

FINAL TRANSCRIPT

Conference Call Transcript

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PRESENTATION

Operator

Good day everyone, and welcome to Mirant Corporation's First Quarter 2009 Earnings Call. Today's call is being recorded. For opening remarks and introductions, I'd like to turn the call over to Mr. Steve Himes, Director of Investor Relations. Please go ahead, sir.

Steve Himes - *Mirant - Director, IR*

Thank you, Cecilia. Good morning, everyone, and thank you for joining us today for Mirant's first quarter 2009 earnings call. If you do not already have a copy, the press release, financial statements and first quarter filing with the SEC are available on our website at www.mirant.com. The slide presentation will also be available on our website. And a replay of the 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, Mirant's Chief Financial Officer. Also in the room and available to answer questions are Bob Edgell, Chief Operating Officer; Bill Holden Treasurer; John O'Neal, Chief Commercial Officer; and Paul Gillespie, our Senior Vice President of Tax.

Moving to the Safe Harbor. During the call, we will make forward-looking statements that are subject to certain risks 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. We 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.

And with that, I'll turn the call over to Mr. Ed Muller.

Ed Muller - *Mirant - Chairman & CEO*

Thanks Steve, and good morning, everyone. I'll try and remember to tell you what page I'm on in the presentation as we go through it. And I'll ask the folks here in the Atlanta with me to remind me if I forget.

I am on page 3 to start, just in the sense of an overview before we turn to the particulars. We have had and continue to have a strategy of hedging forward and in this marketplace that has particularly helped us mitigate the effects of volatile commodity prices. We hedge so that we can comfortably assure ourselves of meeting our obligations and so that we don't have to keep what we would regard as excess capital on the balance sheet to deal with the vagaries of the market. Speaking of our balance sheet, we have a strong balance sheet, as we have had, with more than adequate liquidity to our business.

Turning to page 4 and the results for the first quarter. Our adjusted EBITDA of \$195 million is down a little from the same period in 2008 and its down because energy prices have been down particularly because of the compressed dark spreads, particularly for us, because of compressed dark spreads in the Mid-Atlantic, largely offset by the realized value of our hedges. And this is the story of what is occurring for us this quarter and as we look forward to this year and for next year as we adjust our guidance. That is, power prices generally have softened, but we are - we offset that by our hedges, not completely but in substantial part this year and some part next year.

Turning to page 5. You can see how we are changing our -- adjusting our guidance. For 2009 we are reducing it from \$897 million to \$873 million and for 2010 from \$667 million to \$609 million for the same reason, lower energy gross margins partially offset by higher realized value of hedges. Nothing dramatic has changed in the business, these are conditions in the market and the results - offset by the results of our strategy of hedging. And Jim, later in his presentation will go over the guidance numbers in much greater detail.

Turning to page 6, market update, we do this update based on our current data in the marketplace compared to the most current data that we gave on our last call in February. And what you can see first, looking at the near term is that, for 2009 natural gas prices have declined. There is a lot in storage and the demand has been weak given the economic conditions. For 2010, our gas prices are slightly higher than they were in February. And following natural gas prices, power prices which are highly correlated have declined for 2009 since last February and are a little higher for 2010. Coal prices have been declining and dark spreads as a result of that have expanded some for 2009 and 2010.

Looking longer term 2011 to 2013, gas prices are up. They are actually up some this morning, the prompt is up I think at around \$4.20/mmBtu and if we were actually putting this data together today, the range is about \$7.10/mmBtu to little over \$7.30/mmBtu. Power prices are also higher reflecting the same factors. Coal prices have declined some and dark spreads have expanded some.

Turning to page 7. As we have consistently, we are showing you here six years of hedge profile and you will see that the shaded boxes reflect incremental hedges since the last time we showed this to you, and the white or open boxes show where we are less hedged. And we can be less hedged for two reasons. One, we may have in our commercial operations chosen to reduce some of our coverage, because we saw financial advantage of doing so. Or, as you would expect, that in the out years what we are seeing there is higher than expected generation. As we look forward, and the same actual hedges in place, but more generation, we are slightly less hedged. You can see we've added some hedges particularly and in '10, '11 and '12 for our baseload coal.

Turning to page 8, same graph we've been showing you updated, which shows how in our markets the reserve margins look. The trend lines remain the same, so I would note both in New England and in New York, the ISO's have reforecasted demand side management and think that the supply and demand imbalance pushes further out. So if you would have compared this to the last time we did it, you would see that those lines have moved up on the page. But for us what's particularly important given our concentration of assets in the Mid-Atlantic is what's going on in PJM East and there the trend remains as it has been, which is probably that trouble is coming and that is a nice thing for an incumbent, but it is not a nice thing for someone who is responsible - part of the responsible group as we are for meeting the electric needs in our nation. And to say that we are inexorably moving to supply and demand imbalance is not a positive thing. It is a positive thing in a narrow business sense for us, of course we like that, but as a matter of policy this is not good.

Turning to page 9, update on our program to comply with the Maryland Healthy Air Act is the program of installing at our three coal stations controls for NOx, Mercury and Sox. And we have completed, and have stated sometime ago, all of the controls for controlling nitrogen oxide, and we are well along the way of completing the scrubbers which will enable us to control emissions of sulphur dioxide and mercury. And as you can see here on our program of \$1.674 billion, through the end of April last month we have paid out cash \$1.194 billion leaving \$480 million to go on our program. We are on budget, we are on schedule, we expect to have this completed as we have planned by the end of this year.

And with that I will turn to page 10 and I will hand it over Jim Iaco.

Jim Iaco - *Mirant - EVP & CFO*

Thank you, Ed. Good morning. As shown on slide 10, adjusted EBITDA for the first quarter of 2009 was \$195 million as compared to \$211 million for the first quarter of 2008. As Ed mentioned earlier, the \$16 million decrease in adjusted EBITDA was principally the result of a decrease in realized gross margin and I will cover this in more detail on the next slide.

Deducting interest, taxes, depreciation, and amortization from adjusted EBITDA derives adjusted net income of \$115 million as compared to \$158 million. The increase in interest, taxes, depreciation, and amortization for 2009 reflects lower interest income as a result of lower interest rates on invested cash and lower average cash balances partially offset by lower interest expense as a result of lower outstanding debt and higher interest capitalized on projects under construction.

The only significant item that bridges adjusted net income to income from continuing operations, a GAAP measure, is unrealized gains or losses on derivatives, which principally reflect a mark-to-market net gain or loss on our hedging activities. That can be seen on the slide, there was a net gain of \$254 million for the first quarter of 2009 as compared to a net loss of \$303 million for the first quarter of 2008. This net change of \$557 million was primarily due to decreases in forward power and natural gas prices.

Our average share count is lower in the 2009 period as compared to the 2008 period, principally due to share repurchases. And finally, our earnings per share based on adjusted income from continuing operations increased to \$0.79 for the first quarter of 2009 as compared to \$0.66 for the first quarter of 2008.

Turning to Slide 11, this slide presents the components of the company's realized gross margin for the first quarter of 2009 and 2008. Energy, shown as the light blue bar, represents gross margin from the generation of electricity at market prices, fuel sales and purchases at market prices, fuel handling, steam sales and our proprietary trading and fuel oil management activities.

The decrease of \$88 million was primarily the result of a decrease in power prices and an increase in the cost of emissions allowances. In addition, generation volume decreased 5% primarily because our Mid-Atlantic baseload units generated less as a result of decreases in natural gas prices at times making it uneconomic for certain of our coal-fired units to generate.

Contracted and capacity, the dark blue bar, which was relatively flat quarter to quarter represents gross margin received from capacity sold in ISO and RTO administered capacity markets through RMR contracts, through tolling agreements and from ancillary services.

And finally, realized value of hedges was up \$72 million due to a \$151 million increase in realized value from power hedge contracts, partially offset by a \$79 million decrease in the realized value of fuel hedging contracts. These amounts reflect the actual margin upon the settlement of our power and fuel hedging contracts and the difference between market prices and

contract costs for coal that we purchased under long-term agreements. Power hedging contracts include sales of both power and natural gas used to hedge power prices, as well as hedges to capture the incremental value related to the geographic location of our physical assets.

Turning now to slide 12, this slide presents cash flow information for the first quarter of 2009 and 2008. The \$28 million increase in adjusted net cash provided by operating activities was principally the result of a decrease in cash used due to lower commodity prices and an increase in proceeds from sale of excess emission allowances to third parties, partially offset by an increase in inventory as a result of the purchase of higher volumes of coal and higher prices and to the increase in net interest expense that I discussed on slide 10.

Reducing adjusted net cash provided by operating activities for total cash capital expenditures results in adjusted free cash flow of \$112 million for the first quarter of 2009. Our Maryland Healthy Air Act capital expenditures, which are non-recurring in nature, have been and will be funded by existing cash, therefore, a more meaningful presentation of free cash flow to use free cash flow adjusted for the expenditures related to the Maryland Healthy Air Act. Accordingly, adding back actual expenditures on to that program results in an adjusted free cash flow of \$234 million or \$1.61 per share for the first quarter of 2009.

Turning to slide 13, this slide presents our debt and liquidity as of March 31, 2009. Consolidated debt, which is \$2.637 billion at March 31, 2009 is \$39 million lower than consolidated debt at December 31, 2008, principally due to repayments of the Mirant North America term loan.

Our available cash and cash equivalents, including amounts available under the Mirant North America revolver and synthetic letter of credit facility, amounted to \$2.494 billion at March 31, 2009.

Cash balances of \$424 million at Mirant North America and its subsidiaries at March 31, 2009 are currently unavailable to Mirant Corporation because of the free cash flow requirements under the restricted payment test of Mirant North America's senior credit facility. The primary factor lowering the free cash flow calculation in the restricted payment test is the significant capital expenditure program of Mirant Mid-Atlantic related to the Maryland Healthy Air Act.

We do not expect the liquidity effect of the restriction on distribution under the Mirant North America senior credit facility to be material given that the majority of our liquidity needs arise from the activities of Mirant North America and its subsidiaries. The restriction does not limit Mirant North America from making distributions to Mirant Americas Generation to fund interest payments on its senior notes and the majority of our total available cash and cash equivalents are held unrestricted at Mirant Corporation. Furthermore, we are in compliance with all of the financial ratio covenants and based upon our guidance for 2009 and 2010, we will remain in compliance.

Turning to slide 14, as Ed previously mentioned, we are reducing our guidance for 2009 from \$897 million to \$873 million and for 2010 from \$667 million to \$609 million, all based on forward market prices as of April 14, 2009. As Ed mentioned on slide 6, prices have increased since April 14, but are still lower than they were when we gave previous guidance in February.

Deducting projected net interest expenditures and income taxes paid and factoring in projected changes in working capital, adjusted net cash flow provided by operations is projected to be \$646 million and \$439 million for 2009 and 2010, respectively.

Let me take a moment to elaborate on one item. As discussed in our first quarter 10-Q filed today, on March 31, 2009 the Southern Company and MC Asset Recovery entered into a settlement agreement resolving claims asserted by MC Asset Recovery. As a reminder, under the plan of reorganization, the rights to certain actions filed by Mirant and various other subsidiaries against third parties were transferred to MC Asset Recovery. MC Asset Recovery, although wholly owned by Mirant, is governed by managers who are independent of Mirant and its other subsidiaries. We are currently reviewing the settlement between the Southern Company and MC Asset Recovery in order to determine what, if any, taxes we will be responsible for. Our guidance for 2009 does not include any material provision or payment with respect to that settlement.

Reducing adjusted net cash flow provided by operations by projected capital expenditures of \$737 million and \$421 million for 2009 and 2010 respectively derives an adjusted free cash flow deficit of \$91 million for 2009 and adjusted free cash flow of \$18 million for 2010. Adding back in the Maryland Healthy Air Act capital expenditures for 2009 and 2010, which as I stated earlier are non-recurring in nature and will be funded by existing cash, results in adjusted free cash flow without the Maryland Healthy Air Act capex of \$399 million for 2009 and \$205 million for 2010 or a yield of 19.2% and 9.8%, respectively, based on our closing stock price and diluted share count as of May 5, 2009.

Our hedged realized gross margin for 2009 is \$1.333 billion, or 87% of our projected realized gross margin for the year. For 2010, our hedged realized gross margin is \$980 million, or 73% of our projected realized gross margin for 2010. Hedged realized gross margin is defined as hedged merchant generation and other contracted capacity, which would include reliability-must-run agreements and capacity sold in ISO and RTO administered capacity markets.

And finally, hedged adjusted EBITDA, which is defined as hedged realized gross margin reduced by our projected operating and other expenses for a full calendar year, is \$670 million or 77% of our projected adjusted EBITDA for 2009, and \$251 million or 41% of our projected adjusted EBITDA for 2010.

Turning to slide 15, this slide presents the components of realized gross margin included in our guidance for 2009 and 2010. Realized gross margin is projected to decrease from \$1.536 billion in 2009 to \$1.338 billion in 2010. The \$198 million decrease is principally the result of a \$318 million decrease in realized value of hedges and a \$17 million decrease in contracted and capacity revenues. These two negatives or decreases are partially offset by a \$137 million increase in energy realized gross margins. I'll discuss these in more detail on slide 17.

Turning to slide 16, this slide presents a comparison of our guidance for 2009 and 2010 given on February 27th through the update being provided today. For 2009, adjusted EBITDA is projected to decrease by \$24 million. This change is comprised of the following.

First, a \$66 million decrease in energy gross margins principally due to three factors. A \$75 million decrease due to market price and generation changes, partially offset by a \$7 million increase in expected results from fuel oil management activities and a \$2 million in expected results from proprietary trading activities. Next, a \$52 million increase in the realized value of hedges as a result of lower power prices partially offset by lower coal prices. Next, a \$4 million decrease in contracted and capacity revenues due primarily to a change in the generation assumptions for New York. And, finally, a \$6 million increase in operating and other expenses due to a \$4 million decrease in sales of excess emission allowances to third parties and a \$2 million increase in plant operating costs.

In 2010, adjusted EBITDA is projected to decrease by \$58 million. This change is comprised of the following. First, a \$91 million decrease in energy gross margins principally due to three factors. An \$89 million decrease due to market price and generation changes, a \$1 million decrease in expected results from fuel oil management activities, and a \$1 million decrease in expected results from prior period trading activities. Next, a \$43 million increase in the realized value of hedges as a result of lower power prices partially offset by lower coal prices. Next, a \$4 million decrease in contracted and capacity revenues due primarily to a change in the generation assumptions for New York. And, finally, a \$6 million increase in operating and other expenses due to a \$5 million decrease in sales of excess emission allowances to third parties, and a \$1 million increase in plant operating costs.

Turning to slide 17, this slide presents the bridge from our 2009 guidance to our 2010 guidance. Our 2010 guidance is \$264 million lower than our 2009 guidance. This decrease is comprised of the following.

First, we have a \$137 million increase in energy gross margins principally due to four factors. A \$155 million increase in market price and generation changes, principally due to increases in power prices, partially offset by increases in coal prices. Second, a \$7 million increase in commercial availability, and these two positive factors are partially offset by a \$5 million decrease in realized gross margins from our proprietary trading activities, and a \$20 million decrease in realized gross margins from our fuel oil management activities, which reflects reduced results from this activity as a result of lower expected burns at our own plants and overall reduced demand in the US Atlantic coast oil market. Next, a \$318 million decrease in the realized value of hedges, principally due to a lower hedge percentage of our expected generation in 2010 as compared to 2009 and to higher power prices in 2010. Next, a \$17 million decrease in contracted and capacity gross margins, principally the result of a decrease in the PJM RPM capacity revenues for 2010 as compared to 2009. And finally, a \$66 million decrease primarily due to an increase in operating and other expenses as a result of an increase in plant operating costs, primarily the result of installing the scrubbers on our Maryland assets, and lower sales of excess emission allowances to third parties.

Turning to slide 18, this slide addresses some of the key sensitivities regarding the guidance for 2009 and 2010 that we are providing today. NYMEX gas prices utilized in our guidance are as of April 14, and are \$4.33 per mmBtu for the balance of 2009 and \$5.99 per mmBtu for 2010. Based upon our unhedged adjusted EBITDA for 2009 and 2010, a \$1 price move in natural gas

will result in a change in adjusted EBITDA of approximately \$6 million for the balance of '09, and \$34 million for all of '10.

Energy price changes due to heat rate movements of 500 Btus per kilowatt-hour will result in a change in adjusted EBITDA of approximately \$7 million for the balance of 2009 and \$34 million for 2010. The heat rates shown are 7x24 Pepco forward implied market heat rates as of April 14. And finally, a \$1 price move of carbon credits will result in a change in adjusted EBITDA of approximately \$5 million for the balance of 2009, and \$9 million for all of 2010. This sensitivity is based on our hedge position and our view that power prices will increase as the cost of compliance with RGGI increases.

Turning to slide 19, this slide presents a breakdown of our projected capital expenditures for 2009 and 2010. Note that 2009 amounts include actual results through March 31. The total estimated cost for compliance with the Maryland Healthy Air Act remains, as Ed mentioned earlier, at \$1.674 billion. Prior to this year, we have expended \$997 million.

Our normalized maintenance capex approximates \$100 million per year. But as shown in the table, it's projected to be higher in 2009 and 2010 due to upgrades that will be timed in conjunction with the Maryland Healthy Air Act environmental retrofits. The table on this slide excludes funds related to potential brownfield or greenfield projects.

And with that, I'll turn it back to Ed who will wrap up and open up the call for your questions.

Ed Muller - *Mirant – Chairman & CEO*

Thanks, Jim, and I am on page 20. The takeaways we see here are the following. Hedging, as we said earlier has continued to cushion us in 2009 and somewhat in 2010 from the down draft in commodity prices. The tightening supply and demand trends, which benefit incumbents, are projected to continue, although the pace at which they are approaching equilibrium or imbalance rather has slowed. We remain on target to comply with the Maryland Healthy Air Act by the end of this year and we've maintained in this environment a strong balance sheet with adequate liquidity for our business.

Steve Himes - *Mirant - Director, IR*

Cecilia, we'll now take the first question.

QUESTION AND ANSWER

Neel Mitra - *Simmons & Company International - Analyst*

Hi. I wanted to get a better understanding on your thoughts of capital allocation going forward, there's about \$2 billion in cash. How are you looking at brownfield development, distressed asset acquisitions or share debt repurchases, and at this time do you have any preference towards allocating that cash amongst those buckets or a timing regarding that?

Ed Muller - *Mirant – Chairman & CEO*

Well, good morning, Neel.

Neel Mitra - *Simmons & Company International - Analyst*

Good morning.

Ed Muller - *Mirant – Chairman & CEO*

We first have to look at how much cash we need in the business and we do that on the same basis that we have previously said we do, so looking at the outlook for the business, preserving our credit profile, maintaining adequate liquidity including for capital expenditures, and maintaining sufficient working capital. And I think that has always been our view and it will continue to be our view, and of course in the current environment, I think it's very important that we continue to adhere to the criteria rigorously, which we do.

And as to how we would use the excess capital, your question is a good one, it is theoretical and it depends on what we see as the options in front of us and valuing each, and I can't just grab and I don't think it would be appropriate to grab and say we prefer one to the other. We prefer to deliver the most value to the owners of this company and from there we will make our decision.

Neel Mitra - *Simmons & Company International - Analyst*

Okay. And I also wanted to ask a general question on your thoughts on M&A in general. What do you see as some of the pros and cons of an IPP entering into a transaction at this point in creating value with the weak commodity and credit environment as well as the financing cost associated with change of control covenants on debt?

Ed Muller - *Mirant – Chairman & CEO*

Well, that's a mouthful. I think overall that this is a sector in which there can be real benefit from consolidation and the reason for that is that the G&A to run each of the players in this sector is substantial, and so each of the players in this business could scale up its business without meaningfully increasing its G&A. So that tells you just a simple fact that if you have consolidation, you could have substantial G&A savings, so, there is some value to be created there and that's on the positive side. There also would be operational synergies I'm sure.

On the negatives, the financing markets are extremely difficult and anyone having to go and try and refinance or redo their financing in the market right now is just uncertain for obvious reasons, it's hard if you can do it at all, and if you can, it's going to be very expensive, so a tremendous diminishing of value in doing so. And beyond that I think there are all the usual issues that how people value themselves. Every CEO worth his or her salt, including this one, always thinks that his stock is vastly undervalued and thinks that everybody else is overvalued and that is always the difficulty in finding a way to achieve the benefits that come from consolidation.

Neel Mitra - *Simmons & Company International - Analyst*

Okay, great. Thank you very much.

Ed Muller - *Mirant – Chairman & CEO*

You're welcome.

Paul Patterson - *Glenrock Associates – Analyst*

Good morning, guys. How are you?

Ed Muller - *Mirant – Chairman & CEO*

Fine, Paul. Good morning.

Paul Patterson - *Glenrock Associates – Analyst*

I want to sort of touch basically, once again, on the sort of demand/supply outlook that you guys have adjusted here and sort of ask you about what we've seen with respect to the New York ISO basically now pretty much factoring a large amount of demand response. And we're not really seeing that with respect to PJM, although if you look at the state policies of Maryland, New Jersey, Pennsylvania, they are pretty aggressive in terms of at least what their goals are. I don't know what they are going to achieve and I just was wondering if you can sort of talk a little bit about that and how we should be thinking about that, you know, New York versus PJM, versus these projections that are out there? And then, renewables, they don't necessarily, particularly wind isn't all that reliable and say had some capacity value. How do you see that impacting you guys, just from a margin perspective if we see some of these renewable growth come in, you know just because of the variable cost et cetera, could you give a little flavor on that?

Ed Muller - *Mirant – Chairman & CEO*

Sure. Let me talk about the demand side management. I think Paul that's sort of – it is easier as it is in many things to talk about it, than it is to be certain about what will actually be manifested. And, you know, we spend time as we think about this, thinking about what will happen if the talk and the reliance of the talk doesn't turn into reality. I'm not certain to the answer, but we will need to see how things actually turn out and we will need to see how things turn out when the economy begins to tick upward and demand rises and economic activity rises and people are more reluctant, certainly industrially to cut back. So we are looking at it. We are pondering it, we think a lot, but I wouldn't pretend that we have great comfort knowing exactly how this is going to play out. We think it is one of the big uncertainties out there.

On the renewable side, what we are thinking about is the fact that most of the renewables, certainly solar and wind, do not in most places have 100% availability. Wind in California, I don't remember exactly but it's probably in the 10% range and it has this horrible pattern of being unavailable when it's hot, at the peak time in the state, which means you need fossil fuel backup for it or you need some backup for it. But the reality is today fossil fuel backup is your peaking plant. So we see this as just changing how the system is going to operate, but it it will be

very dependent on where you look. The wind runs, blows harder and more consistently in the upper Midwest, for example, than it does in California. So you have to go market-by-market and look at it. We're not seeing a lot of this in our principal market in the Mid-Atlantic. And so, right now it is just not much of a factor and we are more about what may or may not happen with demand side management.

And to repeat what I've said before, I've been at many meetings where people are saying things that I would call hortatory, that is they are saying this is where we should go and there should be more demand side management and we're going to have it and it's a good thing to do. But we all – those of us who have been in this industry a long time know that saying the word is one thing and actually having it come home is another, and so this can look better when we are unfortunately in negative economic times and people are very cautious and industrial load is down and even retail load is down. Then when things start booming along and everybody – nobody wants to miss a minute and so on and people are feeling prosperous and they will pay their bill. So I don't know the answer Paul, but I think it is all too easy to jump to a conclusion from hearing speeches and words and seeing policy statements. The facts are going to speak much more loudly.

Paul Patterson - *Glenrock Associates* – Analyst

Sure. I guess structurally then what I'm wondering is, why is New York and New England, like, why are those reserve margins changing so much more than PJM. And I guess what's the – is there something structurally there that that's basically not allowing some of these aggressive programs in these states versus why I guess, what's causing the difference there in terms of demand response being taken into account in that reserve margin?

Ed Muller - Mirant – Chairman & CEO

Paul, I don't think it has anything to do with the fundamentals in the market. It is the fundamentals for those who have the responsibility to do the forecast and it reflects their judgment of what's going to happen. And forecasts are forecasts and that's without criticizing anyone because when we make forecast we're also wrong. Everybody making the forecast is wrong.

Paul Patterson - *Glenrock Associates* – Analyst

Okay. So these are the forecasts of the ISOs and they all necessarily reflect what your actual market outlook is, is that the way to think about it?

Ed Muller - Mirant – Chairman & CEO

That is correct. What we do there is we assemble the data that we can obtain from the ISO's and we display it for you. You should not take those charts as reflecting our judgment and our forecast.

Paul Patterson - *Glenrock Associates – Analyst*

Okay. And then just finally contracted capacity in New York, you mentioned that causing the \$6 million difference in guidance on Slide 16, can you just elaborate a little more on what that is? I'm sorry, that's 4 million.

Ed Muller - *Mirant – Chairman & CEO(?)*

Yeah, it's basically just generation assumptions for Bowline, Paul.

Paul Patterson - *Glenrock Associates – Analyst*

Okay. Thank you.

Robert Howard - *Prospector Partners – Analyst*

Good morning.

Ed Muller - *Mirant – Chairman & CEO*

Good morning, Rob.

Robert Howard - *Prospector Partners – Analyst*

I wanted to ask your capex forecast dropped a bit for '09, is that just sort of finding new ways to tighten the belt a bit or is some of it maybe because there was less operating running assumptions during the year, I wonder what the change is going on there?

Jim Iaco - *Mirant - EVP & CFO*

Yeah Robert, in the first part you broke up a little bit, can you just repeat that again? You are referring to the Maryland Healthy Air Act expenditures?

Robert Howard - *Prospector Partners – Analyst*

Well, just the capex in general. I think comparing the forecast from – for this call from the last call, it looks like it went down about \$17 million?

Ed Muller - *Mirant – Chairman & CEO*

It's just timing, it's all timing.

Robert Howard - *Prospector Partners – Analyst*

So you shifted some more things – some things out to the future a little bit?

Ed Muller - *Mirant – Chairman & CEO*

Yes, that's correct.

Robert Howard - *Prospector Partners – Analyst*

Okay. And then a little bit just about your hedging, you talked about adding some new hedges, just wondering a little bit about your strategy, in this low price – relatively low price environment, does that mean you are being a little less aggressive in setting new hedges than you might have been historically in the past?

Ed Muller - *Mirant – Chairman & CEO*

Well, I think Rob, first notice that we added in our years and if you look at prices in the out years, they are stronger than in the current period, reflecting expectations for economic recovery. And for example on gas prices we are reflecting the fact that the number of drilling rigs in operation has plummeted. I think on land rigs in the US or North America were down somewhere on 50%. The same is happening in the water, not at 50%, but it too is declining. What we hedge for throughout -- on two bases. It is our general strategy to hedge to mitigate the effects of commodity price swings and so that we can more appropriately manage our balance sheet, but when we look at it, we do so broadly speaking in two ways. One is our commercial judgment and the commercial operations led by John O'Neal, when do we think is the right time to go to the market. But the second is, in times like these where we have seen low prices, we are looking at downside cases, liquidity cases and making sure that we can safely steam through anything in this environment that's out there. And so, we at times will hedge even beyond what we would normally do for pure commercial reason to make sure that we have absolutely protected ourselves and the balance sheet of this company going forward.

Robert Howard - *Prospector Partners – Analyst*

Okay. Sounds like a good thing to do. Well lastly, just emission sales increased, at least the revenue increased from that, is that due to -- were you selling more credits or were credits higher priced? I'm sort of just wondering sort of why the change is so big.

John O'Neal - *Mirant - SVP & Chief Commercial Officer*

Yeah it's driven primarily by sales that we did very early in the year at relatively high prices compared to where they are now. So the combination of getting the sales off at higher prices and just the volume of sales and we front loaded our activity relative to last year, did more early in this year.

Robert Howard - *Prospector Partners – Analyst*

So by the terms of, I guess sort of volume of sales you are not expecting to be much different then you had in the past?

John O'Neal - Mirant - SVP & Chief Commercial Officer

That's correct.

Robert Howard - Prospector Partners – Analyst

Okay. Thank you.

Jeff Coviello - Duquesne Capital - Analyst

Hey, good morning guys.

Ed Muller - Mirant – Chairman & CEO

Good morning Jeff, how are you?

Jeff Coviello - Duquesne Capital - Analyst

I'm all right. Ed, a question, you mentioned, I think you mentioned earlier in the call that you might have sold some coal tons and that sort of showed up in the cash flow. I just was wondering about how many and then how that kind of rolled through the cash flow and I guess plants are running a little less, so in addition you are getting high inventories and that's probably why you sold. I was wondering how your days of inventory was at the coal plants right now,

Jim Iaco - Mirant - EVP & CFO

Jeff, this is Jim, I think you are referring to my comments on slide 12 where I talked about our adjusted net cash provided by operating activities?

Jeff Coviello - Duquesne Capital – Analyst

Yes.

Jim Iaco - Mirant - EVP & CFO

Now, what happened in the quarter is -- and when you look at first quarter of '09 compared to '08, we bought more inventory in the '09 quarter, more coal inventory and of course prices were higher than they were in '08. So that was just a negative cash flow item in the quarter -- the first quarter of '09 compared to '08. We didn't sell any coal.

Jeff Coviello - Duquesne Capital – Analyst

Okay. And it looks like you did some more hedging in '11 and '12 on the power side?

Jim Iaco - *Mirant - EVP & CFO*

That's correct.

Jeff Coviello - *Duquesne Capital – Analyst*

Okay. I was wondering on that MC Asset Recovery, how -- the way I understand it is that money is going to go to old creditors and the old equity and how could there be a tax liability at Mirant Corp.?

Ed Muller - *Mirant – Chairman & CEO(?)*

Well, a couple of things on this Jeff. And Paul Gillespie is here who heads our tax and if I get this wrong, he'll amplify so that everybody is on the same page. First, we have a very thorough and detailed description of this in the 10-Q which was filed this morning, but to remind everyone and as Jim I think mentioned earlier, the activities of MC Asset Recovery or MCAR, Mirant Corporation Asset Recovery, while in the name of Mirant, do not -- are not managed by us at all and that was, it was part of the plan of reorganization under which the company emerged from bankruptcy that certain claims would be transferred to MCAR would be pursued. And as part of that there are various arrangements made on how taxes would be handled. Paul do you want to...

Paul Gillespie - *Mirant - SVP, Tax*

Yeah, although MC Asset Recovery is independently managed, it is nevertheless part of Mirant for tax purposes. Thus, should any part of the recovery be considered taxable included in Mirant's taxable income. Under the plan of bankruptcy, Mirant would be responsible for the tax on the first \$175 million of net recovery.

Jeff Coviello - *Duquesne Capital – Analyst*

Got it. Okay, I understand. Thank you very much.

Paul Gillespie - *Mirant - SVP, Tax*

Certainly.

Brian Russo – *Ladenburg Thalmann – Analyst*

Good morning.

Ed Muller - *Mirant – Chairman & CEO*

Good morning, Brian.

Brian Russo – *Ladenburg Thalmann – Analyst*

Could you maybe quantify the fuel oil management and prop trading contributions to margins assumed in 2009 and 2010?

Jim Iaco - Mirant - EVP & CFO

I don't know if I have that. I don't have that. We have to get back to you on that Brian.

Brian Russo – Ladenburg Thalmann – Analyst

Okay, sure. And then is there any way to quantify the megawatt hours of decreased run time at your baseload plants in the first quarter as a result of more efficient gas fired generation displacing those megawatt hours?

Ed Muller - Mirant – Chairman & CEO

The answer is no. We are certainly sensitive to the fact that given where gas prices are that that can occur and probably is occurring somewhere, but we haven't disclosed it nor do we have, frankly, a precise number on it, because you have a lot of pieces moving around. You have demand overall. You got weather adjustments. You got how people are bidding in their plants. You just got too many things going around to be able at this point to isolate that and we are not able to.

Brian Russo – Ladenburg Thalmann – Analyst

Okay. Using the forward curves outlined in commodity assumptions outlined in your guidance, can we assume that the trends we've seen in the first quarter will continue through the remainder of the year, in terms of the baseload generation volumes?

John O'Neal - Mirant - SVP & Chief Commercial Officer

I mean, I would generally say our forecast is going to be based on prices as of April 14th and obviously the low price times of the year are in April and May. So you would expect that gas prices are low, power prices are low, the coal units might not dispatch as much, so once you kind of get through the shoulder season you are getting into the summer months, the coal units are going to dispatch like they more typically have, because again gas is going to be on the margin almost all hours, the coal unit run times are not going to change too much and that same phenomenon really flows out through the balance of the year.

Brian Russo – Ladenburg Thalmann – Analyst

Got it. Thank you.

Carlos Rodriguez – Hartford Investment Management – Analyst

Yes, thanks for taking my call. Ed, just looking at page 8, the reserve margins. I am just trying to understand the footnote says that the reserve margins incorporate the latest ISO information, so we understand that these reserve margins or trends or outlook for -- through 2013 are consistent with the ISO's?

Ed Muller - *Mirant – Chairman & CEO*

Yes.

Carlos Rodriguez – *Hartford Investment Management – Analyst*

Okay. Can you just assess for us the risk of increased transmission infrastructure build-out in terms of reducing net effective, or excuse me, increasing the effective reserve margin in PJM East from power coming from RTO?

Ed Muller - *Mirant – Chairman & CEO*

Well, the ISO knows that as to what is proposed out there and is assuming that just as it assumes and we are required to sort of assume in the various capacity options that occur as to when things will get built. If anything happens on transmission, it is that it doesn't get built sooner. It gets built later just because of our position and all of the regulatory issues, litigation issues that arise every time somebody wants to build in the transmission arena.

Carlos Rodriguez – *Hartford Investment Management – Analyst*

So in terms of addressing the tightening reserve margin, which would be the easier solution in terms of remedying that? Would it be increased transmission build-out or would it be increased capacity build-out within PJM East?

Ed Muller - *Mirant – Chairman & CEO*

Well, as a general matter, thank you for the question, so I can get up on my high horse. Transmission doesn't create capacity. It just moves it around. So in the long-term you do not solve a need for electric generation by building transmission lines. You've got to build generation. And I think in PJM East you'd accomplish a lot more by building generation and the generation would be there for a long time. By building transmission and if the transmission is effectively moving power, electricity from areas that are current surplus to current deficiency. If the surplus gets eaten up then you got this transmission line, however we've got to pay it forever that isn't really declining. It may help with reliability and how you operate systems.

So in terms of system planning, the right thing to do, I think for PJM East, is you've got to add capacity. Having said that, I will just say it that's hard to do in the current environment in addition to the normal [indiscernible] it is -- the meaningful capacity that cannot be added anytime soon and also fuel base and there are the concerns about the climate, profound for our position heavily focused on coal. Gas is a fossil fuel and accepted wisdom is that it contributes

for a unit of electric output at least half of the greenhouse gases that coal contributes. So as a society across the globe we have to deal with it. The opposition is profound.

Carlos Rodriguez – Hartford Investment Management – Analyst

Thanks very much.

Lasan Johong - RBC Capital Markets - Analyst

Thank you. I'm just kind of curious about your views on forward looking power and commodity prices in general. It looks like – you sound like you are very bullish. Is there an opportunity for Mirant at some point -- if we start to see very precipitously low gas prices, is there a chance or opportunity that you would think about monetizing some of your hedges and then riding the rebound in commodities back up and then maybe capturing the same move twice if you would?

Ed Muller - Mirant – Chairman & CEO

Well a couple of things, and good morning. First, I wouldn't accept the characterization of being bullish. I think the trend lines are going – are upward given reserve margins, given the fact that the drilling activity for natural gas has fallen precipitously. But they're tied to many things here and I think it is always dangerous for anyone to think that they are smarter than the market and I certainly do not think that we are. We're a student and observing the market and participating in it, but thinking we are a lot smarter than it, is dangerous. I think overall the trend lines are positive and how we manage our commercial position and how we manage our hedge is designed to maximize. And we do put positions on and take positions off from time to time. But beyond telling you that, think I don't think it would be appropriate to tell you how we respond because first we would always be assessing a host of factors at a given time, including how we see our exposure for our balance sheet. But also what we think is occurring in the market and what our very sophisticated commercial group thinks makes sense at the time. So I think it's very hard to give you a rule of thumb and say we would do this or that in a given circumstance.

Lasan Johong - RBC Capital Markets - Analyst

Okay. Then let me get a little bit more specific. I'm looking at your page 7 and obviously the one thing that kind of sticks out of the chart is probably the fact that you are way over hedged on your fuel relative to your power in '11 and completely the opposite in '13. So my first instinct is to say perhaps you are doing some sort of a straddle or timing hedge between '11 and '13 and that at some point before you get to probably the beginning of '11 that these would eventually even itself out. Is that a correct viewpoint or is it just a naked bet on fuel or – and/or power in '11 and '13?

Ed Muller - Mirant – Chairman & CEO

Well, a couple things. First, as in the past and as we'll say in the future we don't comment on the specifics of our hedges other than to show you where we are as a percentage of what we expect to occur. Second, as we've said before and as I expect will be the case, the purchasing,

particularly of coal tends by us to be somewhat lumpy -- in that we go to the market, we test it and periodically when we think it's appropriate we buy, but we often do multi-year buys. So when we do that, we suddenly are -- it looks like, we have more coal than we have power locked in. And this will move from time-to-time, but as you can see, particularly if you look at 2009 and 2010, they inevitably will even out. But I wouldn't draw more from how these charts look than -- that's the way we have operated the business and the way we will continue to operate the business.

Lasan Johong - RBC Capital Markets - Analyst

So basically, what you see is what you get, there is no sophistication beyond what's going on here other than to say that timing of coal purchases versus hedging of power is going to be a little different?

Ed Muller - Mirant - Chairman & CEO

There is a lot of sophistication going on.

Lasan Johong - RBC Capital Markets - Analyst

No, I didn't mean that.

Ed Muller - Mirant - Chairman & CEO

But we're not prepared to -- particularly as we are in the market everyday and every hour, to say more than that.

Lasan Johong - RBC Capital Markets - Analyst

Okay. Thank you.

Brian Chin - Citigroup - Analyst

Hi, it's Brian Chin.

Ed Muller - Mirant - Chairman & CEO

Hey, Brian.

Brian Chin - Citigroup - Analyst

Hi. Good morning. I'm sorry if you mentioned this earlier, I missed the first part of the call. How am I to read a fairly large number of management turnover issues here? And I can't help but wonder if this is a precursor to something larger. Can you comment on that?

Ed Muller - Mirant - Chairman & CEO

Absolutely. It is not a precursor to anything larger. It is a result of our being very blessed and we have been blessed with a lot of talent and are blessed with a lot of talent at the upper ranks of the company. And given the size of the company now and what our operations are, the senior team -- the current senior team and I have realized that we have more talent at the top of this company than we need. And -- so we are as a result of that realigning, if you will, come to have the right quantity of senior talent at the top of the company. And there is nothing more to it than that. We have terrific people who will be retiring and we have terrific people who will be assisting me in leading this company.

Brian Chin – Citigroup - Analyst

So, this joint decision was taken unanimously by everybody involved?

Ed Muller - Mirant – Chairman & CEO

That is correct.

Brian Chin – Citigroup - Analyst

Okay, alright. And then, I got one other question on the reserve margin numbers that you guys have. You look at the PJM East numbers and PJM itself didn't breakout any portion of PJM East in the last auction and the numbers came out well below in that curve as well as for 2012, 2013. From my conversations with a number of different investors, it seems like -- I'm going to venture here that the general consensus for this RPM closing today is somewhere around the \$110 mark, which is pretty flat with last year and doesn't seem to imply a fairly tight reserve margin out anywhere in PJM East. So how do we square the RPM results that we have seen so far for 2011 and 2012 and what I would say is investor expectations for the next auction versus your forecast here for PJM East, which seems to suggest that things are pretty tight.

Ed Muller - Mirant – Chairman & CEO

Well first, we are looking at here some years and people -- again as I said earlier, this is a forecast. The bidding process for the current auction is underway through today as I recall and it would be highly inappropriate for us to comment on our thinking on something that is currently being bid and will probably violate some rules somewhere or another and we're not going to violate them. So let me say this and then I will have John O'Neal -- can augment as appropriate. We take the data and we are doing our best here on what is slide 8, tell you what we are seeing out there. How people choose to bid, what they are forecasting on a variety of factors often is different. We have to go back for a minute to natural gas prices, on the near-term gas has gone up the last two days quite significantly, probably up over \$0.25/mmBtu. The amount in storage has been going up as well and you might say that it is countercyclical. What people are estimating, what they think is going to happen, what's going to happen to the economy, there are a lot of people beyond just the hard facts who are forecasting and that is as it ought to be and that is appropriate.

Brian Chin – Citigroup - Analyst

Okay. Thank you.

Barry Kupferberg – *Trilogy Capital - Analyst*

Hi, Ed. I'm trying to understand something if you could explain a little bit the reduction in 2010 guidance in light of a couple factors. Your results should be positively correlated with power and natural gas, and just from early in the presentation you said that since February both of those are up and coal prices are down, and yet 2010 EBITDA is directionally down by about 10% or so. Can you just speak about that?

Ed Muller - *Mirant – Chairman & CEO*

Jim, you want to?

Jim Iaco - *Mirant - EVP & CFO*

Yeah. Let me take it and then John you should augment what happened post-4/14. First of all, our guidance is as a -- we use commodity price curves as of April 14th. So when you look at April 14th as compared to the curves we used for previous guidance which I believe was

Bill Holden - *Mirant - SVP & Treasurer & John O'Neal - Mirant - SVP & Chief Commercial Officer*

February 10th.

Jim Iaco - *Mirant - EVP & CFO*

Thank you everybody. February 10th, prices are down. We have had just a general decline – in that timeframe between February 10th and April 14th, prices were down. Now since April 14th, prices have moved up and that was what Ed was commenting on slide 6. He was giving you a current perspective on the market as we sit here today, not as of April 14th whereas our guidance reflects what the market reflected on April 14th, not today.

Barry Kupferberg – *Trilogy Capital - Analyst*

So the presentation itself is inconsistent?

Ed Muller - *Mirant – Chairman & CEO*

Inconsistent is a word I don't like, but we have this so that everyone understands when we give guidance, this is a very careful process with many checks and balances. And so, we need to have a cutoff date. And when we give you market information, it is more current and so you have almost a two week swing in there. I wouldn't call it inconsistent we're trying to be as accurate and as complete as we can be. But if we try to give guidance on data that is only a few days old, we could not do so in a manner that we would find ourselves comfortable with.

Barry Kupferberg – *Trilogy Capital - Analyst*

Fair enough. I'm not trying to trap you into a statement. But I guess just more trying to understand the trends as you look at 2010, would it be fair then to say that 2010 directionally based on where prices are today would actually be up rather than down?

Ed Muller - *Mirant – Chairman & CEO*

Here is what we do, remember, we give you sensitivity. Now when we give guidance, it is not simple enough to simply grab this and say ah!, so everything moves because we're looking at a variety of factors and that is why the process needs a cutoff date because many factors come into what's going to occur including for example our outage schedule which we don't disclose for competitive reasons. There is a lot that goes in the guidance. If you would say everything else is constant which is what we do when we give you those sensitivities, so if you wish to assume everything else is constant and you can take the gas price and you can adjust the guidance but I will tell you that if we are doing it and we do do this, we don't assume everything else is constant because everything is moving which is why it takes us a very serious and rigorous effort to get it nailed down for those dates.

Barry Kupferberg – *Trilogy Capital - Analyst*

Okay. That's helpful. Thank you.

Operator

And with no further questions in queue, I'd like to turn the conference back over to Mr. Steve Himes for any additional or concluding comments.

Steve Himes - *Mirant - Director, IR*

We just want to thank everyone for joining us today and thanks for your interest in Mirant. If you have further questions, we will be available later on. Thank you.