18, we are underway with a process, just like our other processes, to sell our Caribbean business. Page 19 reiterates what we have said before, which is what is our current plan with regard to the cash. And that is that once we have assembled it from these three sales processes we intend to return it to our shareholders with the size being determined based on what is necessary to preserve the credit profile of the continuing business, to maintain liquidity for the business including, among other things, for the large capital expenditures we have, particularly in Maryland, and to retain sufficient working capital for the business.

And with that, I will turn this, starting on page 20, to Jim Iaco who will walk us through some of the numbers in more detail.

Jim Iaco - Mirant Corp. - EVP, CFO

Thank you, Ed. Good morning. Let's turn to slide 20 for a summary of our fourth-quarter and year-to-date results for our continuing operations. Because adjusted EBITDA is the best metric for measuring the performance of our business I will address the period-to-period comparison of adjusted EBITDA from continuing operations for 2006 versus 2005. Additional data is provided in the appendix reconciling net income or loss to adjusted net income or a loss and then further on to adjusted EBITDA.

As shown on slide 20, adjusted EBITDA from continuing operations for 2006 for the fourth quarter was \$171 million as compared to a loss of \$31 million for the comparable period in 2005. Year-to-date adjusted EBITDA from continuing operations was \$641 million as compared to \$169 million for the 2005 year-to-date period. Increases in realized gross margin were the primary driver for the period-to-period improvements in addition to reductions in operating expenses primarily attributable to a reduction in property taxes as a result of the New York property tax settlement.

The increase in realized gross margin was principally due to our hedging activities in prior periods which protected us from lower market prices for power. I will break this down further at the realized gross margin level on slide 22. Our adjusted earnings per share from continuing operations was \$0.34 and \$1.02 for of the fourth-quarter and year-to-date period of 2006 respectively.

Turning to slide 21, this slide presents a summary of our fourth-quarter and year-to-date results for our discontinued operations. As shown on slide 21, adjusted EBITDA from discontinued operations for the 2006 fourth quarter was \$129 million as compared to \$141 million for the comparable period of 2005. Year-to-date adjusted EBITDA from

discontinued operations was \$662 million as compared to \$610 million for the 2005 year-to-date period.

The outages at our Sual plant in the Philippines is the reason that the fourth-quarter of 2006 results are unfavorable as compared to the fourth quarter of 2005. And improvements in our Jamaica operations, partially offset by the effect of the Sual outages, contributed to the uplift in the year-to-date results. Our adjusted earnings per share from discontinued operations was \$0.35 and \$1.15 for the fourth quarter and year-to-date period of 2006 respectively.

Turning to slide 22, this slide analyzes the components of the Company's realized gross margin from continuing operations for the fourth quarter and the year-to-date period. Energy, as 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.

2006 results reflect the impact of lower prices and lower generation volumes. 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. 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.

Another way to look at this chart is had we not had hedges in place for the fourth quarter and the full year of 2006 our reported gross margin for those periods would have been lower by \$143 million and \$359 million respectively. Thus our hedging activities protected our gross margin in a declining market price environment.

Turning now to slide 23, let's take a look at our free cash flow for 2006. Adjusting net cash provided by our continuing and discontinued operations were bankruptcy payments of \$814 million, adjusted net cash provided by operating activities amounted to \$1.377 billion for 2006 of which \$933 million was provided by our continuing operations and \$444 million by our discontinued operations.

Reducing these amounts for capital expenditures related to our continuing and discontinued operations of \$133 million and \$79 million respectively results in adjusted free cash flow of \$1.165 billion or \$3.92 per share for 2006. This is comprised of \$800 million or \$2.69 of adjusted free cash flow per share from continuing operations, a balance of \$365 million or \$1.23 per share being provided from discontinued operations.

Turning to slide 24, this slide shows our debt and liquidity for our continuing operations as of December 31, 2006. 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 the Mirant North America revolver and synthetic letter of credit facility, amounted to \$1.823 billion.

Turning to slide 25, as Ed indicated earlier, we are updating our guidance for 2007 and initiating guidance for 2008. Our 2007 adjusted EBITDA guidance for continuing operations has been updated to \$1,089 million. Our previous adjusted EBITDA guidance for our continuing operations was \$962 million, the \$127 million increase is principally due to a \$70 million increase in revenues from capacity payments; a \$45 million increase in our realized gross margin from our fuel oil management activities; and a \$35 million reduction in operating expenses.

Our 2008 adjusted EBITDA guidance for continuing operations is \$914 million. The decrease for 2008 as compared to 2007 is principally due to a reduction in our realized gross margins. I will break this down further on slide 29. Deducting projected net interest expenditures and income taxes and factoring in projected changes in working capital, adjusted cash flow from operations is \$930 million and \$699 million for 2007 and 2008 respectively.

Further reducing adjusted cash flow from operations by projected capital expenditures of \$826 million and 802 million for 2007 and 2008 derives adjusted free cash flow of \$104 million for 2007 and an adjusted free cash flow deficit of \$103 million for 2008. Our hedged gross margin for 2007 is \$1.123 billion or 63% of our projected realized gross margin. For 2008 our hedged gross margin is \$669 million or 41% of our projected realized gross margin.

Hedged gross margin is defined as hedged, merchant generation and other contracted capacity which would include reliability must-run agreements and other installed capacity arrangements. And finally, hedged adjusted EBITDA, which is defined as hedged gross margin, reduced by our projected operating expenses for a full calendar year is \$427 million for 2007 and not a meaningful number for 2008 due to the fact that our projected operating expenses exceed the current hedged gross margin for 2008.

Turning now to slide 26, this is just a breakdown of our actual capital expenditures for 2006 and our latest projected 2007 and 2008 CapEx. Our normalized U.S. maintenance CapEx approximates \$75 million per year, but is likely to be higher in the earlier years of our Maryland environmental program due to upgrades that will be timed in conjunction with our environmental retrofits. Understand that these numbers may continue to change slightly as we refine the amount and the timing of the planned expenditures.

Turning now to slide 27, let's address some of the key sensitivities regarding the guidance for 2007 and 2008 that we are providing today. Nymex strip prices utilized in our guidance are as of February 6th and are \$8.01 per MMBTU for the balance of 2007 and \$8.13 per MMBTU for 2008. Based upon our unhedged adjusted EBITDA for 2007 and 2008, a \$1.00 price move in natural gas will result in a change in adjusted EBITDA of approximately \$29 million and \$74 million for the balance of 2007 and all of 2008 respectively.

Power price changes due to heat rate movements of 500 BTUs per kilowatt-hour will result in a change in adjusted EBITDA of approximately \$41 million and \$95 million for the balance of 2007 and all of 2008 respectively. The heat rates shown are 7 by 24 Pepco forward implied market heat rates. Again to emphasize, these sensitivities are based upon our current unhedged adjusted EBITDA.

Turning to slide 28, our guidance includes capacity payment revenue of \$230 million and \$360 million for 2007 and 2008 respectively, broken down by market as shown in the chart. Our assumptions include the impact of the expiration in June 2007 of the administrative compliance order at Potomac River. Accordingly from that time forward guidance assumes three unit operation until stack modifications are made allowing for five unit operation in the first quarter of 2008. And finally, guidance does not assume any benefit from the pending Pepco settlement.

Turning to slide 29, this slide shows the components of actual realized gross margin for 2006 and projected realized gross margin, included in our guidance, for 2007 and 2008. The comparisons I am about to speak to are also shown on slide 34 -- excuse me, 35 in the appendix.

First, comparing projected results for 2007 to actual results for 2006, realized gross margin is \$493 million higher comprised of the following -- a \$217 million increase to contract and capacity gross margin which is principally due to a \$180 million increase in capacity payments; a \$374 million increase in energy gross margins which is principally due to a \$268 million increase as a result of higher market prices; and a \$140 million increase in gross margins from our fuel oil management activities. And finally, a \$98 million decrease in incremental realized value of hedges which is a result of a decrease in the differential between hedged prices and market prices.

As for 2008 compared to 2007, realized gross margin is \$159 million lower comprised of the following -- a \$130 million increase to contract and capacity gross margin which is principally due to increased capacity payments; a \$73 million decrease in energy gross margins which is due to a \$145 million reduction in gross margins from our fuel oil management activities partially offset by an \$82 million increase in energy margins due to higher market prices. And finally, a \$217 million decrease in incremental realized value of hedges which is due to a lesser amount of hedged generation.

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

Ed Muller - Mirant Corp. - Chairman, CEO

Thanks, Jim. We're on slide 30. To repeat, we had very strong financial results; our adjusted EBITDA for 2006 was 3.8 times our adjusted EBITDA for 2005; we have increased our guidance for '07 for the reasons Jim described; we're initiating guidance for '08. Our divestiture program has been moving right along. We have three major groups

we are in the process of selling. We have firm agreements to sell two of them, they'll close in the second quarter; the third is underway, that's the Caribbean and, again, we expect it to close by mid 2007.

Our continuing operations are in U.S. markets with low and declining reserve margins which means we expect organic growth from these markets; there is little being added in the way of capacity which inevitably must mean that prices will go up and that is why, among other reasons, capacity markets have come into place and are providing incremental revenue to us. We will seek, when we can prudently, to add new brownfield capacity at our existing sites and to repower and redevelop them, but we will only do so when it is prudent and that will require the national sense of what is appropriate in terms of energy and sources of energy to be resolved by the nation as a whole, not by one company.

So with that we are ready for your questions.

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Brian Chin, Citigroup.

Brian Chin - Citigroup - Analyst

Just a quick question on your heat rate and hedging comments, I just want to make sure I understand that right. You're hedging forward by selling power in PJM West, you're going to cover the short position by physically selling power in PJM East and then you make the basis differential if power prices at PJM East rise faster than West, right?

Ed Muller - Mirant Corp. - Chairman, CEO

John O'Neal, why don't you speak to that?

John O'Neal - Mirant Corp. - SVP, CCO

Brian, you've got it exactly right. We'll unwind our power hedges that we've put on at PJM West hub and of course we'll sell our generation at the Pepco zone. And as heat rate extension occurs we expect that basis differential will widen and we'll capture that heat rate differential as it does.

Brian Chin - Citigroup - Analyst

Now just to follow-up on this, if gas prices rise like they did in '05 then PJM East is more sensitive to gas prices, so you also have a little bit more gas leverage here in both directions than you might otherwise think, right?

John O'Neal - Mirant Corp. - SVP, CCO

Potentially we -- that's correct.

Brian Chin - Citigroup - Analyst

Second question for you, Ed. You mentioned at the bottom of your summary slide that Mirant will seek to add brownfield capacity and to repower and redevelop existing assets. I know you've made that comment in the past, but then you've also made comments in the past that sales proceeds are going to be used to repatriate cash back to investors. I just want to make sure I understand exactly where you're thinking of the uses of cash coming up for these asset sales proceeds?

Ed Muller - Mirant Corp. - Chairman, CEO

We have not changed. As we've said, we plan to return the cash subject to what we need to retain for maintaining the credit profile, to meet our capital needs which are today overwhelmingly and principally for the Maryland environmental program, and to have appropriate amounts of working capital. When I refer to -- as I do at the bottom of page 30 and elsewhere -- brownfield development and repowering and redeveloping, we are simply not far enough along to be predicting the need for any capital for that. I'm not sure that is the best policy for the nation, but it is where we are and our role in it and so we don't see any particular near-term significant capital requirements for that.

Brian Chin - Citigroup - Analyst

Okay, and then one last question. On the PJM capacity payment side you have a 140 going up to 260. I just want to make sure I understand that year-over-year difference. Does that come from capacity coming online because of the stack completion or does that come from your estimation of tighter capacity revenue results coming out of RPM?

Ed Muller - Mirant Corp. - Chairman, CEO

The biggest portion of the difference is that the RPM, the capacity market being developed in -- or implemented in PJM will come into place in June of '07. So the 140 reflects a partial year.

Brian Chin - Citigroup - Analyst

Okay, so that mean that if the stack modifications come back up there could still be upside at the '08 capacity payments level or am I not thinking about that right?

Ed Muller - Mirant Corp. - Chairman, CEO

I'm sorry, you're talking about the stack modifications at the Potomac River plant?

Brian Chin - Citigroup - Analyst

Right.

Ed Muller - Mirant Corp. - Chairman, CEO

We don't go into how each plant affects our adjusted EBITDA. Obviously the more we are able to run the plant the better in these circumstances. But these numbers reflect in general our expectations for how things are likely to play out.

Brian Chin - Citigroup - Analyst

Great, thank you.

Ryan Watson - Stanfield Capital - Analyst

Just a follow-up on Brian's question about the PJM capacity payments. You had noted 70 last quarter, can you just explain the delta between the two? Because you had forecasted previously that it would come online around June '07. Can you just bridge that gap for me quickly?

Jim Iaco - Mirant Corp. - EVP, CFO

Sure. The June '07 has not changed, that has been what was in the settlement. Two things have changed. One is we continue constantly to analyze our position in the market. And the second is that since we gave that number there have been some transactions in the marketplace which have enabled us to see what in fact is happening in the market. So the change is the product of both what we're seeing in the market albeit not a lot of transactions, but we are seeing transactions; and second, our own analysis of what's occurring out there.

Ryan Watson - Stanfield Capital - Analyst

Okay. Where are you seeing transactions clear on a kilowatt month, do you have a number?

John O'Neal - Mirant Corp. - SVP, CCO

I think, Ryan, what we're going to provide today in terms of guidance is an absolute number. What we're not going to do is provide you the price forecast that's embedded in that number. Obviously that is from our perspective competitive information, and so what we're prepared to do today is to provide the overall number, the revenue increase that we

will see in 2007 and both 2008, but we're not going to give you the components of it which would be the price and the quantity.

Ryan Watson - Stanfield Capital - Analyst

Okay. And then as far as the New York tax settlement in -- I think it was six or nine months ago, you had given some sort of range and then you had withdrawn that. Does '07 count, is there any benefit from that tax settlement embedded in '07? Can you kind of cuff the numbers if there is any?

Ed Muller - Mirant Corp. - Chairman, CEO

Well, two things. First -- and then, Jim, you may need to help me or Paul -- the settlement -- the property tax year is not the same as the calendar year. So part of what we have resolved does come into '07 and we have taken account of that. The settlement did not cover prospective taxes and we are assuming that prospective taxes will move forward on the same basis on which we settled past taxes, but we do not have that resolved.

Ryan Watson - Stanfield Capital - Analyst

Okay. And then finally, on slide 29 you just talk about the delta. I recall that last quarter you had said the oil benefit -- the onetime hedging benefit I think was 64 in '07, correct me if I'm wrong. So it's larger now for your '07 results, I think you said 140. Is that correct and is there a possibility of -- or is that sort of a onetime event that you don't think you can replicate in '08?

Ed Muller - Mirant Corp. - Chairman, CEO

Before I turn to John let me remind everyone when we address this why we are engaged in this endeavor at all. And that is we at Mirant are the second largest consumer of fuel oil in the United States. And depending on how much we burn we can consume and have up to 14 million barrels a year of fuel oil and to support that we have storage capacity of 4 million barrels. So as a result of that, to manage this process we have to be heavily engaged in the market to make sure we have the fuel oil when we need it and that we get the best value in doing so.

As part of that we enter into various transactions, particularly time spreads which largely offset one another, though what it can mean is that from period-to-period we can have some variability. So we are seeing some of that here and what we're seeing is the effect, frankly, of oil prices having come down some.

Ryan Watson - Stanfield Capital - Analyst

Okay, thank you.

Zach Schreiber - Duquesne Capital - Analyst

Congratulations on the results. Just a follow-up on the fuel oil hedging. Basically what you're saying is you sold forward fuel oil against inventory that you had in storage and you marked the financial leg to market but you keep the physical leg on some sort of accrual accounting, is that it?

Jim Iaco - Mirant Corp. - EVP, CFO

That's basically correct, Zach.

Zach Schreiber - Duquesne Capital - Analyst

Okay, great. And then just following up -- can you just talk to us on Sual, why you're so confident that this won't be an issue. Just talk to us how the fix progressed for Sual, number one; whether it's exactly the same issue for Sual unit 2 -- I believe that it is, that you're addressing preemptively; and why you're so comfortable it will be done by May and so forth?

Ed Muller - Mirant Corp. - Chairman, CEO

Sure, I'd be glad to. First, so we avoid confusion on the nomenclature, we have two units at Sual --.

Zach Schreiber - Duquesne Capital - Analyst

I'm sorry, it was 2 and 1, I got it wrong. I'm sorry.

Ed Muller - Mirant Corp. - Chairman, CEO

That's all right, we have the same problem internally. The first one where we had a failure at the generator was unit number 2 and that is the unit that has come back into service. The failure at unit 1 followed by a few months, but it is virtually the same failure and for the same reason. And it is not a failure of the generator, it's -- a flaw in the generator, it was a flaw we believe in the automatic voltage regulator.

So what's been done is two things -- one as we've had to repair the generator because it was damaged. And the second is we've had to redo the automatic voltage regulator which we have done -- the manufacturers, Alstom, has done. And the reason we can have confidence with regard to unit 1 is we're talking about virtually the same set of circumstances. We've had the advantage of some learning curve on unit 2 which is being applied to unit 1, we can see right where we are and are marching along just fine.

Zach Schreiber - Duquesne Capital - Analyst

Got it. And then just following up on Jamaica public service, what was the EBITDA for the full year '06 from the Caribbean?

Mary Ann Arico - Mirant Corp. - IR Director

Zach, in the Reg G tables at the end you have the detail.

Zach Schreiber - Duquesne Capital - Analyst

Okay.

Mary Ann Arico - Mirant Corp. - IR Director

It won't break out the Jamaica specifically, you have the Caribbean.

Zach Schreiber - Duquesne Capital - Analyst

What was it about, it was up year-over-year?

Ed Muller - Mirant Corp. - Chairman, CEO

We'll have to find it, hang on a second.

Jim Iaco - Mirant Corp. - EVP, CFO

Zach, your question relates to '06/'05?

Zach Schreiber - Duquesne Capital - Analyst

Yes, sir. I guess in the meantime, how quickly after closing the sale would you guys commence the stock buyback? Would you put in place a bridge against the cash to be received from the sale, potentially do an early stock buyback or are you going to wait for all the cash to be received?

Ed Muller - Mirant Corp. - Chairman, CEO

First of all, Zach, we have not said how we would go about returning cash. Certainly a stock buyback is one option. And second, it has generally been our view that it is not prudent to distribute cash that we don't have yet. Among other things it changes the leverage factors between us and the buyers and we don't want to be in that position.

Zach Schreiber - Duquesne Capital - Analyst

Got it. So are you saying in the spectrum between stock buyback and special dividends that you might be now leaning more towards special dividends?

Ed Muller - Mirant Corp. - Chairman, CEO

I'm not saying where we are leaning; I'm saying that when we have the cash we will address this.

Zach Schreiber - Duquesne Capital - Analyst

Can you -- just to sort of reiterate just for me, maybe I'm a little stale here, just sort of your philosophy on cash return? Heretofore you've done it in the form of stock buyback and you've been pretty insistent that you're doing so because you believe your stock had intrinsic value. Where are you now?

Ed Muller - Mirant Corp. - Chairman, CEO

I think the analytical approach remains the same, buying back stock is a good thing I think as long as you are doing it below intrinsic value and it is, I don't think, analytically correct to do so above intrinsic value. Jim, do you want to address the Caribbean adjusted EBITDA?

Jim Iaco - Mirant Corp. - EVP, CFO

Yes. Zach, as shown on -- again I think the slide numbers are slide 54 and 58 in the appendix -- the Caribbean had adjusted EBITDA for the full year of '06 of \$167 million as compared to \$157 million for '05. The increase is primarily due to Jamaica and it's just some improvements in the operations there, a number of things occurred. But that increase of \$10 million is primarily due to Jamaica.

Zach Schreiber - Duquesne Capital - Analyst

An increase of \$10 million or \$67 million?

Jim Iaco - Mirant Corp. - EVP, CFO

No, \$10 million. It was 167 of adjusted EBITDA for '06 and 157 for '05.

Zach Schreiber - Duquesne Capital - Analyst

Perfect. Is that level for '06 an appropriate base to look at to '08 off of and so forth?

Jim Iaco - Mirant Corp. - EVP, CFO

For Jamaica?

Zach Schreiber - Duquesne Capital - Analyst

Yes, sir.

Jim Iaco - Mirant Corp. - EVP, CFO

Well, we don't plan on having the Jamaican operations in '08.

Ed Muller - Mirant Corp. - Chairman, CEO

We're not giving guidance, but both sets of foreign businesses, the Philippines and the Caribbean businesses, have tended to have fairly stable adjusted EBITDA.

Zach Schreiber - Duquesne Capital - Analyst

Great, thank you.

Douglas Clifford - Omega Advisors - Analyst

Good morning and I'd like to add my congratulations to Zach's on a good quarter. I'd like to ask about the '08 guidance. If I understand it, it's driven largely by just the difference in the embedded profit in the hedges and also by just the implied heat rates in the forward curves which have -- I mean, the curves are what they are but they have implied heat rate coming down in Pepco. And I'd like to ask whether that -- whether you agree with that on your outlook for the market or whether you have a different outlook for how forward heat rates might actually pan out come to pass?

Ed Muller - Mirant Corp. - Chairman, CEO

Jim, do you want to take this?

Jim Iaco - Mirant Corp. - EVP, CFO

I'll try. You're referring to '08.

Douglas Clifford - Omega Advisors - Analyst

Yes. If I understand your guidance on slide 27 that your '08 guidance is tracking the current forward curves and the implied heat rate. And that your guidance has embedded in it a decline of 50 BTUs per kWh from '07 to '08.

Jim Iaco - Mirant Corp. - EVP, CFO

Let me have John answer that.

John O'Neal - Mirant Corp. - SVP, CCO

Doug, you're exactly right. What we do is we rely on the forward curves for purposes of providing our adjusted EBITDA guidance; we don't try and bake in there any sort of

upside or downside to embed any sort of market view, we take the market as it is. Now what we've provided for you is a sensitivity on heat rates that says if we get a half a heat rate point move or 500 BTU heat rate move what the upside could be to the Company.

As you've heard Ed and Jim describe many times, we think that there is not a lot of new generation getting built and we believe the supply/demand situation will only get tighter as time marches on. And we have a view that there will be some heat rate expansion, but we don't have any of that baked in our guidance for 2007 or '08.

Douglas Clifford - Omega Advisors - Analyst

Well, that's the question is that it sounds to me like your forward view of the market is more bullish than the guidance you're giving for '08.

Ed Muller - Mirant Corp. - Chairman, CEO

No, first of all, the guidance we are giving is our best judgment of what we think will occur. And I think it's always important when you look at trendlines to realize that between A and B on time we think heat rates expand, but there will be volatility in between along the way. And to the extent we can see what is occurring in the market, you're getting our judgment of what we think will be there. We are not putting out one number and thinking another.

And second, let me come back to your point here. Part of the difference between '08 and '07, as we mentioned earlier, in managing our fuel oil we have a significant increase this year '07 and that will be offset in part for next year. We actually currently forecast a very small loss. Time will tell as we write more hedges and continue to transact and whether that turns out to be the case, but there's a difference that arises because of the timing in our time spreads on fuel oil.

Rudy Tolentino - Morgan Stanley - Analyst

I noticed that your volumes for the mid-Atlantic are increasing in your guidance assumptions. I was curious what the drivers of the increase are?

John O'Neal - Mirant Corp. - SVP, CCO

Is the question with respect to expected generation volumes?

Rudy Tolentino - Morgan Stanley - Analyst

Yes.

John O'Neal - Mirant Corp. - SVP, CCO

I haven't done the reconciliation myself, Rudy, but it generally would be due to expanded heat rates in the front of the curve or changes in outage configurations or things of that sort. We can go back and look at the exact breakout between the times we reported it and follow up with you. But in general that's what's going to give rise to it. If we change our outage schedules, which we periodically do -- we'll move outages around to get them at a better optimum time or some slight heat rate expansion.

Rudy Tolentino - Morgan Stanley - Analyst

Okay. And can you give an idea of what your -- the coal capacity factors that you put in your guidance?

Ed Muller - Mirant Corp. - Chairman, CEO

Let's be clear here; we do provide the capacity factors or how we've been performing for the past. We have not given you specific capacity factors going forward. And given that we are a significant factor in some of these markets and the information is proprietary, we're not going to.

Rudy Tolentino - Morgan Stanley - Analyst

Okay. And then I noticed in one of your appendices you've talked about just lower EFOR rates from '05 to '06. Can you kind of give an idea of what's the driver behind those improving really the lower EFOR rates and how you view EFOR rates moving forward to like the '07-'08 time frame?

Ed Muller - Mirant Corp. - Chairman, CEO

The answer is that we're in the business of running these facilities. While they are older they require tender loving care and we're giving them that tender loving care. And we have a very large program -- it's not so much in dollars, but number of items that we are addressing on a constant basis to keep these plants running and running well into the distant future and we're seeing the results of that.

Rudy Tolentino - Morgan Stanley - Analyst

Okay. Can you give us an example of what you guys are doing to -- some of the maintenance programs that you've been implementing?

Ed Muller - Mirant Corp. - Chairman, CEO

Sure. We have a variety of things on dealing with the tubes in the boilers; we have a variety of things dealing with transformers; things dealing with how we handle fuel and ash. If we walk through it there's nothing dramatic, there's no one big item that says huzzah, here it is. We're doing all that daily work that you have to do and I think it is fair to say that the entire enterprise understands that we are doing this, that we are constantly

assessing it and have been buying components for outages going out into 2008 so we will have things ready to do them during the shoulder periods. It's just all of the blocking and tackling that you do when you own a fleet of power plants.

Rudy Tolentino - Morgan Stanley - Analyst

Okay, that sounds great. Thank you very much.

Gregg Orrill - Lehman Brothers - Analyst

Just wanted to clarify on slide 33 whether there was a change with this report as to your gross NOL levels?

Ed Muller - Mirant Corp. - Chairman, CEO

Paul, do you want to take that?

Paul Gillespie - Mirant Corp. - SVP of Tax

Yes, there are two changes to the NOL levels. The first has to do with the preemergence NOLs, those that accrued up through 2005. Those went down slightly. We do a process called provision to return reconciliation and in the course of doing our return we discovered some adjustments which were implemented. The second item is the '06 NOL which is \$800 million. So the net NOLs increased.

Vladimir Jelisavcic - Longacre Fund Mgmt. - Analyst

Thanks a lot for hosting the call. Just a question regarding the CapEx that relates primarily to your Maryland area assets. Could you just overall firm wide for Mirant continuing ops, can you give us an idea of over what period of time the \$1.6 billion CapEx will be spent? I recall previously we had more sort of period specific guidance. Can you give us an update on that, please?

Ed Muller - Mirant Corp. - Chairman, CEO

First of all, if you turn to Page 10 of the slides, you have the numbers that we expect to expend for '07 and '08. That is we expect of that 1.6 to expend \$573 million this year and \$615 million next year. The law requires that we have this all done by effectively the 1st of January 2010. So we're going to be expending the money in '07, '08 and '09.

Vladimir Jelisavcic - Longacre Fund Mgmt. - Analyst

Understood, appreciate that. So on that page under '07 the 573, that only relates to environmental CapEx, correct?

Ed Muller - Mirant Corp. - Chairman, CEO

That is correct. That only refers or only involves environmental CapEx in Maryland. Now, that is the bulk of what we have going.

Vladimir Jelisavcic - Longacre Fund Mgmt. - Analyst

Understood. What is your total CapEx guidance for '07 and '08, please?

Jim Iaco - Mirant Corp. - EVP, CFO

Page 26. If you don't have it in front of you, I will just repeat it.

Vladimir Jelisavcic - Longacre Fund Mgmt. - Analyst

I will look it up.

Jim Iaco - Mirant Corp. - EVP, CFO

It is on 26, but it is \$826 million for '07 and \$802 million for '08. That includes what Ed just referred to with respect to the environment program in Maryland.

Vladimir Jelisavcic - Longacre Fund Mgmt. - Analyst

Perfect. Great, appreciate that. Just regarding the New York assets, you mentioned that you recently filed a plan of reorganization, and you entered into a settlement that was announced previously with the local taxing authorities. Can you give us just an update on how were you accounting for those subsidiaries? Were they a part of your continuing operations?

And second part of the question is, as the settlement and the filing of the plan, does it change the way you are picking up any of their cash flows or income going forward?

Ed Muller - Mirant Corp. - Chairman, CEO

For accounting purposes, the New York businesses whether in bankruptcy or not have been part of continuing operations, and are. As for the cash, you see the cash but it is restricted as you would expect in a bankruptcy situation. So there is some cash in the business that is not currently accessible.

Vladimir Jelisavcic - Longacre Fund Mgmt. - Analyst

Were you taking any reserves or is there any change in assumptions that would result in an improvement, simply by virtue of the settlement with the local authorities and the filing of the plan?

Jim Iaco - Mirant Corp. - EVP, CFO

We were accruing taxes primarily at the old historical rates, so in the 10-K there is a lot of detail as how the refunds and so forth were applied. A lot of them applied to years prior or they go back quite a few years. But again, we continue to accrue during that period that this issue was under review at the old historical rates.

Vladimir Jelisavcic - Longacre Fund Mgmt. - Analyst

When did that change. Was that in the fourth quarter or '06, or is that changing this quarter?

Jim Iaco - Mirant Corp. - EVP, CFO

Fourth quarter of '06.

Vladimir Jelisavcic - Longacre Fund Mgmt. - Analyst

Finally, you mentioned that you sold some New York gas-fired assets. Were those kind of collocated or on-site with your New York assets or were those in other parts of New York state?

Ed Muller - Mirant Corp. - Chairman, CEO

No, what we sold was this; let me be clear. You can think of our New York businesses as comprising three sets of businesses, three assets. One is Lovett, second is Bowline, and the third is a series of small hydros and two small older combustion turbines. We have reached an agreement to sell in one transaction the small hydros and the two combustion turbines. The price which is on public record in the bankruptcy court in Fort Worth is in the range of \$3 million.

Vladimir Jelisavcic - Longacre Fund Mgmt. - Analyst

So it's pretty tiny. But they weren't located on that site, right?

Ed Muller - Mirant Corp. - Chairman, CEO

There are not located on the same site, but they are within 20, 30 miles.

Vladimir Jelisavcic - Longacre Fund Mgmt. - Analyst

Understood. Thank you, Ed.

Lasan Johong - RBC Capital Markets - Analyst

Congratulations on the quarter and the year as well. A couple of quick clarifying questions, I hope. Jim, on page 35 of the slide presentation, 2008 guidance indicates a

\$217 million incremental realized value of hedges. I am assuming that is a delta between the forward curve currently and the hedge price that you engaged in?

Jim Iaco - Mirant Corp. - EVP, CFO

That is a decrease from '08 to '07, and the primary driver of that decrease is we have less hedged volumes at this time on '08 as compared to '07. So obviously if you have a drop in hedged volumes you're going to have a differential in the incremental realized value of those hedges. There is some price element built in there, but the largest driver is the amount of hedge.

Lasan Johong - RBC Capital Markets - Analyst

I see. And on page 45 there's the pollution control or emissions output for '08, the emissions value is a negative number, about \$10 million, so I'm assuming that Mirant has to buy about \$10 million worth of allowances in '08?

John O'Neal - Mirant Corp. - SVP, CCO

In fact, what we're able to do, Lasan, is rollover or lengthen and, two, we have a positive value in 2007. So we'll basically either roll forward our 2007 credits or bring back our 2009 credits to cover our 2008 position.

Lasan Johong - RBC Capital Markets - Analyst

I see. So that's just a net number for the year, not a cumulative number?

John O'Neal - Mirant Corp. - SVP, CCO

Exactly.

Lasan Johong - RBC Capital Markets - Analyst

I see. One last question. Ed, it's quite obvious that once Mirant completes all of its asset sales that there will be something well north of \$5 billion of cash on the balance sheet versus a little under -- around \$2.5 billion of debt. That's a lot of cash relative to debt, so at some point it would be kind of foolish for the credit rating agencies not to award Mirant an investment-grade credit, but at what level of coverage and/or debt levels do capital ratios with that occur according to the rating agencies?

Bill Holden - Mirant Corp. - SVP, Treasurer

We're in frequent contact with the rating agencies. I would be surprised, the way they view the business risk in our industry, if they would give investment-grade credit ratings to any of the participants in the industry. And then just one quick note. I didn't quite tie to your debt amount. I think the numbers -- if you look on one of the slides Jim went over,

it's a little under \$3.3 billion at year-end excluding the imputed debt from the MIRMA leases.

But I would say we're in frequent contact with the agencies and I fully expect that by the time we receive the cash proceeds from the asset sales that we'll have a very good view of the ratings implications for what we do with the cash.

Lasan Johong - RBC Capital Markets - Analyst

But I'm assuming Mirant will not keep a net cash balance, correct?

Bill Holden - Mirant Corp. - SVP, Treasurer

You mean --

Lasan Johong - RBC Capital Markets - Analyst

There's a cash balance above the debt levels?

Bill Holden - Mirant Corp. - SVP, Treasurer

That would seem --

Lasan Johong - RBC Capital Markets - Analyst

Foolish.

Bill Holden - Mirant Corp. - SVP, Treasurer

I don't think that would be the right outcome.

Lasan Johong - RBC Capital Markets - Analyst

I understand. Thank you very much.

Zach Schreiber - Dequesne Capital - Analyst

Just a follow-up question on the Pepco settlement. I think previously we used to have about \$50 million in our numbers from the resolution of that settlement. As power prices go up I imagine there could be some downward pressure on what the actual benefit in the resolution of that settlement is. Generally speaking what is the range that we ought to think about where that settlement finalizes in terms of enhancement to overall EBITDA?

And then secondly and related, can you just update us on the whole appeal process and if at some point does it actually make sense to open this thing up once more and just be

done with it? Or is there really no down side and you continue to appeal this forever since the stock has already been issued and set aside? Thank you.

Ed Muller - Mirant Corp. - Chairman, CEO

Jim, I'll let you address -- we've sent numbers around, as I recall in the past, but they move, as you know, Zach. And second, we have an agreement with Pepco and that agreement requires us to pursue this -- pursue the approvals and we are honoring our agreement and we'll do so. The appeal has moved -- it was a decision of the bankruptcy court followed by a decision of the District Court and it is now somewhere up in the United States Court of Appeals for the 5th Circuit. And your guess is as good as mine as to how that will progress, particularly with regard to time.

Jim Iaco - Mirant Corp. - EVP, CFO

Zach, to answer your question -- the only way I can answer it is if it were -- if the Pepco settlement were to occur as of -- had it occurred as of the 1st of January of 2007 the impact on adjusted EBITDA for '07, I'm going to give you a ballpark, it was approximately about \$30 million.

Zach Schreiber - Dequesne Capital - Analyst

\$30 million higher?

Jim Iaco - Mirant Corp. - EVP, CFO

It would be higher, that's correct.

Zach Schreiber - Dequesne Capital - Analyst

Got it. Thank you so much.

Brian Tadeo - Bank of New York - Analyst

Good morning. A question for you on slide 9 where you talk about your hedge portfolio. Obviously when you're going to the power side, the power side has increased significantly through the years. I had a question on the fuel side because it looks in 2008 that the number has grown a lot less and actually 2009 may have gone down. I'm just kind of curious, is that taking your view on the coal markets or am I miss reading the charts?

Ed Muller - Mirant Corp. - Chairman, CEO

How much it is also -- it goes down in part based on what we expect to generate. So we're always looking at these numbers on expected generation. So if we expect to generate more and we have the same quantum of coal, then we have a smaller percentage

of it. As to what we do in the coal markets, we look periodically and we tend to contract on a longer-term basis. And so we don't do that necessarily exactly in time with the electricity hedges, but our general strategy is to get the fuel hedged as well.

Brian Tadeo - Bank of New York - Analyst

So is it safe to assume then in '09 your expectation for volumes has decreased?

John O'Neal - Mirant Corp. - SVP, CCO

Yes, in fact you are correct, there was a slight reduction in the '09 hedge percentage and that's a function of an agreement we had reached with one fuel supplier, came out of our hedge volumes due to basically a quality issue. They could not in '09 guarantee us the quality we had previously contracted with and so we basically backed out of that agreement. That gives rise to the change in hedge percentage for '09.

Brian Tadeo - Bank of New York - Analyst

Okay, thank you.

Daniele Seitz - Dahlman Rose - Analyst

Most of my questions have been answered. I was just wondering, could you -- there was just it seems that if you have a gross margin of 1292 and given the -- did you include any \$40 million or so of impairment of any kind in order to come to the EBITDA of 641?

Jim Iaco - Mirant Corp. - EVP, CFO

No, Daniele, the answer is no to your question.

Daniele Seitz - Dahlman Rose - Analyst

Okay. Because I just was using your (indiscernible) and maintenance and depreciation as you show them, that's why. And I was wondering, when do you anticipate that the Lovett issue will be resolved, and how soon do you see these settlements occur?

Ed Muller - Mirant Corp. - Chairman, CEO

Daniele, as to Lovett, to remind everyone again, the Company entered into a consent decree in 2003 which requires the Company either to make changes -- principally put on environmental controls -- or on an agreed time schedule shut down unit 5 April 30, 2007 and unit 4, the second of the current coal units, on April 30, 2008. As a result of that we have given the notice which is required by the system operator for unit 5.

We are in discussions, we'll continue to be in discussions. We hope, both for our own business, but also for reliability in the Hudson River Valley that there will be some agreement reached, but I can't give you more specificity than that.

Daniele Seitz - Dahlman Rose - Analyst

Okay. It will probably take the shape of some additional expenditures in order for the units to stay running?

Ed Muller - Mirant Corp. - Chairman, CEO

Daniele, we're exploring a variety of options here and there are a significant number of variables and when we sell our power we have proprietary information, I don't think it serves any purpose for us to lay out all of the various options we have considered and all of the various options the state is considering.

Daniele Seitz - Dahlman Rose - Analyst

And just on another subject, you are still anticipating limited amounts of taxes being paid in '07 and then '08 will resume some normal minimum tax, is that roughly what you are looking at?

Paul Gillespie - Mirant Corp. - SVP of Tax

For '07 we will have large amounts of taxable income resulting from the asset sales. That will be sheltered principally by the NOLs that we have. We anticipate in '07 paying only alternative minimum tax. For '08 basically we won't have the asset sale gains but we will have small amounts of alternative minimum tax in that year as well.

Daniele Seitz - Dahlman Rose - Analyst

Thanks.

Octavio Garcia - Cargill Investors - Analyst

I want to go back to that sheet with the CapEx. It says there that you have -- your maintenance CapEx is \$75 million, and then you have other amounts that are different from that from '07 and '08. Can you reconcile those two figures, why you have higher amounts in '07 and '08 and then you state that it's \$75 million that you're capitalizing for maintenance CapEx?

Ed Muller - Mirant Corp. - Chairman, CEO

Let me try here and if need be, Jim, you can augment. The 75 is a normalized number that is taking a number of years in estimating. But CapEx is never nor should it be spent simply on a normalized basis. It's lumpy and there are some years when you spend less

and some years when you spend more. And if you look, for example, we thought we would be spending more on the Maryland environmental program in '06 than we spent. But we're going to spend it, we're just going to spend it more in '07 than we did in '06. So we think that in general the \$75 million is the correct number, but the nature of being in the power plant business it that maintenance CapEx tends to be somewhat lumpy.

Octavio Garcia - Cargill Investors - Analyst

And is that maintenance CapEx what would be -- what is that, LTSA type CapEx?

Ed Muller - Mirant Corp. - Chairman, CEO

I'm sorry?

Octavio Garcia - Cargill Investors - Analyst

Is that maintenance CapEx long term service agreements type maintenance CapEx or --?

Ed Muller - Mirant Corp. - Chairman, CEO

No, it is things like doing fixes or changing out portions of boilers. It is extending the life of turbines. It's a variety of things, it is not long-term service agreements.

Octavio Garcia - Cargill Investors - Analyst

And you capitalize those?

Ed Muller - Mirant Corp. - Chairman, CEO

As the accountants require us to we capitalize them.

Octavio Garcia - Cargill Investors - Analyst

Okay. How about LTSA, what is your policy with regards to that?

Ed Muller - Mirant Corp. - Chairman, CEO

I'm sorry, with regard to what is it, Jim?

Jim Iaco - Mirant Corp. - EVP, CFO

LTSA's, long-term service agreements.

Ed Muller - Mirant Corp. - Chairman, CEO

Do you mean our accounting policy or our --

Octavio Garcia - Cargill Investors - Analyst

Yes.

Ed Muller - Mirant Corp. - Chairman, CEO

Our accounting policy, I don't know. Jim?

Jim Iaco - Mirant Corp. - EVP, CFO

I can't speak directly to it. Again, the rules are specific as to when you capitalize things and when you expense them. Typically if they're life extending you would capitalize them. If they're just normal routine maintenance it doesn't extend the life of the asset you would expense it back. Again, I think it's agreement by agreement.

Octavio Garcia - Cargill Investors - Analyst

All right, those are all my questions. Thank you.

Clark Orsky - KDP Investment Advisors - Analyst

I just wanted to go back to your comments about the rating agencies. I'm just wondering, have you guys set what your targets for leverage and coverage and what have you are once the asset sales are completed?

Bill Holden - Mirant Corp. - SVP, Treasurer

As we look through how we use the proceeds we'll look at a variety of ratios. And I think S&P and Moody's both publish with their guidelines are for different rating categories, so we would look at all those. I think when you distill it down, and we've said this in the past, a long-term target to have the debt to EBITDA at around four times I think is a good target for the business and it seems to sync up well with what the ratios are that S&P or Moody's might focus on.

And I would note, when I speak of debt to -- a debt to EBITDA target I think about it including the imputed debt from the MIRMA leases. So it would be debt including the MIRMA leases and then the EBITDA, you would have to add back the rent on the MIRMA leases as well to get the right calculation ratio.

Clark Orsky - KDP Investment Advisors - Analyst

Okay. Sort of like an EBITDAR?

Bill Holden - Mirant Corp. - SVP, Treasurer

Yes, debt to EBITDAR is probably a good measure for our business.

Clark Orsky - KDP Investment Advisors - Analyst

Okay. I appreciate that.

Mary Ann Arico - Mirant Corp. - IR Director

I think we're ready to conclude today.

Operator

And that was our final question.

Mary Ann Arico - Mirant Corp. - IR Director

Thank you. Sarah Stashak and I will be available later today to answer any further questions you have. Thanks for joining us today.

Operator

This does conclude today's conference. Thank you for your participation. You may now disconnect.