

Ensuring Resource Adequacy in New England: A Financial Community Perspective

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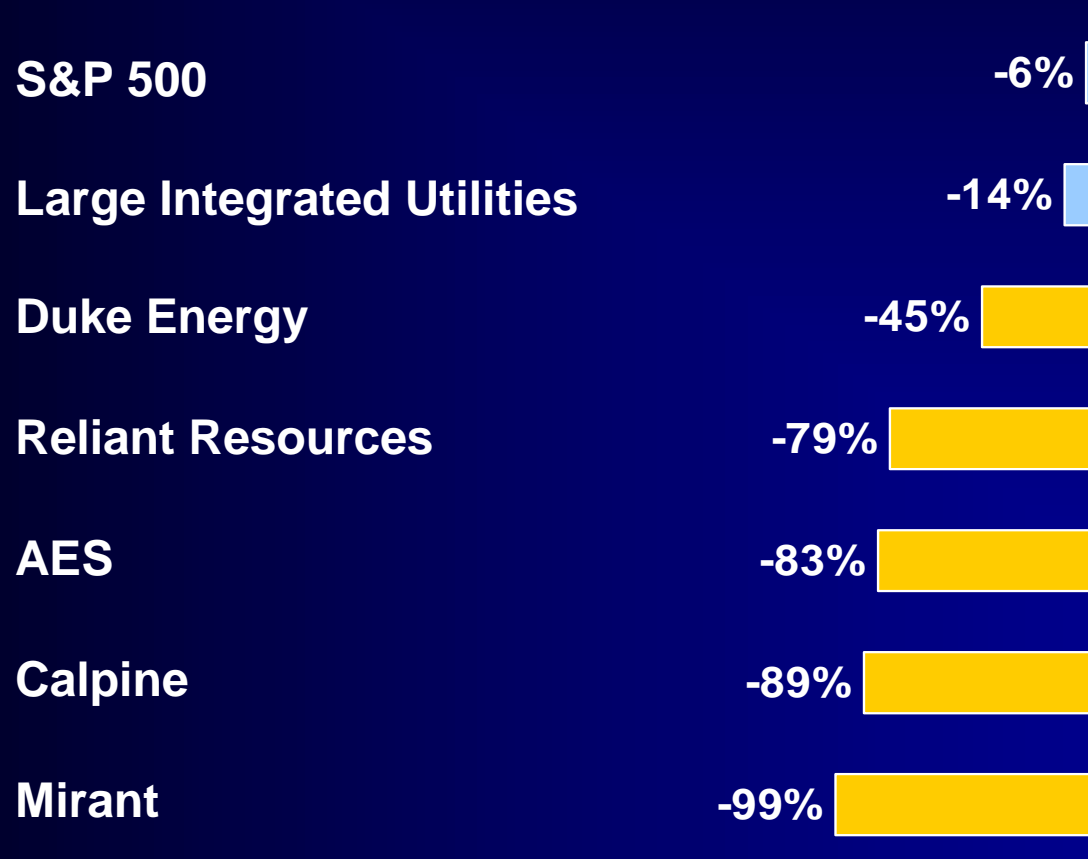


Ensuring Resource Adequacy in New England

- ◆ **The competitive generation sector has experienced severe financial distress over the past two years**
 - **collapse of spark spreads for gas-fired generation**
 - **“free fall” in ratings**
 - **sharp decline in equity value**
- ◆ As a result, few developers are currently in a position to invest in new merchant generation capacity and few (if any) lenders would be willing to finance such investments.
- ◆ Policy makers should use the current period of capacity surplus to develop needed market improvements and build the track record that will be needed to finance future resource additions.

Stock Market Performance of Generators

Total Return to Shareholders 12/29/00 - 12/31/03

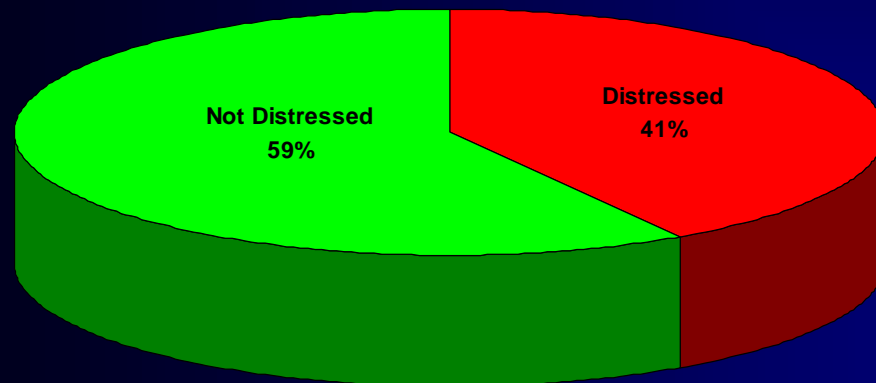


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"Distressed" Generation in New England

New England Generation Capacity
100% = 32,615 MW



"Distressed" Capacity

Developer	MW	Status
PG&E NEG	5,147	In Bankruptcy
Mirant	1,395	In Bankruptcy
NRG	2,154	Emerged from Bankruptcy
Exelon	3,716	Assets to Banks
ANP	1,036	Restructuring
	13,448	

Major New England Plant Additions Since 2000

				Status			
Plant	Developer	MW	Financing	Investment Grade Developer	Developer in Bankruptcy	Restructuring Discussions	Handing Assets to Banks
Maine Independence	Duke Energy	520	Corporate	Yes			
Berkshire	El Paso	272	Project	No			
Tiverton	Calpine	265	Project	No			
Rumford	Calpine	265	Project	No			
Westbrook	Calpine	540	Project Genco	No			
Millennium	PG&E NEG	348	Project Genco	No	X		X
Blackstone	ANP	580	Project Genco	No		X	
Wallingford	PPL	264	Corporate	Yes			
Lake Road	PG&E NEG	790	Project	No	X		X
Kendall Square	Mirant	210	Corporate	No	X		
Londonderry	AES	720	Project	No			
Newington	Con Ed	525	Corporate	Yes			
RISEP	FPL	535	Project	Yes			
Bellingham	ANP	580	Project Genco	No		X	
Milford	El Paso	544	Project	No			
Mystic	Exelon	1600	Project Genco	Yes			X
Fore River	Exelon	800	Project Genco	Yes			X
Total		9,358					

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Key Requirements for Financing New Generation

- ◆ Long-term contracts (at least 5 years)
- ◆ Assurance of counterparty's ability to meet commitments
 - Load-serving entity
 - Solid investment grade rating
 - Significant collateral requirements if drop below IG
- ◆ Track record of more predictable of merchant revenues (e.g., through capacity compensation mechanism)
- ◆ Stable, balanced market and regulatory rules
 - sanctity of contracts
 - symmetrical treatment of suppliers and customers (e.g., no price caps without price floors)

Impact of Contracts on Debt Capacity

Approximate Debt Capacity as % of Construction Cost for New CC*



Contract term of 5-8 years likely to be needed to achieve 50% debt financing

* When new capacity is needed, assuming contract pricing equal to equilibrium market pricing

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