

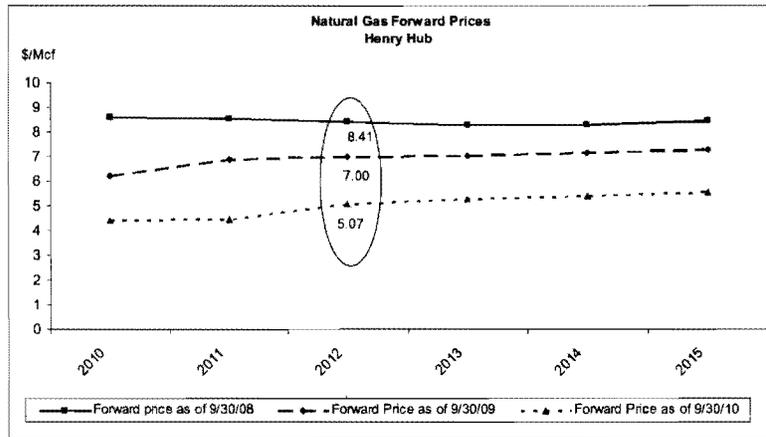


# **22<sup>nd</sup> Annual Global Power Breakfast: The Outlook... 2011 and Beyond**

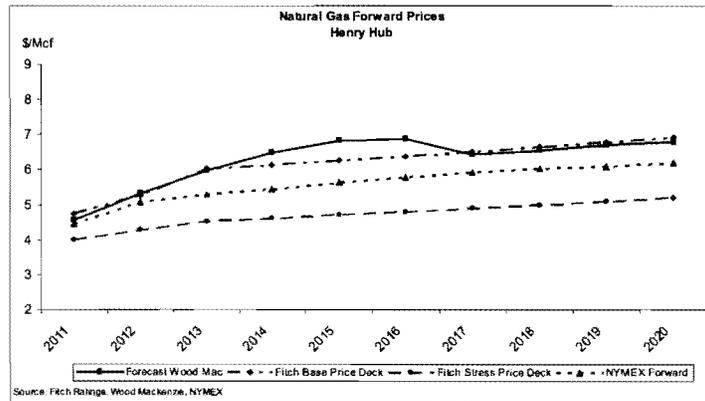
November 1, 2010

JW Marriott Desert Springs  
Resort and Spa

### Sustained Decline in Forward Natural Gas Curve



### Forward Natural Gas Price Expectations



Source: Fitch Ratings, Wood Mackenzie, NYMEX

## Impact of Low Natural Gas Prices Differ by Sub-sector

Sub-sector	Credit Impact
Transmission and Distribution Utilities	Positive
Vertically Integrated Electric Utilities	Stable to Positive
Wholesale Generation Companies	Negative
Electric Retailers	Positive

## Low Commodity Environment Benefits Electric Utilities

- > Relieves pressure on customer bills
- > Generally, leads to less political interference and improved regulatory environment
- > Provides flexibility for utilities to seek non-fuel related rate increases
- > Reduces working capital needs
- > Benefits utilities that do not have the ability to fully recover fuel and purchased power costs
- > Partial offsets:
  - Acts as a disincentive for consumers to conserve
  - Induces risk of disallowance of above-market contracts or hedges

### Sensitivity to Natural Gas Prices: Non-Investment Grade Gencos

Issuer	Hedge Disclosure	Hedge (%)		
		2011	2012	2013
Texas Competitive Electric	Natural gas exposure	91	86	51
NRG	Baseload energy	86	50	31
Calpine	Energy hedge	79	37	na
Mirant	Expected generation	70	35	35
Dynegy	Expected generation	100	25	na
Midwest Generation	Expected generation	47	7	na
RRI Energy	PJM coal energy	44	7	na

Source: Company disclosures and Fitch Ratings

### Credit Implications of Low Gas Prices on Non-Investment Grade Gencos

Current Median Rating: **B**

Current Median Outlook: **Stable**

	Fitch Base Case 2012E	2012E Open Metrics at Natural Gas Price of:			Fitch Guideline Ratios for COR 4 'B' Rated Issuer
		\$5/MMBtu	\$6/MMBtu	\$7/MMBtu	
FFO/Debt (%)	17.5	10.0	13.5	18.5	9.0
Debt/EBITDA (x)	4.0	7.1	4.6	3.4	4.4

## Credit Implications of Low Gas Prices on Investment Grade Gencos

Current Median Rating: BBB/ BBB+

Current Median Outlook: Stable

Hedging Philosophy: 3-Year Rolling

	Fitch Base Case 2012E	2012E Open Metrics at Natural Gas Price of:			Fitch Guideline Ratios for COR 4 'BBB/ BBB+' Rated Issuer
		\$5/MMBtu	\$6/MMBtu	\$7/MMBtu	
FFO/Debt (%)	29.3	18.0	27.3	34.9	30 - 35
Debt/EBITDA (x)	2.7	4.4	3.3	2.4	2.3 - 2.5

## Conclusions

- > **Most gencos face downward pressure on credit metrics as hedges roll-off and gas prices remain low**
  - Non-investment grade gencos have added incentive to consolidate and/or sell assets
  - Investment grade gencos benefit from strong parent/ affiliate linkages and better capital markets access
    - > Mitigants that may keep ratings stable
      - Potential increases in capacity prices
      - Gradually increasing contracted cash flows
      - Managing debt leverage
      - Sale of assets/ consolidation

**Calculating CEA Value with Intangibles Using California Unitary Value Methods\***

NOI & Appraisal Income Projections

	2010	2011	2012	2013	2014	
Adjusted EBITDA	44,133,986	42,755,385	38,706,066	37,921,376	38,014,173	(1)
Less:						
Working Cash Expense	(609,049)	(590,024)	(534,144)	(523,315)	(524,596)	(2)
Cap Replacement Allow	(1,250,000)	(1,250,000)	(1,250,000)	(1,250,000)	(1,250,000)	(3)
Add:						
Property Taxes	2,964,600	2,964,600	2,964,600	2,964,600	2,964,600	(4)
Land Rights Cash Exp	2,943,886	3,057,594	3,281,277	3,408,417	3,540,608	(5)
	<u>48,183,423</u>	<u>46,937,555</u>	<u>43,167,800</u>	<u>42,521,078</u>	<u>42,744,785</u>	
5 Yr Average Appraisal Income					44,710,928	
Remove % of Income Attributed to Nontaxable Assets				42.800%		(6)
5 Yr Average Taxable Income Attributed to Nontaxable Assets				19,136,277		
Cap Rate				18.905%		(7)
Amount of Excludable Income					101,223,365	
CEA Value Indicator with Intangibles					<u>236,503,190</u>	
<b>CEA Value Indicator without Intangibles</b>					<b>136,279,825</b>	

**VALUATION SCENARIOS**

	Value Excluding Intangibles		Value Including Goodwill	
	50/50 Weighting [Lodi]	75/25 Weighting	50/50 Weighting	75/25 Weighting
Repro RCLD Value Indicator	289,661,105	289,661,105	289,661,105	289,661,105
	50%	75%	50%	75%
	<u>144,830,553</u>	<u>217,245,829</u>	<u>144,830,553</u>	<u>217,245,829</u>
CEA Value Indicator	135,279,825	135,279,825	236,503,190	236,503,190
	50%	25%	50%	25%
	<u>67,639,912</u>	<u>33,819,956</u>	<u>118,251,595</u>	<u>59,125,798</u>
<b>Weighed Value</b>	<b><u>212,470,465</u></b>	<b><u>251,065,785</u></b>	<b><u>263,082,148</u></b>	<b><u>276,371,626</u></b>

**Using Unit Value Method**

	50/50 Weighting	75/25 Weighting	
Cost Indicator	507,000,000	507,000,000	
	50%	75%	
	<u>253,500,000</u>	<u>380,250,000</u>	
CEA Value Indicator	227,246,380	227,246,380	
	50%	25%	
	<u>113,623,190</u>	<u>56,811,595</u>	
<b>Weighed Value</b>	<b><u>367,123,190</u></b>	<b><u>437,061,695</u></b>	
Allocation(Taxable %)	57.20%	57.20%	(8)
<b>Taxable Value</b>	<b><u>212,160,492</u></b>	<b><u>252,577,896</u></b>	

\* State of California, Board of Equalization, *Unitary Valuation Methods*, Property and Special Taxes Department, Valuation Division, Revised March 2003

(1) Per Lodi Revised Five-Year Forecast.

(2) Estimated based on % of NOI @1.38%.

(3) Avg of assessee estimated capital replacements (2.5mil to 3.5mil).

(4) Estimated property taxes based on 2009 assessed value and standard prop tax rate.

(5) Per Assessee provided schedule.

(6) Intangibles of \$217.0 Million divided by assets of \$507 million minus 100% [42.80%, balance is taxable at 57.20%].

(7) Total cap rate per BOE 2010 appraisal.

(8) Allocate the unit value to taxable assets by the proportion of taxable assets to all assets