

FINAL TRANSCRIPT

Conference Call Transcript

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PRESENTATION

Operator

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

Steve Himes - *Mirant - Director, IR*

Thank you, Jim, and good morning, everyone. Thank you for joining us today for Mirant's third quarter 2009 earnings call. If you don't already have a copy, the press release, financial statements and third quarter filing with the SEC are available on our website at www.mirant.com. The slide presentation is also available on our website. And a replay of our call will be available approximately two hours after we finish.

Speaking today will be Ed Muller, Mirant's Chairman and Chief Executive Officer; and Bill Holden, Mirant's Chief Financial Officer. Also in the room and available to answer questions are Paul Gillespie, Senior Vice President of Tax; and Gary Garcia, Mirant's Treasurer.

Moving to Slide One, the Safe Harbor. During the call we will make forward-looking statements, which are subject to risks and uncertainties. Factors that could cause actual results to differ materially from management's 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'd like turn the call over to Ed.

Ed Muller - *Mirant - Chairman & CEO*

Thank you, Steve, and good morning, everyone. I'll start on Slide Number Three with some highlights from the recent months. First as we announced earlier this year, we have entered into a ten-year power purchase agreement with Pacific Gas and Electric for a new 760 megawatt peaking station to be known as Marsh Landing and built at our Contra Costa station in the San Francisco Bay area.

This is putting reality to what we have said would be coming to pass, which is that our existing sites in load centers will be redeveloped over time. They have advantages based on location, connection to the transmission system, connection to fuel supply, and having land. We're pleased to have achieved this milestone. It is subject to approval by the California Public Utilities Commission, which we understand and expect will occur later in 2010.

Second, as has been our strategy and will continue to be our strategy, we hedge to mitigate the effects of volatility. And right now in the marketplace in which we find ourselves, our strategy is mitigating the effects of relatively low commodity prices.

And third, we continue to have a balance sheet that provides adequate liquidity for our business. And as we determine that adequate liquidity, that includes taking into account various stress tests that we do; whereby we look at what would happen if the relatively low commodity prices that we are experiencing now went lower.

Turning to Page Four, our financial highlights for the quarter and the first nine months of the year. You see that we are up on a comparative basis to the same periods in 2008 by about 12%, both for the quarter and for the nine months. The change is attributable, as you can see below on Page Four, to: Higher realized value of hedges, which makes sense as commodity prices have come down. Higher realized results from our proprietary trading activities - we're having a particularly good year without having changed one iota of our risk parameters and guidelines for how we manage that business. Offset some by lower energy gross margins from generation, again what you would expect given commodity prices.

Turning to Page Five, we are updating our guidance as we have indicated in the news release issued this morning. For 2009 we have reductions from \$873 million to \$860 million. And for 2010 we are increasing our guidance from \$570 million to \$617 million. The change in 2009, the reduction, is largely the result of an unplanned transmission outage in the PEPSCO zone, which occurred during the summer and lasted about 27 days. And that had an impact on the prices in the PEPSCO zone and the prices we received.

For 2010 the increase reflects higher energy gross margins, partially offset by lower realized value of hedges; pretty much what you would expect with an increase that we are seeing for 2010 in prices.

Looking at Page Six, same format we have been providing with updated information on our hedge position. The thatched or shaded boxes reflect additions. The open boxes reflect reductions in our hedge position. The reductions are largely or completely the result of expected increased generation from the last time we gave guidance. And the shaded or thatched pieces, particularly on the power side, are a reflection of the incremental hedges that we have added since we last presented this slide to you. And that is consistent with our strategy as it has been in the past and as it will be in the future.

I'm turning to Page Seven, an update on the market. Gas for '10 has been relatively flat compared to the last time we gave guidance. Power prices in PJM have increased some; coal prices have dropped some; dark spreads have increased some. Longer term, pretty much the same picture. Gas up a little, power prices increased and more than natural gas prices, coal decreased a little and dark spreads increased.

Page Eight, again a format that we have been providing you for sometime, which is reserve margins, using the data that we have from the ISO and our own analysis. And I point as I have before to the orange line toward the bottom of the page, which is PJM East, which is our most important market. You can see that notwithstanding the state of the economy, the recession or the recession that perhaps is coming to an end, the trends remain inexorable, which is that we are going toward a period in the not too distant future where we will be below acceptable reserve margins. The reserve margins – targeted reserve margins are shown as that grey line coming across around 16%.

And note that we are – we expect to fall below that in PJM East, as well as in New York East, in just a few years. This trend remains and takes into account all that's going on, demand side management and other efforts. It is, for anyone who is responsible for making sure that there's an adequate electric supply to meet the needs of the American public, a worrisome situation. This is not how a system should operate. To look and see that by 2013, so three years from now, we are at a worrisome level, perhaps even 2012 in PJM East. It is not a good way to be running the system.

We have seen this over and over. The trend remains the same. While there are many other broad issues in our society and economy that we are facing right now, given the time it takes to get things in place, this is not a good policy. This is not a good trend. It is a good trend for incumbents. It is a good trend in our own narrow self interest for Mirant, but this is not good for the system.

Turning to Page Nine, and some more detail on California. I spoke earlier on the Marsh Landing Station with which we're very pleased. As I mentioned, it is subject to approval by the California Public Utilities Commission. We expect to begin construction next year, and we expect to have construction completed and go into commercial operation in May 2013.

Separately, we have extended by agreement with PG&E, the power purchase agreement for Contra Costa Units 6 and 7 through April 2013. Again, this is subject to approval by the California Public Utilities Commission. And we have agreed that at the end of that extension in 2013, subject to regulatory approvals which would include the California Independent System Operator, we will retire Units 6 and 7.

And third, again as we have stated publicly, we have reached agreement with the City of San Francisco to shut down the Potrero station, when the California Independent System Operator tells us that it no longer needs the units for reliability. We expect for Unit 3, which is the largest unit at the site and is a steam unit, that we will be shutting it down sometime toward the end of next year, with the approval of the California Independent System Operator. We are less certain about when we will be shutting down the three peaking units there, each 55 megawatts that run only occasionally. But that is up to the California Independent System Operator.

With all of these changes in California coming in our business, new Marsh Landing Station, Contra Costa 6 and 7 that we expect to be shutting down and retiring sometime in 2013 or thereabouts, and Potrero shutting down, I think it's worth understanding how we see the business performing going forward, taking all of these changes into account. And while we do not give guidance beyond 2010, and we do not give guidance by segment of the business. I do want everyone to understand that we expect the adjusted EBITDA from our California business, starting in 2013 and then going beyond, to be significantly higher than it is today.

Turning to Page 10, an update on our performance coming into compliance on schedule with the Maryland Healthy Air Act. This has required us to put controls on our Maryland coal-fired stations, Dickerson, Chalk and Morgantown, to control principally NOx and sulfur dioxide. For controlling NOx, as we've said previously, we have completed all of the work that we needed to do, and those facilities are in operation and performing well.

We are well along the way to finishing the remainder of the program, which is putting in place scrubbers to deal with sulfur dioxide. We have expended through the end of October just under \$1.4 billion of the \$1.674 billion for the program. The projects are on budget and on schedule. We are as we speak in the stage of tying in the various scrubbers at the three stations. This is going well, and the physical work is coming to an end.

And with that, we'll turn to Page 12, and I'll turn this over to Bill Holden to go over the financial results.

Bill Holden - *Mirant - CFO*

Thank you, Ed, and good morning. As shown on Slide 11, income from continuing operations was \$55 million for the third quarter of 2009, compared to \$1.607 billion for Q3 of 2008. The decrease of \$1.552 billion primarily relates to a decrease of \$1.569 billion in unrealized gross margin and a \$28 million increase in operating expenses, partially offset by an increase of \$49 million in realized gross margin.

Income from continuing operations was \$598 million for the year-to-date 2009, compared to \$621 million for the year-to-date 2008. The decrease of \$23 million primarily relates to a decrease of \$152 million in unrealized gross margin, partially offset by an increase of \$82 million in realized gross margin and a \$66 million decrease in operating expenses.

Adjusted income from continuing operations was \$238 million for the third quarter and \$484 million for the year-to-date, as compared to \$216 million for the third quarter of 2008 and \$440 million for the first nine months of last year.

The most notable items that bridge adjusted income from continuing operations to income from continuing operations, a GAAP measure, are unrealized gains or losses on derivatives and bankruptcy charges and legal contingencies.

Unrealized losses on derivatives were \$174 million for the third quarter, as compared to net unrealized gains of \$1.395 billion for the same period last year. The net unrealized losses of \$174 million primarily resulted from power and fuel contracts that settled during the current period, for which net unrealized gains had been recorded in prior periods and included unrealized losses on our proprietary trading and fuel oil management activities.

For the year-to-date, we had net unrealized gains of \$66 million, as compared to net unrealized gains of \$218 million for the first nine months of last year. The net unrealized gains of \$66 million resulted from decreases in forward power and fuel prices, which resulted in unrealized gains on our hedging activities that were partially offset by unrealized losses on our proprietary trading in fuel oil management activity.

Bankruptcy charges and legal contingencies for the year-to-date include \$62 million related to the MC Asset Recovery settlement with Southern Company. This amount includes \$52 million as reimbursement for funds previously provided to MC Asset Recovery and the reversal of the \$10 million accrual for future funding to MC Asset Recovery.

Adjusted EBITDA, which is adjusted income from continuing operations less interest, taxes, depreciation and amortization, was \$311 million for the third quarter of 2009, as compared to \$278 million for the same period of 2008. And \$706 million for the first nine months of 2009, as compared to \$632 million for the first nine months of last year. The increases in adjusted EBITDA for both the third quarter and the year-to-date period were principally the result of higher realized gross margins. I'll cover realized gross margin in more detail on the next slide.

The increase in interest, taxes, depreciation and amortization for the third quarter 2009 primarily relates to a higher provision for income taxes. The increase in interest, taxes, depreciation and amortization for the year-to-date reflects higher net interest expense, as well as a higher provision for income taxes.

Our average share count is lower in the 2009 period as compared to the 2008 period, principally because of share repurchases last year. And finally, our earnings per share based on adjusted income from continuing operations increased to \$1.63 per share for the third quarter of 2009 from \$1.17 per share for the third quarter of 2008 and an increase to

\$3.34 per share for the year-to-date 2009 from \$2.03 per share for the same period last year.

Turning to Slide 12, this slide presents the components of the company's realized gross margins for the third quarter of 2009 and the nine months ended September 30, 2009, as well as the comparable periods for 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 activity. The decrease of \$123 million for the quarter and the decrease of \$342 million for the year-to-date were the results of lower energy gross margins from our generating facilities, reflecting a decrease in power prices, an increase in the cost of emissions allowances and lower generation volumes, partially offset by a decrease in the price of fuel. In addition, the lower energy gross margins from our generating facilities were partially offset by an increase in the realized gross margins from proprietary trading.

Contracted and capacity, the dark blue bar, represents gross margin received from capacity sold in ISO and RTO administered capacity markets through RMR contracts, through tolling agreements and from ancillary services. The \$3 million decrease for the quarter resulted from a decrease in ancillary service revenues as a result of lower generation volumes and power prices in the Mid-Atlantic. The \$6 million increase for the year-to-date resulted from higher capacity prices in the Mid-Atlantic, partially offset by lower capacity revenues in California.

And finally, realized value of hedges, the yellow bar, was up by \$175 million for the quarter and was up by \$418 million for the year-to-date. These amounts reflect the actual margin upon settlement of our power and fuel hedging contracts and the difference between market prices and contract costs for coal that we have 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 to Slide 13, this slide presents cash flow information for the third quarter of 2009 and for the nine months ended September 30, 2009; as well as for the same periods last year. The decrease of \$342 million in cash provided by operating activities for the third quarter of 2009 is principally related to a decrease of \$339 million in collateral returned to us from counterparties in 2009 as compared to 2008, and a decrease of \$68 million as a result of higher fuel inventory levels in 2009 as compared to 2008. These items were partially offset by higher realized gross margin of \$49 million in 2009.

The increase of \$134 million in cash provided by operating activities for the year-to-date 2009 is principally related to a number of items. First, lower working capital of \$139 million, primarily as a result of lower power prices and implementation of weekly settlements with PJM. Second, higher realized gross margin of \$103 million, excluding the effect of non-cash, lower cost of market adjustments on fuel inventory. Third, lower cash used for O&M of \$86 million, which included \$52 million in cash received from the MC

Asset Recovery settlement and lower operating costs resulting from the shutdown of Lovett.

These amounts were partially offset by a decrease of \$116 million as a result of higher fuel inventory levels in 2009 as compared to 2008, and a decrease of \$90 million because of changes in funds on deposit.

Adjusting for the cash received from the MC Asset Recovery settlement, proceeds from the sales of emissions' allowances and capitalized interest arrives at adjusted net cash provided by operating activities of \$273 million for the quarter and \$637 million for the year-to-date. Reducing these amounts for total capital expenditures results in adjusted free cash flow of \$145 million for the quarter and \$164 million for the first nine months of 2009.

Our Maryland Healthy Air Act capital expenditures and our Marsh Landing capital expenditures and working capital requirements are nonrecurring in nature. Therefore, a more meaningful presentation of free cash flow is to use free cash flow adjusted for these amounts. Accordingly, adding back actual expenditures for both programs results in adjusted free cash flow of \$249 million, or \$1.71 per share for the third quarter of 2009 and \$516 million, or \$3.56 per share for the 2009 year-to-date period.

Turning to Page 14, this slide presents our debt and liquidity as of September 30, 2009. Consolidated debt of \$2.633 billion at September 30th is \$2 million lower than consolidated debt at June 30, 2009 because of quarterly amortization of the term loan at Mirant North America. As of September 30, 2009, Mirant had total cash and cash equivalents of \$2.029 billion, of which \$574 million was restricted at Mirant North America and its subsidiaries, and not available for distribution to Mirant.

Based on the results from Mirant North America through September 30, 2009, we expect Mirant North America will make a distribution of approximately \$116 million later this month. Although the company expects Mirant North America to remain in compliance with its financial covenants, it is likely they will be restricted from making distributions in future periods beyond amounts permitted for interest payable to Mirant Americas Generation, primarily because of the significant capital expenditure program underway to comply with the Maryland Healthy Air Act.

Upon completion of its capital expenditure program and after the expenditures no longer affect the covenant calculation, Mirant North America is expected to be able again to make distributions. Mirant does not expect the potential restriction on future distributions to have any effect on its operations.

And finally our total available liquidity, including amounts available under the Mirant North America revolver and the synthetic LC facility, was \$2.668 billion.

Turning to Slide 15, as Ed mentioned previously, we are revising our adjusted EBITDA guidance for 2009 from \$873 million to \$860 million and our adjusted EBITDA guidance in 2010 from \$570 million to \$617 million, all based on forward market prices as of October 13, 2009. Deducting projected net interest expenditures and income taxes paid or

refunded and factoring in projected changes in working capital, adjusted net cash provided by operating activities is projected to be \$642 million for 2009 and \$317 million for 2010.

Interest, net is projected to be lower in 2010 and 2009 by \$7 million, primarily because of projected interest rates on cash balances. Income taxes projected for 2009 and 2010 are primarily related to alternative minimum tax, while we expect an income tax refund in 2010 related to overpayment of taxes in a prior period in California. I also note that we do not expect to owe any taxes related to the MC Asset Recovery settlement with Southern Company.

The increase in working capital requirements for 2010, relative to prior guidance, results primarily from expected collateral requirements related to Marsh Landing. Reducing adjusted net cash provided by operating activities by projected capital expenditures of \$698 million and \$441 million for 2009 and 2010, respectively, derives an adjusted free cash flow deficit of \$56 million for 2009, and an adjusted free cash flow deficit of \$124 million for 2010.

Adding back the Maryland Healthy Air Act and Marsh Landing expenditures and working capital requirements for 2009 and 2010, which as I stated earlier are nonrecurring in nature, results in adjusted free cash flow without the Maryland Healthy Air Act and Marsh Landing of \$451 million for 2009 and \$243 million for 2010. Based on our closing stock price and diluted share count as of November 4, 2009, the adjusted free cash flow yield without the Maryland Healthy Air Act and Marsh Landing is 21.9% for 2009 and 11.8% for 2010.

Our hedged adjusted gross margin for 2009 is \$1.364 billion, or 90% of our projected realized gross margin. For 2010, our hedged adjusted gross margin is \$1.062 billion, or 81% of our projected realized gross margin. Hedged adjusted gross margin is defined as hedged merchant generation and other contracted and capacity, which would include reliability must run agreements and capacity sold in ISO and RTO administered capacity markets.

Finally, hedged adjusted EBITDA, which is defined as hedged adjusted gross margin, less projected operating and other expenses for a full calendar year, is \$713 million, or 83% of our projected adjusted EBITDA for 2009 and \$360 million, or 58% of our projected adjusted EBITDA for 2010.

Turning to Slide 16, this slide presents the components of adjusted gross margin included in our guidance for 2009 and 2010. Adjusted gross margin is projected to decrease from \$1.511 billion in 2009 to \$1.319 billion in 2010. The \$192 million decrease is principally the result of a \$443 million decrease in realized value of hedges and a \$14 million decrease in contracted and capacity, partially offset by a \$265 million increase in energy realized gross margins. I'll discuss this in more detail on Slide 18.

Turning to Slide 17, this slide presents a comparison of our guidance for 2009 and 2010 given on August 7th to the update being provided today. For 2009, adjusted EBITDA is projected to be \$860 million, a decrease of 13 million from our prior guidance. The change

is comprised of the following, first, a \$34 million decrease in energy gross margins, principally related to two factors. A \$36 million decrease resulting from market price and generation changes and a \$2 million increase related to expected results from fuel oil management.

Next, the \$21 million increase in realized value of hedges as a result of lower power prices. Third, a \$4 million reduction in contracted and capacity revenues primarily related to lower ancillary services revenues, partially offset by a Mid-Atlantic capacity bonus payment. And finally, a \$4 million decrease in operating and other expenses primarily resulting from a \$4 million decrease in plant costs and overhead.

For 2010, adjusted EBITDA is projected to be \$617 million, an increase of \$47 million from the guidance given on August 7th. The change is comprised of the following: first, \$129 million increase in energy gross margin, principally because of \$126 million increase from market price and generation changes, together with a \$1 million increase in expected results from fuel oil management, and a \$2 million increase in expected results from proprietary trading.

Second, an \$89 million decrease in the realized value of hedges as a result of higher power prices and lower fuel prices. Third, a \$1 million decrease in contracted and capacity revenues. And finally, an \$8 million decrease in operating and other expenses resulting from an \$8 million decrease in plant cost, a \$2 million decrease in overheads, and a \$2 million decrease in sales of excess emissions credit.

Turning to Slide 18, this slide presents a bridge from our 2009 guidance to our 2010 guidance. Our 2010 guidance is \$243 million lower than our 2009 guidance. This decrease is comprised of the following: first, a \$265 million increase in energy gross margins principally related to a \$322 million increase in market price and generation changes, primarily related to higher power prices, partially offset by increases in fuel prices, and a \$7 million increase in commercial availability, partially offset by a \$23 million decrease in expected results from fuel oil management, and a \$41 million decrease in projected results from proprietary trading.

Second, a \$443 million decrease in the realized value of hedges, principally due to a lower hedged position of our expected generation in 2010 as compared to 2009, and to higher market prices for power in 2010. Our hedges were also executed at higher prices for 2009 as compared to 2010.

Third, a \$14 million decrease in contracted and capacity gross margin, principally as a result of a decrease in PJM RPM capacity revenues. And finally, a \$51 million decrease primarily related to an increase in operating and other expenses as a result of an increase in plant operating costs, principally related to operating the scrubbers and on our Maryland plants, and lower projected sales of emissions allowances to third parties.

Slide 19 addresses some of the key sensitivities regarding the guidance for 2009 and 2010 that we are providing today. NYMEX gas prices used in our guidance are as of October 13th and are \$5.03/mmbtu for the balance of 2009 and \$6.11/mmbtu for 2010.

Based on our hedge position for 2009, a \$1 per mmbtu change in natural gas prices will result in a change in adjusted EBITDA of approximately \$1 million for the balance of this year. For 2010, a \$1 price move in natural gas is expected to result in a change in adjusted EBITDA of approximately \$20 million.

Energy price changes due to heat rate movements of 500 Btu/kWh are expected to result in a change in adjusted EBITDA of approximately \$1 million for the balance of 2009, and \$19 million for 2010. The heat rates shown are 7X24 PEPCO forward implied market heat rate as of October 13th. And finally, a \$1 move in the price of carbon credits to comply with RGGI would not change our projected adjusted EBITDA for the balance of 2009 and is expected to result in a change in adjusted EBITDA of approximately \$10 million for 2010. This sensitivity is based on our hedge position and our view that power prices will increase as the cost of complying with RGGI increases.

Turning to Slide 20, this slide presents a breakdown of our projected capital expenditures for 2009 and 2010. Note that the 2009 amounts include actual results through September 30th. The total estimated cost for compliance with the Maryland Healthy Air Act remains at \$1.674 billion. Prior to this year we had expended \$997 million. Other environmental expenditures include \$34 million deposited into escrow in the third quarter of 2008 that will be spent between 2009 and 2011 for control of small dust particles pursuant to the Potomac River settlement.

Our normalized maintenance CapEx is approximately \$70 million to \$80 million per year. Our current estimate for normalized maintenance CapEx has been reduced from prior levels to reflect current market conditions. Finally, note that construction expenditures include the estimated amounts for the construction of our Marsh Landing generating facility, which will commence operations in May of 2013.

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

Ed Muller - *Mirant - Chairman & CEO*

Thanks very much, Bill. I'm on page 21, headline caption - Takeaways. As we've said previously, hedging has cushioned us both this year and somewhat next year from the effects of the relatively low commodity prices we are experiencing in the market. Supply and demand continue inexorably to march toward a tightening point. And in fact in PJM East and New York East to a point that or to a level that is worrisome for the delivery of electricity as a whole to the public, although the tightening pace has slowed some given the economic conditions.

We are on target. I'm pleased to say, both in terms of budget and schedule to comply with Maryland's Healthy Air Act by January 1, 2010 as we are required to do. And we continue to have a balance sheet that provides adequate liquidity for the business, including under various stress analyses that we undertake.

So with that, Jim, we're ready for questions.

QUESTION AND ANSWER

Paul Patterson - *Glenrock Associates – Analyst*

How are you?

Ed Muller - *Mirant - Chairman & CEO*

Good morning, Paul. How are you?

Paul Patterson - *Glenrock Associates – Analyst*

All right. Thanks for all the detail. I wanted to go to Slide 24 for just a second and just go over your coal hedging. It looks to me that the average contact price has gone down quarter-over-quarter for particularly the out years. And I was wondering if you could give some flavor as to what's going on there?

Ed Muller - *Mirant - Chairman & CEO*

Bill, you want to take this?

Bill Holden - *Mirant – CFO*

Well, it may have gone down a little bit. There's not a lot going on there. We had a RFP earlier in the year, and we did some modest coal purchases as a result of that.

Paul Patterson - *Glenrock Associates – Analyst*

Okay. So you just basically layered on some more hedges at a lower price?

Bill Holden - *Mirant – CFO*

Right. We did some modest purchases at the then prevailing prices. And I would say it's in our normal course to have request for proposals for coal purchases several times during the year.

Paul Patterson - *Glenrock Associates – Analyst*

Okay. Because 2013 just seems – it's off a bit, that's all.

Ed Muller - *Mirant - Chairman & CEO*

Well, Paul, if you look at Slide Six, you will see that we added coal in 2013. So you would expect that we are adding at current market prices, which have come down some.

Paul Patterson - *Glenrock Associates – Analyst*

Okay. Great. The second question that I have is basically with the reserve margins. There seemed to be a sharp decline in reserve margins that you guys were projecting for 2013, vis-à-vis the last quarter. I mean it's quite remarkable, particularly for New York East and some of the others. And I was just wondering, what changed there to really drop the number by such a dramatic amount?

Ed Muller - *Mirant - Chairman & CEO*

The biggest change is in New York East. The causes, as we both collect data, which we do constantly, and as we observe what's occurring in the market, we have observed that the imports into New York from PJM and from New England are substantially lower than we had previously thought they would be. And we are seeing this consistently and therefore taking it into account.

Paul Patterson - *Glenrock Associates – Analyst*

So it's a shift of capacity from New York East to PJM, is that correct?

Ed Muller - *Mirant - Chairman & CEO*

It's New England and PJM. These are the facts we're seeing. Figuring out why they come to pass requires some estimation or speculation. And I think probably the best area to think about this in is how the various capacity markets work, how capacity is priced in New England and PJM versus how it is priced in New York.

Paul Patterson - *Glenrock Associates – Analyst*

Okay, thanks a lot.

Ed Muller - *Mirant - Chairman & CEO*

Sure.

Neel Mitra - *Simmons & Company International - Analyst*

Hi. Was the decrease in 2009 guidance due to lower prices from the transmission outage received in Q3, or is any of it based on prospective Q4 earnings?

Ed Muller - *Mirant - Chairman & CEO*

It is all – it is almost all from Q3. It is the transmission outage, the results of the transmission outage, which lasted 27 days and included parts of July and parts of August.

Neel Mitra - *Simmons & Company International - Analyst*

Okay. And then on Page Eight you lay out the reserve margin forecast for PJM East, which is declining pretty consistently. How does the new transmission play into these reserve margin outlooks, since it seems like TrAIL is being built to address some of the reliability issues into the PJM East area?

Ed Muller - *Mirant - Chairman & CEO*

Well, we take into account the transmission lines getting built, and as we do when we have – and as we are required to do - in the various capacity auctions in PJM, we assume that they're going to get built when they say they're going get built. As you know, the reality is that often is not the case. Transmission lines are controversial and subject to regulatory proceedings and political proceedings and so on, but it takes account of those transmission lines coming in.

Neel Mitra - *Simmons & Company International - Analyst*

So you would still expect reserve margins to decline even after a project like TrAIL is built and completed in 2011 or 2012?

Ed Muller - *Mirant - Chairman & CEO*

Yes.

Neel Mitra - *Simmons & Company International - Analyst*

Okay. And then also, it just seems like your proprietary trading has been a pretty strong part of your business in the last two quarters. Can you describe on a high level the reason for the strong results, and maybe just the kind of positions you've been taking? And does any part of the higher 2010 guidance reflect a shift in the realized margins from 2009 to 2010 for that part of the business?

Ed Muller - *Mirant - Chairman & CEO*

I'm going to let Bill speak in a little more detail, but we don't go into the particulars of how we trade. It is proprietary trading. And we are able because of what we do and see with our existing assets to trade successfully. As I said, we are having a particularly good year this year, and we are doing that without changing the risk profile at all. And nor do we intend to change the risk profile. We don't expect the particularly good results we're having this year to continue, but we do expect this business to continue on a regular basis to be a meaningful contributor to the company's results.

Bill Holden - *Mirant - CFO*

The question, Neel, on 2009 versus 2010, can you repeat that?

Neel Mitra - *Simmons & Company International - Analyst*

Yeah. Are you seeing any part of the higher 2010 guidance coming from a shift in realized margins in the proprietary segment business between 2009 and 2010?

Bill Holden - *Mirant – CFO*

No, not really. Not really.

Neel Mitra - *Simmons & Company International - Analyst*

Okay. Thank you very much.

Ed Muller - *Mirant - Chairman & CEO*

Sure.

Ed Muller - *Mirant - Chairman & CEO*

Hey, Rob. How are you?

Robert Howard - *Prospector Partners – Analyst*

I'm doing all right. The question, going back to the coal stuff that Paul was asking about. How much of your coal hedges right now are, I guess sort of the traditional Appalachian coal versus maybe imports from the barge unloader that could be sort of further afield than where you've traditionally gotten them from?

Ed Muller - *Mirant - Chairman & CEO*

We remain overwhelmingly tied to Appalachian coal in those hedges.

Robert Howard - *Prospector Partners – Analyst*

Okay. Have you been looking to try to expand sort of from foreign coal, or that the pricing just doesn't make it worthwhile right now?

Ed Muller - *Mirant - Chairman & CEO*

No, we have been, and we have brought in some Colombian coal, for example. It's important to remember that our boilers, like the boilers for any coal-fired facility, are designed for specific coals. And you can't efficiently just start switching coals around. And so we have brought in some Colombian coal and have been working with how we would mix it and blend it with other coal. One of the things that we have underway at the Morgantown facility is a coal blending facility to enable us to do this more efficiently. So

while we are looking at it, we will be doing that. We do test coals, both financially and technically from a variety of places. We are not making any dramatic changes there.

Robert Howard - *Prospector Partners – Analyst*

Okay. So would it be fair to say that you need to do – you would want to do more testing on your blending ability and such before you committed to making larger forward purchases?

Ed Muller - *Mirant - Chairman & CEO*

It is more that we have done some testing, and we need to have our coal blending facility completed before we can efficiently use more Columbian coal.

Robert Howard - *Prospector Partners – Analyst*

Yeah, yeah. Okay. And then with the CapEx forecast, I noticed there was a further shift compared from the last call to this call for the Maryland Healthy Air Act spending, shifting some more dollars into 2010? Just wanted to see what the reasons might be behind that? I think it was like \$20 million or something?

Ed Muller - *Mirant - Chairman & CEO*

Yeah. It has nothing to do with the construction schedule. It has to do with when billings are made and the structure of the contract which, for example, has payment milestones based on groups of tasks being completed and so on. But in an overall sense, getting this thing done as we are doing is not affected by how that cash is going out.

Robert Howard - *Prospector Partners – Analyst*

Okay. Lastly, with the Marsh Landing Station, I was wondering about how much cash do you sort of feel you need to have on hand to have a nice reserve or cushion to meet the CapEx spending? Because I know for the environmental programs, you said that you wanted to kind of keep a large cash balance up there to make sure you could cover any hiccups and stuff that may come along. Is there a substantial level of cash that you want to have – that you're going to want to have on hand for this project as well?

Ed Muller - *Mirant - Chairman & CEO*

Well, when we look at how much cash we need in the business, we look at an overall assessment of all aspects of the business, and now of course that includes Marsh Landing. And that says how much cash do we need to maintain our credit profile, maintain adequate liquidity, including in a stress case, and what's the outlook for the business. So included in there is what we need for Marsh Landing. We don't break out the pieces, and I'm not going to break out the pieces now. But when I said that we are comfortable with where our balance sheet is, we are very comfortable with it, including in a stressed environment. And

that includes meeting our obligations for Marsh Landing, obligations we are extremely pleased to have.

Robert Howard - Prospector Partners – Analyst

Alright. That's it from me. Thanks.

Ed Muller - Mirant - Chairman & CEO

Thanks, Rob.

Brian Russo – Ladenburg Thalmann – Analyst

Hi. Good morning.

Ed Muller - Mirant - Chairman & CEO

Good morning, Brian. How are you?

Brian Russo – Ladenburg Thalmann – Analyst

Good, thanks. Can you just talk a little bit more about other potential brownfield development opportunities in California? And your comment earlier that longer-term margins out of California will exceed current margins, does that assume anything else besides Marsh Landing?

Ed Muller - Mirant - Chairman & CEO

When I said that our adjusted EBITDA would increase significantly by starting in 2013 from where it is today, I was reflecting exactly what is on Slide Nine. That is, that Potrero will be shutting down, that we will retire Contra Costa Units 6 and 7, and that Marsh Landing will come online into commercial operation. I'm not assuming anything beyond that.

Brian Russo – Ladenburg Thalmann – Analyst

Okay. And have you changed your assumption for expected output in 2010 compared to, say, your last update on the last quarter? Have things changed in the power markets that have given you a reason to run your plants more?

Ed Muller - Mirant - Chairman & CEO

Bill?

Bill Holden - Mirant – CFO

Yeah. I think because power prices are up for 2010, you would see that our expected generation is up by a little as well.

Brian Russo – *Ladenburg Thalmann – Analyst*

Okay. Thank you.

Brandon Blossman – *Tudor Pickering Holt – Analyst*

Good morning, guys.

Ed Muller - *Mirant - Chairman & CEO*

Good morning, Brandon. How are you?

Brandon Blossman – *Tudor Pickering Holt – Analyst*

I am good. I guess to just finish with Marsh Landing, will you ever raise incremental debt against that project, either on a project finance basis or on balance sheet?

Ed Muller - *Mirant - Chairman & CEO*

Our plan is to add project financing debt for that project.

Brandon Blossman – *Tudor Pickering Holt – Analyst*

Okay. And what would be the timing on that?

Ed Muller - *Mirant - Chairman & CEO*

We would expect to be doing that next year.

Brandon Blossman – *Tudor Pickering Holt – Analyst*

Okay. Any permitting milestones that we should be aware of or look for? Or allowance allocations or allowance purchases that need to be done before the project goes in service?

Ed Muller - *Mirant - Chairman & CEO*

Yes. In broad sense we need two things. We need approval – PG&E needs approval of the contract by the California Public Utilities Commission and we need final approvals from the California Energy Commission, and may need some other environmental permits. Nothing that we see as enormous. It's a very good project. It's a very good project environmentally. And we don't expect anything to be of great significance and difficulty, but we have to get everything done and we expect we will get everything done in a timely basis.

Brandon Blossman – Tudor Pickering Holt – Analyst

Okay. Great. Great. Looks like a good project, so congratulations on getting that...

Ed Muller - Mirant - Chairman & CEO

Thank you.

Brandon Blossman – Tudor Pickering Holt – Analyst

Put together.

Ed Muller - Mirant - Chairman & CEO

Thank you.

Brandon Blossman – Tudor Pickering Holt – Analyst

You had mentioned the normalized maintenance CapEx ticking down 20 to 30% on a run rate basis?

Ed Muller - Mirant - Chairman & CEO

Yes.

Brandon Blossman – Tudor Pickering Holt – Analyst

Should there be an expectation of different kind of forced outage rates, or what would be the consequence of that going forward?

Ed Muller - Mirant - Chairman & CEO

We are not and we will not take any significant risk in how we operate these plants. These are out more or less at the margin, and we are looking at them in terms of the economics of the market and where commodity curves are. Taking some risk in terms of how efficiently a unit may run and what its short-term outage rate may be, it seems justified against expenditures. If commodity prices on a sustained basis come back up, I would expect that we would turn around and say these expenditures are now justified. But nothing that should give anybody great concern; they're really out of the margin. Stuff necessary to make these plants run, run efficiently and safely, we do.

Brandon Blossman – Tudor Pickering Holt – Analyst

Okay. So would it be fair to say that we should think about that on a plant-specific basis that it's not spread across the entire fleet?

Ed Muller - Mirant - Chairman & CEO

No. It's across the fleet. I mean we're looking at – and you're seeing an aggregate number there. But don't try and figure out that it's focused at one station or one unit at a station.

Brandon Blossman – Tudor Pickering Holt – Analyst

Okay. Fair enough. Thank you very much. That's all I have.

Ed Muller - Mirant - Chairman & CEO

Okay.

Lasan Johong - RBC Capital Markets - Analyst

Thank you. On Marsh Landing, how much of the capacity is not contracted and gives you ability to do some spot market maneuvering?

Ed Muller - Mirant - Chairman & CEO

None, it is all contracted.

Lasan Johong - RBC Capital Markets - Analyst

100%?

Ed Muller - Mirant - Chairman & CEO

100% for ten years.

Lasan Johong - RBC Capital Markets - Analyst

So it's a tolling contract?

Ed Muller - Mirant - Chairman & CEO

It is a tolling contract for ten years.

Lasan Johong - RBC Capital Markets - Analyst

Okay.

Ed Muller - Mirant - Chairman & CEO

Obviously, the life of the plant is much longer than 10 years.

Lasan Johong - RBC Capital Markets - Analyst

Of course. Any ill effects from coal to gas switching or from wind? – occurred and expected?

Ed Muller - *Mirant - Chairman & CEO*

On wind, no, not in the markets in which we operate. In terms of coal to gas, it's very hard to know given where prices have been for gas and for electricity. We expect that there probably is some happening, and that there is some switching where the most efficient gas units are displacing some of the least-efficient coal units. But we can't sit and say, here it is, and we see it coming exactly.

Bill Holden - *Mirant – CFO*

And Lasan, this is Bill. Just to add one point to Ed's. Your question about any ill effects. Since we're hedged for 2009, the financial effect on the company from any lower generation due to coal to gas switching has been really nil.

Lasan Johong - *RBC Capital Markets - Analyst*

And expectations would be the same going forward?

Bill Holden - *Mirant – CFO*

For 2009. You'll note that we're less hedged in 2010 than we are this year.

Lasan Johong - *RBC Capital Markets - Analyst*

Okay. So – all right. On the Maryland Healthy Air Act, there was some talk and discussion about potentially tightening rules even further. Has – is there any progress been made on that?

Ed Muller - *Mirant - Chairman & CEO*

Tightening rules environmentally?

Lasan Johong - *RBC Capital Markets - Analyst*

Yeah.

Ed Muller - *Mirant - Chairman & CEO*

Not that I'm aware of. And we really have gone here to – on the scrubbers - state-of-the-art controls, and largely the same on the NOx controls. So tightening beyond what is technically available doesn't really seem logical or make sense.

Lasan Johong - *RBC Capital Markets - Analyst*

Okay. Last question from me is, the First Energy move from MISO to PJM, how is that affecting kind of the way you look at the grid? My understanding is it's actually going to make it more tight because there's more load coming versus generation. Is that a shared view that Mirant has, or do you have a different view?

Ed Muller - *Mirant - Chairman & CEO*

No. We have largely the same view. First of all, it hasn't happened yet and so, as with many things when it actually happens, then we'll know what it is. But assuming it does happen, our expectation is that the generation coming in would be a little less than the load coming in, which in terms of the capacity markets would be somewhat of a positive. Hard to say at this point how much of a positive.

Lasan Johong - *RBC Capital Markets - Analyst*

Right. Thank you very much.

Ed Muller - *Mirant - Chairman & CEO*

Sure.

Nitin Dahiya – *Nomura Securities - Analyst*

Good morning.

Ed Muller - *Mirant - Chairman & CEO*

Good morning.

Nitin Dahiya – *Nomura Securities - Analyst*

On the balance sheet, you did mention that you are very comfortable with where it is now. But you probably have excess cash on the balance sheet, especially if Marsh Landing is funded at the project level. And then I see you have the 7 3/8% are callable at the end of the year. So any thoughts on that?

Ed Muller - *Mirant - Chairman & CEO*

Bill, you want to take this?

Bill Holden - *Mirant – CFO*

Yeah. I'll take it two parts. First with respect to whether we believe we have excess cash on the balance sheet. As Ed mentioned, what we continue to look at is the cash requirements for the business based on the criteria that we set out a few years ago. And that includes looking at all of the obligations that the company has, which now includes Marsh Landing. And we also look at cash requirements for the business and different commodity- priced

environments. So we stress prices lower and we stress prices higher. And when we look at it in that context, we think that our cash balances are about right.

The second question had to do with the 7 3/8% MNA notes. Yes, they do become callable next year. I think all I'm prepared to say at this point is we're mindful of all of the maturities that we have coming up over the next two to three, four, four or five years. And we are evaluating the financial markets, and continue to look at and when we think would be the best time to start addressing those.

Nitin Dahiya – *Nomura Securities - Analyst*

Okay. Great. And to the prop trading question, just a clarification. The 2010 guidance, there is a \$41 million delta from '09. I think you said there that that '09 was particularly good. So should we look at 2010 as a normalized profitability level for that business, or is there something else going on?

Bill Holden - *Mirant – CFO*

I think 2010, because we have positions on today that are settling next year, 2010 would be a little bit higher than our normalized expectation. I think a better estimate of the normalized expectation would be \$50 million for proprietary trading and then about \$5 million for fuel oil management.

Nitin Dahiya – *Nomura Securities - Analyst*

Great. Thank you.

Ed Muller - *Mirant - Chairman & CEO*

Jim, are there any other questions there?

Operator

That was our final question, sir. I would like to turn it back over to you for any additional remarks.

Steve Himes - *Mirant - Director, IR*

We'd like to just thank everyone for joining us today, and thank you for your interest in Mirant. If you have any follow up questions, we'll of course be available by the phone later on. Thank you.