



***Second Quarter 2006  
Earnings Teleconference***

*August 8, 2006*

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# Forward-Looking Statements



*This presentation contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements that contain projections, estimates or assumptions about our revenues, income and other financial items, our plans for the future, future economic performance, transactions and dispositions and financings related thereto. Forward-looking statements relate to future events and anticipated revenues, earnings, business strategies, competitive position or other aspects of our operations or operating results. In many cases you can identify forward-looking statements by terminology such as "anticipate," "estimate," "believe," "continue," "could," "intend," "may," "plan," "potential," "predict," "should," "will," "expect," "objective," "projection," "forecast," "goal," "guidance," "outlook," "effort," "target" and other similar words. However, the absence of these words does not mean that the statements are not forward-looking.*

*We have based our forward-looking statements on management's beliefs and assumptions based on information available to management at the time the statements are made. Actual results may differ materially from those expressed or implied by forward-looking statements as a result of many factors or events, including legislative and regulatory developments, the outcome of pending lawsuits, governmental proceedings and investigations, the effects of competition, financial market conditions, access to capital, the timing and extent of changes in commodity prices and interest rates, weather conditions, changes in our business plan and other factors we discuss in the "Risk Factors" section of our 2005 Form 10-K and the "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Events" section of our second quarter Form 10-Q filed with the Securities and Exchange Commission.*

*Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.*

*This presentation contains non-GAAP measures as defined by the Securities and Exchange Commission rules. A reconciliation of these measures to the most directly comparable GAAP measures is contained herein or within our earnings release and the financial tables attached thereto, which are available, together with this presentation, on our investor relations website at [www.reliant.com/corporate](http://www.reliant.com/corporate). A statement disclosing the utility and purposes of these measures is set forth in Item 2.02 to our Current Report on Form 8-K accompanying the earnings release and is also available on our website.*



## **Opening Remarks**

***Joel V. Staff***

*Chairman and Chief Executive Officer*

*August 8, 2006*

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# 2006 Priorities



<u>Priority</u>	<u>Status</u>
• Fill key open roles	• Complete
• Convert to open wholesale model <ul style="list-style-type: none"><li>— Improve insight into earnings drivers</li><li>— Focus on key valuation metrics</li></ul>	• Complete
• Transition Texas retail market to full competition with competitive margins	• Ahead
• Improve commercial capacity factor	• On track
• Reduce collateral postings by \$1 billion <ul style="list-style-type: none"><li>— Eliminate wholesale hedging to manage earnings volatility</li><li>— Enhanced retail credit structure</li></ul>	• Ahead



## **Financial Review**

***Mark M. Jacobs***  
*Chief Financial Officer*

*August 8, 2006*

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# Summary of Adjusted Results



\$ Millions	<u>Q2 2006</u>	<u>Q2 2005</u>
Open wholesale gross margin	\$ 231	\$ 247
Adjusted retail gross margin	347	244
Other gross margin	-	3
Total open gross margin	<u>578</u>	<u>494</u>
Total adjusted expenses *	320	309
<b>Open EBITDA</b>	<b>\$ 258</b>	<b>\$ 185</b>
Impact of historical wholesale hedges **	(89)	(42)
Gains on sales of assets and emission allowances	<u>5</u>	<u>25</u>
<b>Adjusted EBITDA</b>	<b><u>\$ 174</u></b>	<b><u>\$ 168</u></b>

\* Excludes depreciation and amortization, interest and taxes. Q2 2005 also excludes \$8 MM settlement of shareholder class action lawsuits.

\*\* Historical wholesale hedges were entered into to primarily hedge the economics of our wholesale operations. These amounts primarily relate to settlements of forward power and fuel hedges, long-term tolling purchases, long-term natural gas transportation contracts, storage contracts and our legacy energy trading. These amounts are derived based on methodology consistent with the calculation of open energy gross margin for the wholesale energy segment.

# Wholesale Key Earnings Drivers




	<u>Q2 2006</u>	<u>Q2 2005</u>	<u>Impact (\$ MM)</u>
<b>Economic generation (TWh)</b>	9.7	9.1	\$ 11
<b>Commercial capacity factor</b>	<u>76.3%</u>	<u>77.9%</u>	\$ (5)
<b>Generation volume (TWh)</b>	7.4	7.1	
<b>Unit open energy gross margin (\$/MWh)</b>	<u>\$ 18.68</u>	<u>\$ 20.63</u>	\$ (14)
Open energy gross margin (\$ millions)	\$ 138	\$ 146	
<b>Other margin (\$ millions)</b>	<u>\$ 93</u>	<u>\$ 101</u>	\$ (8)
<b>Total open gross margin</b>	<b>\$ 231</b>	<b>\$ 247</b>	<b>\$ (16)</b>

- Market Metrics
- Performance Metrics

# Retail Key Earnings Drivers



	<u>Q2 2006</u>	<u>Q2 2005</u>	<u>Impact (\$ MM)</u>
Mass volume (TWh)	7.9	7.4	\$ 7
C&I volume (TWh)	<u>10.2</u>	<u>10.1</u>	\$ 0
<b>Total volume (TWh)*</b>	18.1	17.5	
Mass gross margin (\$/MWh)	\$ 34.43	\$ 27.82	\$ 62
C&I gross margin (\$/MWh)	<u>\$ 8.65</u>	<u>\$ 4.03</u>	\$ 47
<b>Weighted average gross margin (\$/MWh)</b>	<u>\$ 19.93</u>	<u>\$ 14.03</u>	
<b>Total adjusted gross margin (\$ millions)**</b>	\$ 347	\$ 244	\$ 103

 Performance Metrics

\* Includes 0.3 TWh of Retail operational volumes associated with a tolling agreement which ended in May 2005. All volumes exclude market usage adjustments.

\*\* Includes market usage adjustments of \$(13) million in Q2 2006 and \$0 in Q2 2005.

# Cash Flow Analysis

\$ Millions

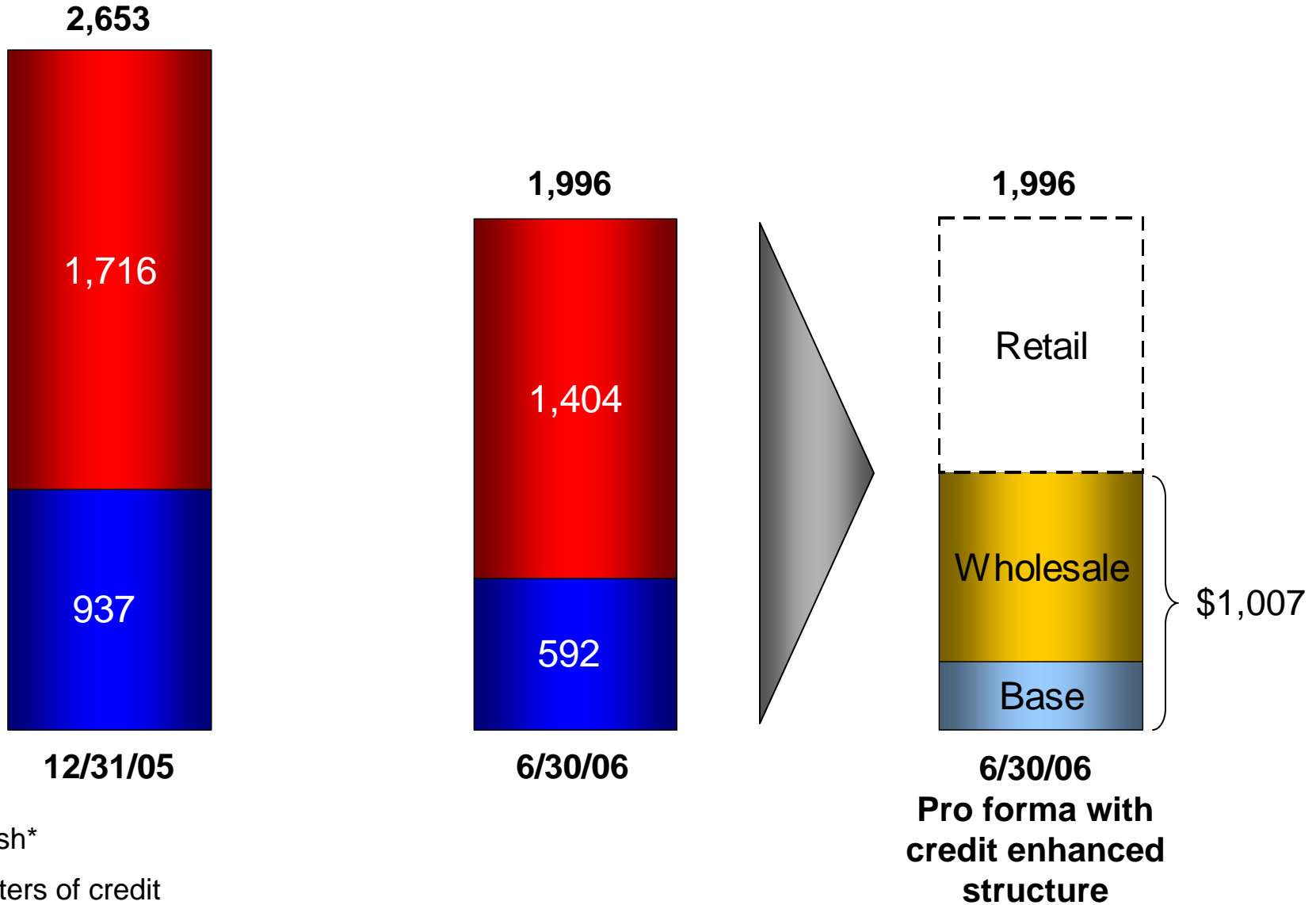


	Six months ended <u>June 30, 2006</u>	Six months ended <u>June 30, 2005</u>
GAAP net cash used in continuing operations from operating activities*	(\$115)	(\$56)
Increase (decrease) in margin deposits, net	(312)	206
Western states and Cornerstone settlement payments	159	-
Capital expenditures	(42)	(33)
<b>Free cash flow provided by (used in) continuing operations before emission allowances activity</b>	<b>(\$310)</b>	<b>\$117</b>
Proceeds from sales of emission allowances	197	70
Purchases of emission allowances	(3)	(89)
<b>Free cash flow provided by (used in) continuing operations after emission allowances activity</b>	<b>(\$116)</b>	<b>\$98</b>

\* Consistent with SEC guidance to the industry, purchases and sales of emission allowances are classified as cash flows from investing activities for GAAP purposes.

# Capital Committed to Collateral

\$ Millions



- Cash\*
- Letters of credit

\* Margin deposits posted by Reliant Energy.

# 2006-2008 Outlook Based on Forward Commodity Prices<sup>1</sup>



\$ Millions	2006E <sup>2</sup>	2007E <sup>2</sup>	2008E <sup>2</sup>
Adjusted retail gross margin	\$ 973	\$ 918	\$ 923
Open wholesale gross margin	1,089	1,262	1,360
Total open gross margin	<u>\$ 2,062</u>	<u>\$ 2,180</u>	<u>\$ 2,283</u>
Total adjusted expenses <sup>3</sup>	<u>\$ 1,191</u>	<u>\$ 1,142</u>	<u>\$ 1,129</u>
<b>Open EBITDA</b>	<b>\$ 871</b>	<b>\$ 1,038</b>	<b>\$ 1,154</b>
Impact of historical wholesale hedges <sup>4</sup>	\$ (420)	\$ (228)	\$ (111)
Gains on sales of emission allowances <sup>5</sup>	<u>156</u>	<u>-</u>	<u>-</u>
Adjusted EBITDA	<u><u>\$ 607</u></u>	<u><u>\$ 810</u></u>	<u><u>\$ 1,043</u></u>
Depreciation and amortization	\$ 302	\$ 288	\$ 283
Emission allowances amortization	76	99	145
Total depreciation and amortization	<u>378</u>	<u>387</u>	<u>428</u>
Interest expense, net	(380) <sup>6</sup>	(304)	(277)
Free cash flow after emission allowances activity <sup>7</sup>	103	147	363

1. Based on actuals through 6/30/2006 and forward commodity prices as of 6/23/06.

2. Certain factors that could affect GAAP financial measures are not accessible on a forward-looking basis, but could be material to future reported earnings.

3. Excludes depreciation and amortization, interest expense and income taxes.

4. Historical wholesale hedges were entered into to primarily hedge the economics of our wholesale operations. These amounts primarily relate to settlements of forward power and fuel hedges, long-term tolling purchases, long-term natural gas transportation contracts, storage contracts and our legacy energy trading. These amounts are derived based on methodology consistent with the calculation of open energy gross margin for the wholesale energy segment.

5. 2006 emission allowances sales through 6/30/2006. No asset or emission allowances sales included in remainder of 2006E, 2007E or 2008E outlook.

6. Does not include write-off of certain existing deferred financing costs or other fees that will be expensed associated with the possible new retail credit enhanced structure.

7. Assumes no changes in working capital.

# Value Proposition



- On track to achieve 2006 priorities
- Improving earnings and cash flow
  - Realization of competitive retail margins
  - Higher dark spreads
  - Historical wholesale hedges roll off
- Upside potential
  - Higher spark spreads
  - Developing capacity markets



## **Appendix**

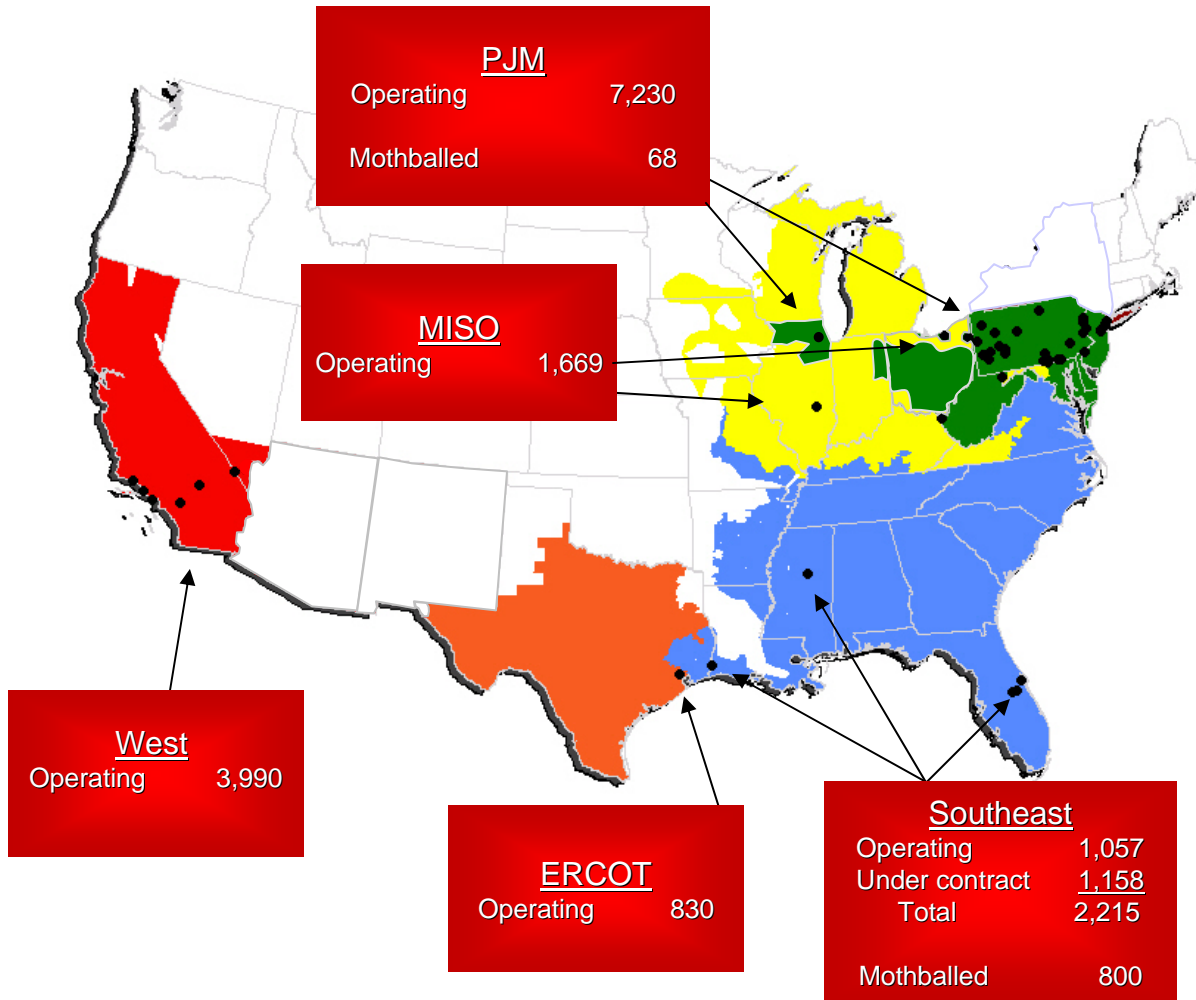
*August 8, 2006*

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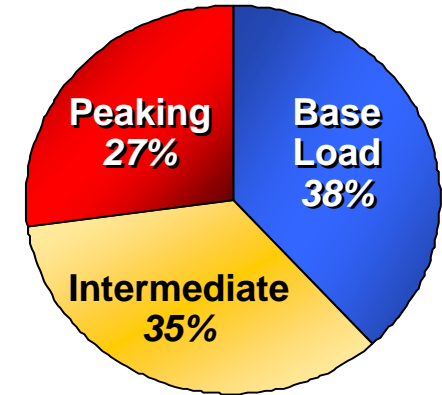
# Wholesale U.S. Generation Portfolio



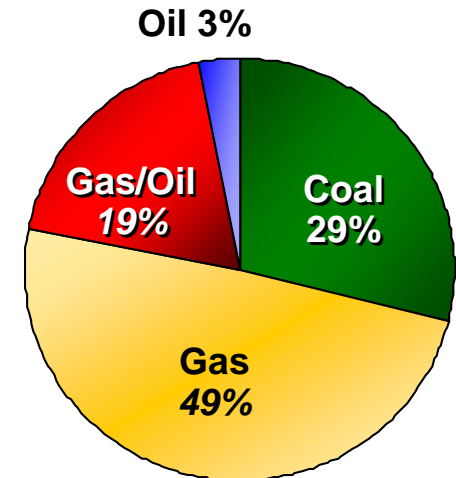
Total capacity 15,934 MW\* as of 6/30/2006  
(Operating and under contract)



**Dispatch Type**  
(% of 15,934 MWs)

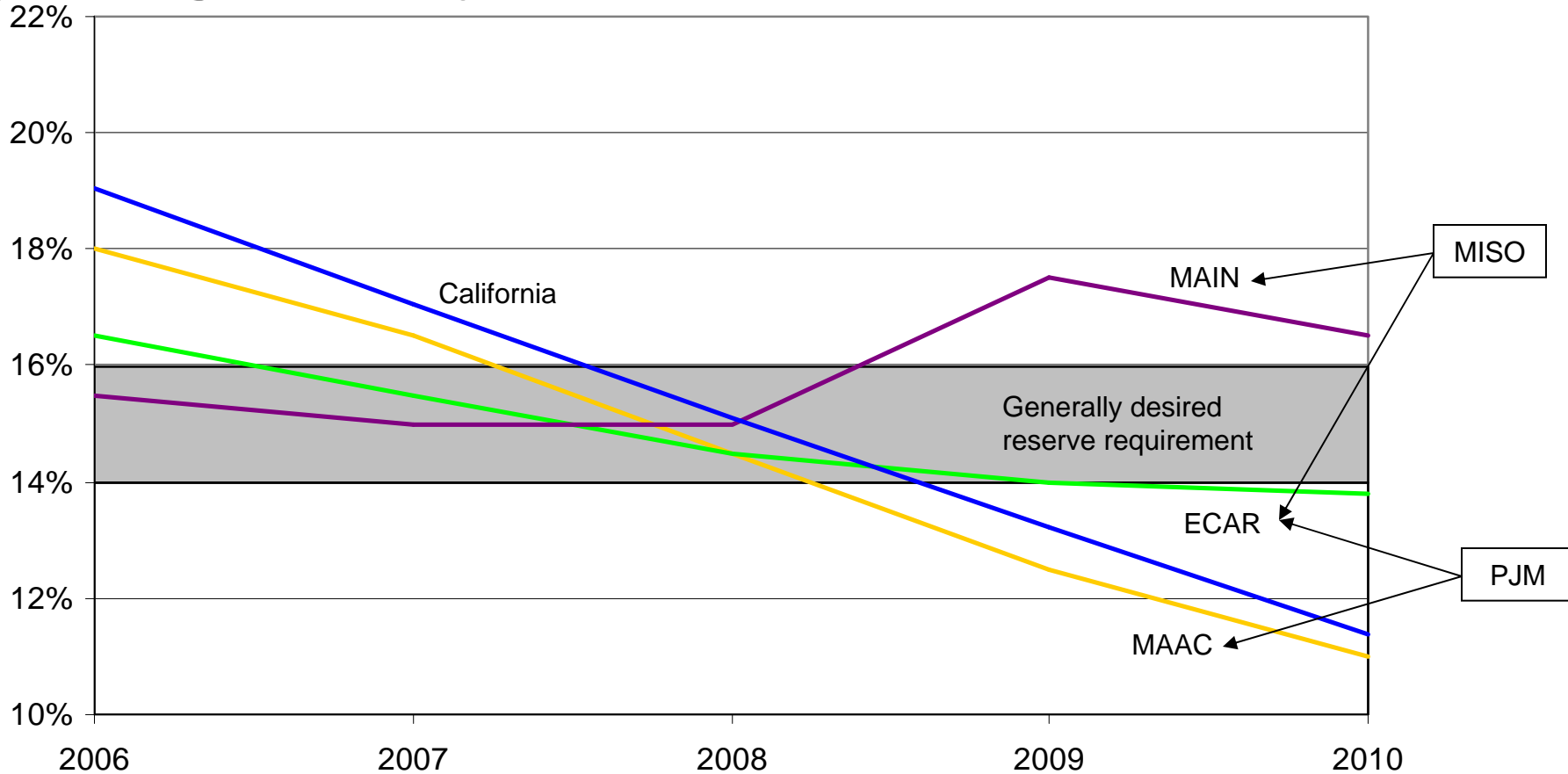


**Fuel Type**  
(% of 15,934 MWs)



\* Excludes retirements and mothball actions

# Supply/Demand Fundamentals Imply a Significant Tightening of Supply for the Next 5+ Years\*



**Reserve margins expected to fall as demand grows, with all regions at or below traditional reliability standards in next 2-4 years**

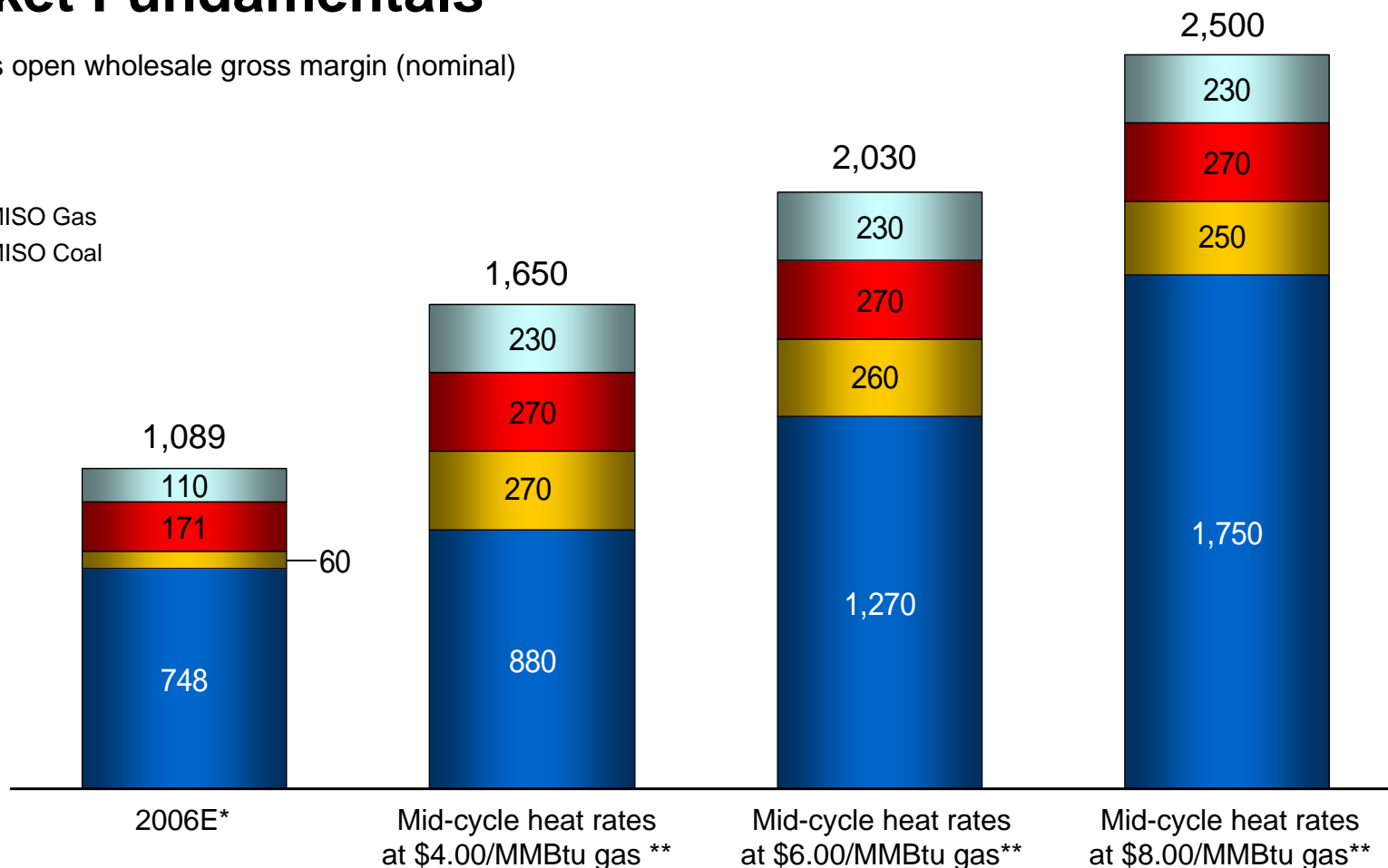
\* Source: Platts (MW Daily Jan 3, 2006), except California, which is based on CEC 4/25/06 "Summer 2006 Electricity Supply and Demand Outlook" with imports adjusted to Reliant estimate of firm out-of-state resources plus 2700MWs of non-firm resources

# Portfolio is Significantly Leveraged to Improved Market Fundamentals



\$ millions open wholesale gross margin (nominal)

- Other
- West
- PJM/MISO Gas
- PJM/MISO Coal

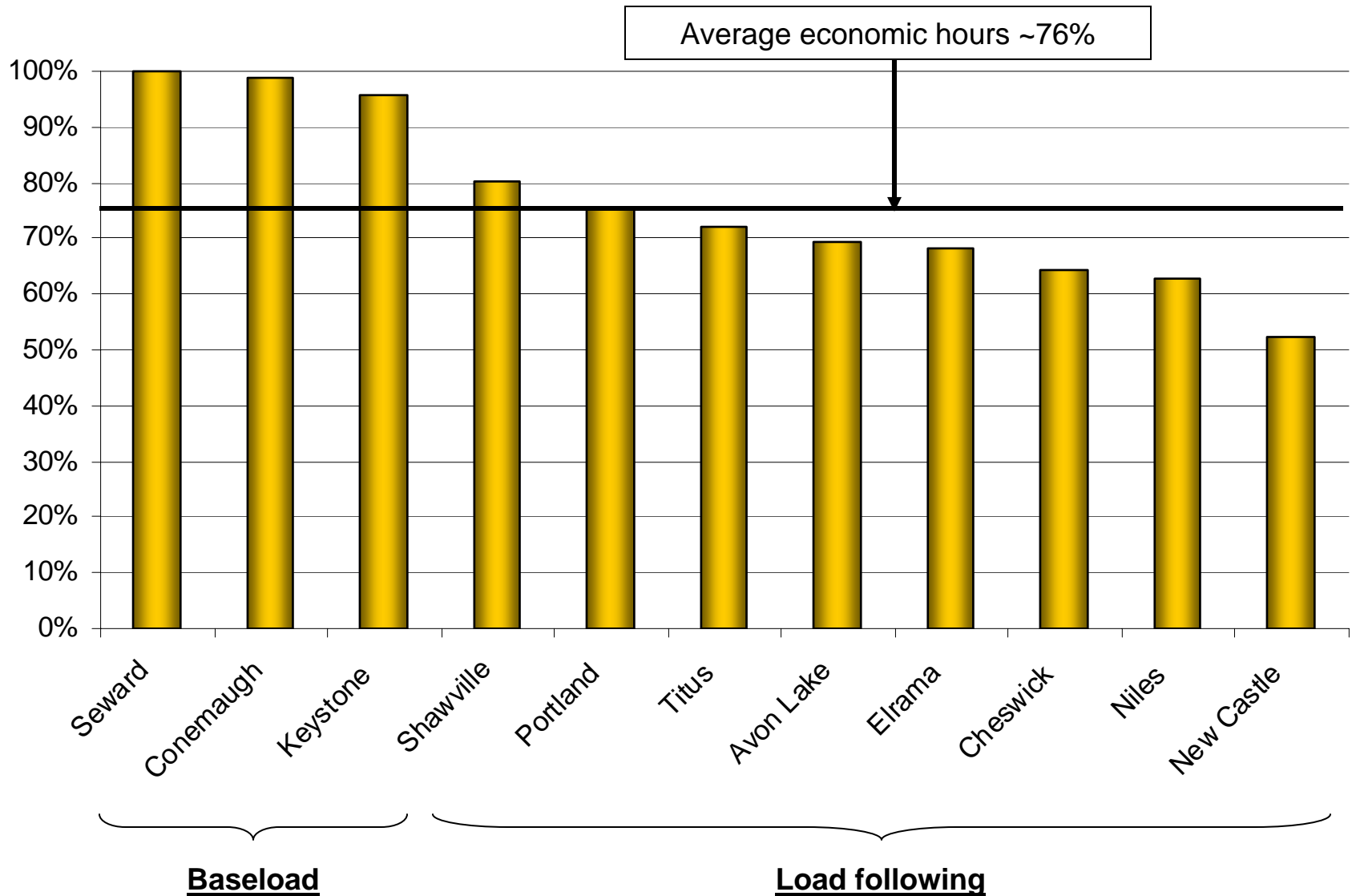


Combination of tightening reserve margins coupled with high natural gas prices provides a period of improved margins

\* Based on actuals through 6/30/2006 and forward commodity prices as of 6/23/06.

\*\* The comparable GAAP financial measures for these items are not accessible on a forward-looking basis. Actual results of operations could vary significantly from estimates. 7.5% required return on new generation.

# 2005 Maximum Coal Economic Generation



# Forward Market Data Used in Outlook\*



	<u>2006</u>	<u>2007</u>	<u>2008</u>
NYMEX (Henry Hub) Natural Gas (\$/MMBtu)	7.27	9.17	8.84
TETCO M3 Natural Gas (\$/MMBtu)	7.92	10.32	10.00
Coal (\$/MMBtu)	1.80	1.84	1.87
SO <sub>2</sub> (\$/ton)	615	614	583
NO <sub>x</sub> (\$/ton)	2,145	1,850	1,650
Avg Plant to Hub Basis - capacity weighted (\$/MWh) (5x16)**	(6.80)	(9.86)	(9.44)
Avg Plant to Hub Basis - simple average (\$/MWh) (5x16)**	(6.01)	(8.41)	(8.09)
PJM WHUB (\$/MWh) (5x16)	65.47	78.54	76.23
CIN HUB (\$/MWh) (5x16)	53.27	62.39	60.89
PJM on-peak 7HR spark spread to TETCO M3 (\$/MWh)	10.03	6.30	6.23
CIN on-peak 7HR spark spread to Dominion South Point (\$/MWh)	(0.08)	(4.45)	(3.70)

\* Forward curves as of June 23, 2006. 2006 data (except SO<sub>2</sub> and NO<sub>x</sub>) includes actual settled values through June plus balance of year forwards.

\*\* Forward plant to hub basis estimated by Reliant Energy utilizing forward market data and historical commodity relationships.

# 2006-2008 Detailed Outlook Based on Forward Commodity Prices<sup>1</sup>



\$ Millions	2006E <sup>2</sup>	2007E <sup>2</sup>	2008E <sup>2</sup>
Adjusted retail gross margin	\$ 973	\$ 918	\$ 923
Retail operation and maintenance	228	217	217
Selling & marketing	131	122	122
Bad debt	88	75	74
Adjusted retail contribution margin	\$ 526	\$ 504	\$ 510
Open wholesale gross margin	\$ 1,089	\$ 1,262	\$ 1,360
Wholesale operation and maintenance	596	601	580
Open wholesale contribution margin	\$ 493	\$ 661	\$ 780
Other general and administrative	156	129	137
Other	3	(1)	(2)
Other Income (Expense)	5	3	3
<b>Open EBITDA</b>	<b>\$ 871</b>	<b>\$ 1,038</b>	<b>\$ 1,154</b>
Historical wholesale hedges			
Power (Closed)	(262)	(40)	(35)
Power (Remaining)	\$ (115)	\$ (198)	\$ (28)
Fuel	35	55	7
Tolling/Other	(78)	(45)	(55)
Impact of historical wholesale hedges <sup>3</sup>	\$ (420)	\$ (228)	\$ (111)
Gains on sales of emission allowances <sup>4</sup>	156	-	-
Adjusted EBITDA	\$ 607	\$ 810	\$ 1,043
Depreciation and amortization	302	288	283
Emission allowances amortization	76	99	145
Total depreciation and amortization	378	387	428
Interest expense, net	(380) <sup>5</sup>	(304)	(277)

1. Based on actuals through 6/30/2006 and forward commodity prices as of 6/23/2006.

2. Certain factors that could affect GAAP financial measures are not accessible on a forward-looking basis, but could be material to future reported earnings

3. Historical wholesale hedges were entered into to primarily hedge the economics of our wholesale operations. These amounts primarily relate to settlements of forward power and fuel hedges, long-term tolling purchases, long-term natural gas transportation contracts, storage contracts and our legacy energy trading. These amounts are derived based on methodology consistent with the calculation of open energy gross margin for the wholesale energy segment.

4. 2006 emission allowances sales through 6/30/2006. No asset or emission allowance sales included in remainder of 2006E, 2007E or 2008E outlook.

5. Does not include write-off of certain existing deferred financing costs or other fees that will be expensed associated with the possible new retail credit enhanced structure.

# Impacts from Historical Wholesale Hedges



\$ Millions

	<u>2006E</u>	<u>2007E</u>	<u>2008E</u>
Historical wholesale hedges <sup>1</sup>			
Power (closed)	\$ (262)	\$ (40)	\$ (35)
Power (remaining)	(115)	(198)	(28)
Fuel <sup>2</sup>	35	55	7
Tolling/other <sup>3</sup>	<u>(78)</u>	<u>(45)</u>	<u>(55)</u>
Total historical wholesale hedges	\$ (420)	\$ (228)	\$ (111)

**NPV<sup>3</sup> of historical wholesale hedges**  
**Jul-06 ~(\$440) million; Jan-07 ~(\$330) million**

1. Historical wholesale hedges were entered into to primarily hedge the economics of our wholesale operations. These amounts primarily relate to settlements of forward power and fuel hedges, long-term tolling purchases, long-term natural gas transportation contracts, storage contracts and our legacy energy trading. Value based on 6/23/06 forward curves.
2. Fuel hedge data excludes Seward.
3. Includes tolling/other hedges that extend from 2009 – 2020; based on 5.62% after-tax debt rate and 38% tax rate.

# Wholesale Generation Detail\*



Economic Generation (TWh in the money)	2006E		2007E		2008E	
	TWh	% Economic	TWh	% Economic	TWh	% Economic
PJM Coal	23.3	79.7%	23.3	79.7%	23.3	79.7%
MISO Coal	7.2	67.9%	7.2	67.9%	7.2	67.9%
Total Coal	30.5	75.9%	30.5	75.9%	30.5	75.9%
PJM/MISO Gas	1.9	3.8%	1.9	3.8%	1.9	3.8%
West	5.4	11.9%	5.4	11.9%	5.4	11.9%
Other	5.9	85.1%	5.9	85.1%	5.9	85.1%
Total Gas/Oil	13.2	20.6%	13.2	20.6%	13.2	20.6%
Total	43.7	42.0%	43.7	42.0%	43.7	42.0%
<b>Commercial Capacity Factor</b>	<b>2006E</b>		<b>2007E</b>		<b>2008E</b>	
PJM Coal	80.0%		82.4%		87.0%	
MISO Coal	85.4%		67.8%		87.6%	
Total Coal	81.3%		78.9%		87.1%	
PJM/MISO Gas	83.9%		85.2%		85.7%	
West*	83.2%		92.4%		93.0%	
Other	91.8%		82.9%		84.2%	
Total Gas/Oil	87.2%		87.1%		88.0%	
Total	83.1%		81.4%		87.4%	
<b>Generation Volume</b>	<b>2006E</b>		<b>2007E</b>		<b>2008E</b>	
PJM Coal	18.6		19.2		20.3	
MISO Coal	6.2		4.9		6.3	
Total Coal	24.8		24.1		26.6	
PJM/MISO Gas	1.6		1.6		1.6	
West	4.5		5.0		5.0	
Other	5.4		4.9		5.0	
Total Gas/Oil	11.5		11.5		11.6	
Total	36.3		35.6		38.2	

\*Excludes PPAs and tolling agreements

# Plant Margins



## Open Unit Margin (\$/MWh)

	<u>2006E</u>	<u>2007E</u>	<u>2008E</u>
PJM Coal	\$ 29.99	\$ 37.02	\$ 35.82
MISO Coal	\$ 23.67	\$ 31.30	\$ 29.82
Total Coal	<u>\$ 28.42</u>	<u>\$ 35.86</u>	<u>\$ 34.47</u>
PJM/MISO Gas	\$ 19.39	\$ 20.09	\$ 17.81
West	\$ 1.04	\$ 1.07	\$ 5.01
Other	\$ 1.34	\$ 10.02	\$ 14.33
Total Gas/Oil	<u>\$ 3.66</u>	<u>\$ 7.51</u>	<u>\$ 10.76</u>
Total	<u><u>\$ 20.57</u></u>	<u><u>\$ 26.69</u></u>	<u><u>\$ 27.26</u></u>

## Open Energy Gross Margin (\$MM)

	<u>2006E</u>	<u>2007E</u>	<u>2008E</u>
PJM Coal	\$ 558	\$ 710	\$ 727
MISO Coal	146	153	189
Total Coal	<u>704</u>	<u>863</u>	<u>916</u>
PJM/MISO Gas	30	32	28
West	5	5	25
Other	7	49	72
Total Gas/Oil	<u>42</u>	<u>86</u>	<u>125</u>
Total	<u><u>\$ 746</u></u>	<u><u>\$ 949</u></u>	<u><u>\$ 1,041</u></u>

## Other Margin (\$MM)

	<u>2006E</u>	<u>2007E</u>	<u>2008E</u>
PJM Coal	\$ 35	\$ 36	\$ 36
MISO Coal	8	8	7
Total Coal	<u>43</u>	<u>44</u>	<u>43</u>
PJM/MISO Gas	30	29	29
West	166	157	163
Other	104	83	84
Total Gas/Oil	<u>300</u>	<u>269</u>	<u>276</u>
Total	<u><u>\$ 343</u></u>	<u><u>\$ 313</u></u>	<u><u>\$ 319</u></u>
Total open wholesale gross margin	<u><u>\$ 1,089</u></u>	<u><u>\$ 1,262</u></u>	<u><u>\$ 1,360</u></u>

# Historical Wholesale Hedge Detail<sup>1</sup>



	<u>2006E</u>	<u>2007E</u>	<u>2008E</u>
<b>Total Closed Hedges (TWh)</b>	14.3	1.9	1.7
Avg Sales Price (\$/MWh)	\$ 47.40	\$ 54.79	\$ 47.84
Avg Buyback Price (\$/MWh)	\$ (65.69)	\$ (76.39)	\$ (69.15)
Total Closed Value (\$MM)	<u>\$ (262)</u>	<u>\$ (40)</u>	<u>\$ (35)</u>
<b>Total Remaining Hedges (TWh)</b>	7.8 <sup>2</sup>	7.7 <sup>2</sup>	1.3 <sup>2</sup>
Avg Hedge Price (\$/MWh)	\$ 42.54	\$ 43.23	\$ 38.15
Current Market Price (\$/MWh)	\$ (57.39)	\$ (69.02)	\$ (59.26)
Other (\$MM)	\$ (0.0)	\$ 0.3	\$ 0.2
Total Remaining Hedge Value (\$MM)	<u>\$ (115)</u>	<u>\$ (198)</u>	<u>\$ (28)</u>
<b>Total Fuel Hedges (million MMBtu)</b> <sup>3</sup>	221	87	17
Avg Hedged Fuel Cost (\$/MMBtu)	\$ 2.00	\$ 1.55	\$ 1.93
Avg Market Fuel Cost (\$/MMBtu)	\$ 2.10	\$ 2.02	\$ 1.98
Fuel Hedge Value (\$MM)	<u>\$ 21</u>	<u>\$ 41</u>	<u>\$ 1</u>
Fuel Inventory Value (\$MM)	<u>\$ 14</u>	<u>\$ 14</u>	<u>\$ 6</u>
Total Fuel Value (\$MM)	<u>\$ 35</u>	<u>\$ 55</u>	<u>\$ 7</u>
<b>Other Hedges</b>			
Tolling/gas transport (\$MM)	<u>\$ (78)</u>	<u>\$ (45)</u>	<u>\$ (55)</u>
<b>Total Hedge Value (\$MM)</b>	<u><u>\$ (420)</u></u>	<u><u>\$ (228)</u></u>	<u><u>\$ (111)</u></u>

1. 2006 based on forward commodity prices as of 6/23/06 plus Q1-Q2 actuals. 2007 and 2008 outlook based on forward commodity prices as of 6/23/06.

Includes closed and remaining power hedges, fuel hedges, long-term tolling purchases, and gas transportation

2. On-peak (5x16) hedge volumes are 50% of the total in 2006, 62% in 2007, and 38% in 2008; the balance are off-peak.

3. Fuel hedge data excludes Seward.

# SO<sub>2</sub> Emission Allowances



Current Position (tons)	Vintage Year				
	2006 <sup>1</sup>	2007	2008	2009	2010-2014
Allowances required for forward sales	98,321	84,557	16,018	12,039	11,768
Current allowances inventory	101,635	86,225	16,175	58,231	359,121 <sup>2</sup>
Excess Inventory	3,314	1,668	157	46,192	347,353
Expected Emissions <sup>3</sup>	138,581	212,153	224,223		

Emissions Allowance Sales Since 9/1/05 <sup>4</sup>	2006	2007	2008	2009	2010
Allowance (tons)	41,202	54,000	136,500	94,444	1,002
Average price (\$/ton)	\$ 982	\$ 1,062	\$ 1,042	\$ 1,080	\$ 311
Total of sales activity (\$MM)	\$ 40	\$ 57	\$ 142	\$ 102	\$ 0

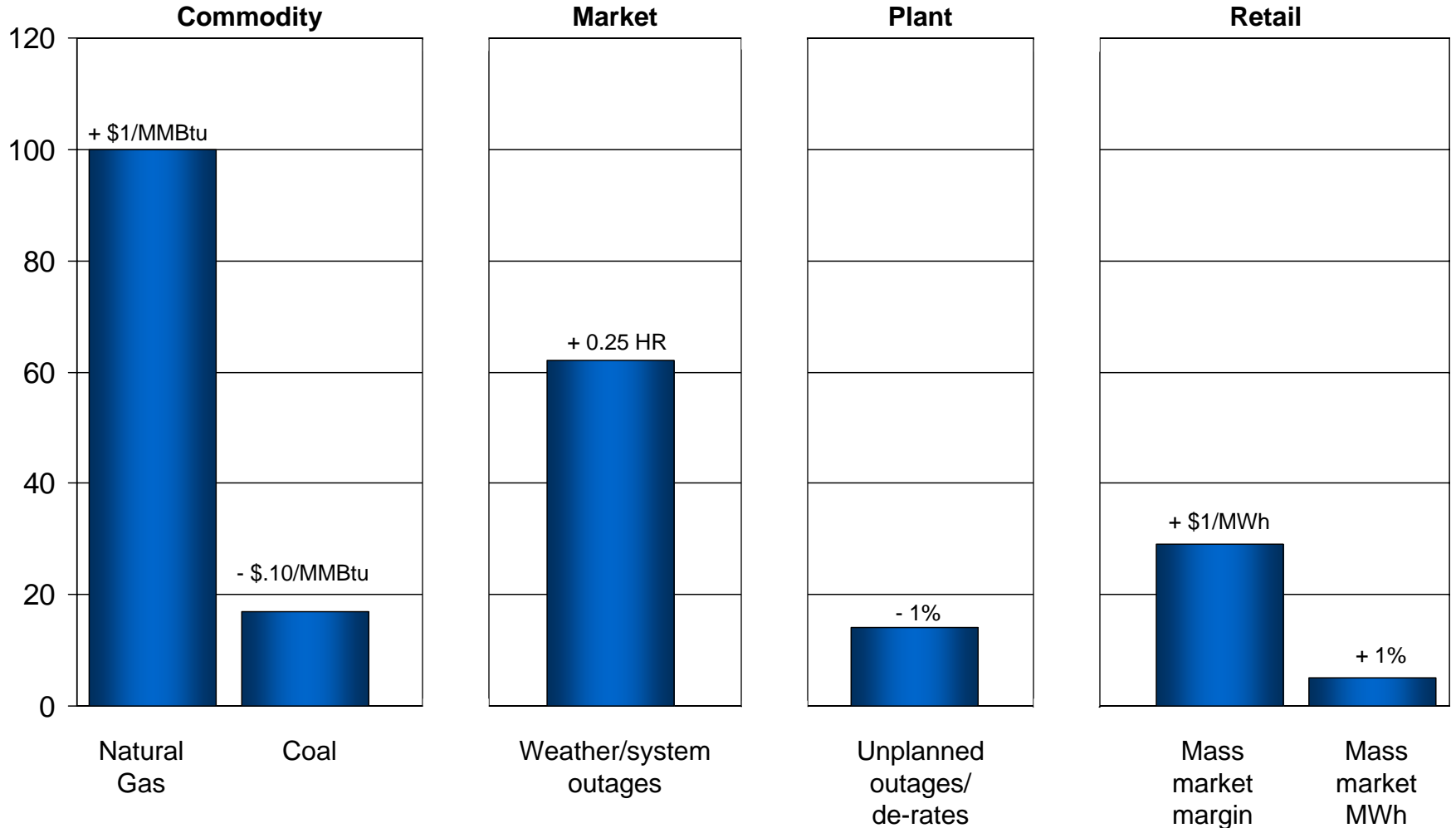
1. 2006 current position data is remaining 6 months 2006.
2. Total allowances are 718,242 for 2010-2014 allowances. Beginning in 2010, 2 allowances are required for 1 ton of emissions.
3. Expected emissions for 2006 is only related to the 6 remaining months.
4. Sales through June 30, 2006.

# Gross Margin Sensitivities\*

\$ Millions



## Wholesale



\* Sensitivities are for annual gross margin

# Simplified Open Wholesale Gross Margin Sensitivity Assumptions\*



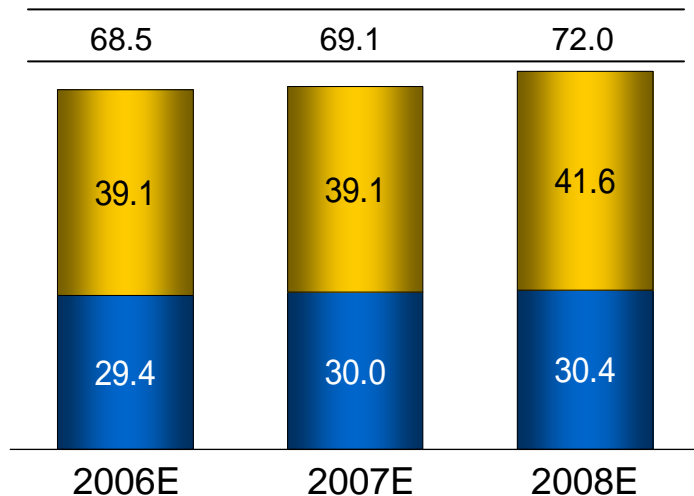
	<u>Gross margin change (\$MM)</u>
<b>Natural gas sensitivity (\$1/mmbtu)</b>	
On-peak power price impact - assumes 8.0 market implied heat rate (MIHR) and all 5x16 hours are affected \$1/mmbtu nat gas change x 8.0mmbtu/MWh on-peak x 4600MW coal x 4160 hrs per year x 85% availability	130
Off-peak power price impact - assumed to be negligible (simplifying assumption)	0
Average on-peak and off-peak plant-to-hub congestion (PJM only) 1.5 mmbtu/MWh (MIHR) congestion per \$1/mmbtu nat gas move x 3300MW coal x 8760hrs x 65% cap factor	(28)
<b>Estimated net gross margin change from \$1 move in natural gas</b>	<b>102</b>
<b>Coal sensitivity (\$0.10/mmbtu)</b>	
On-peak power price impact - assumes are not affected, while costs increase \$0.10/mmbtu coal price move x 10.3 mmbtu/MWh unit heat rate x 4600 MW coal x 4160 hrs x 85% availability	17
Off-peak power price impact - assumes off-peak prices increase in line with coal cost (simplifying assumption)	0
<b>Estimated net gross margin change from \$0.10 move in coal</b>	<b>17</b>
<b>Weather sensitivity (0.25mmbtu/MWh (MIHR))</b>	
Assumes that only on-peak power prices/heat rates are affected, \$10 nat gas, and that coal and CCGTs are in the money throughout the year and that California portfolio is in the money July-Sep	
Coal: 0.25mmbtu/MWh x \$10 nat gas x 4600 MW x 4160 hrs per year x 85% availability	41
CCGTs: 0.25mmbtu/MWh x \$10 nat gas x 1600 MW open x 4160 hrs per year x 90% availability	15
Calif: 0.25mmbtu/MWh x \$10 nat gas x 2500 MW open x 1250 hrs per summer x 85% availability	7
<b>Estimated net gross margin change from 0.25 move in market implied heat rates across year</b>	<b>63</b>

\* May differ from model simulation results because of simplifying assumptions used

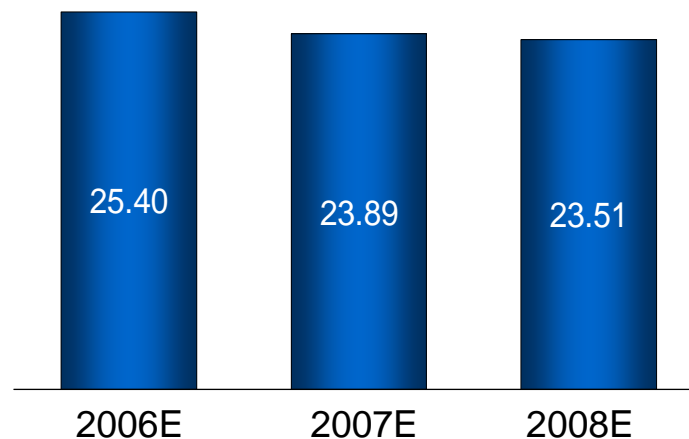
# Retail Key Earnings Drivers



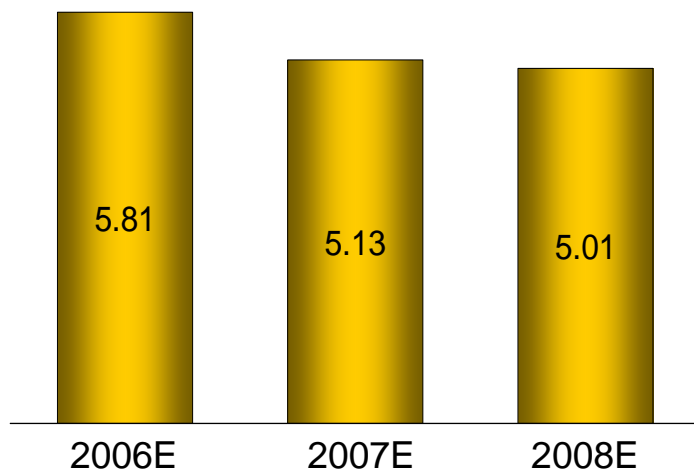
## Volumes (TWh)



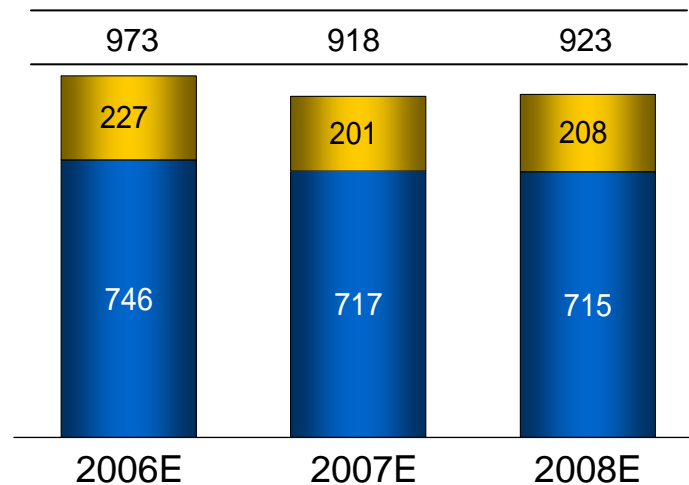
## Mass Margin (\$/MWh)



## C&I Margin (\$/MWh)



## Adjusted Gross Margin (\$MM)



# Reg G Outlook Reconciliation



	2006E	2007E	2008E
<b>Retail Energy:</b>			
Gross margin	\$ 1,229	\$ 974	\$ 957
Unrealized (gains) losses on energy derivatives	(256)	(56)	(34)
Adjusted gross margin	<u>\$ 973</u>	<u>\$ 918</u>	<u>\$ 923</u>
Operation and maintenance	228	217	217
Selling and marketing	131	122	122
Bad debt expense	88	75	74
Adjusted contribution margin - Retail Energy	<u>\$ 526</u>	<u>\$ 504</u>	<u>\$ 510</u>
<b>Wholesale Energy:</b>			
Gross margin	\$ 781	\$ 1,023	\$ 1,234
Unrealized (gains) losses on energy derivatives	(112)	11	15
Historical wholesale hedges	420	228	111
Open gross margin	<u>\$ 1,089</u>	<u>\$ 1,262</u>	<u>\$ 1,360</u>
Operation and maintenance	596	601	580
Open contribution margin - Wholesale Energy	<u>\$ 493</u>	<u>\$ 661</u>	<u>\$ 780</u>
<b>Consolidated:</b>			
Gross margin	2,010	1,997	2,191
Unrealized (gains) losses on energy derivatives	(368)	(45)	(19)
Historical wholesale hedges	420	228	111
Open gross margin	<u>2,062</u>	<u>2,180</u>	<u>2,283</u>
Operation and maintenance	824	818	797
Selling and marketing	131	122	122
Bad debt expense	88	75	74
Open contribution margin - Consolidated	<u>\$ 1,019</u>	<u>\$ 1,165</u>	<u>\$ 1,290</u>
Other general and administrative	(156)	(129)	(137)
Other income (expense), net	8	2	1
Open EBITDA	<u>\$ 871</u>	<u>\$ 1,038</u>	<u>\$ 1,154</u>
Historical wholesale hedges	(420)	(228)	(111)
Gains on sales of assets and emission allowances, net	156	-	-
Adjusted EBITDA	<u>\$ 607</u>	<u>\$ 810</u>	<u>\$ 1,043</u>
Unrealized gains on energy derivatives	368	45	19
EBITDA	<u>\$ 975</u>	<u>\$ 855</u>	<u>\$ 1,062</u>
Depreciation and amortization	(378)	(387)	(428)
Interest expense, net	(380)	(304)	(277)
Income from continuing operations before income taxes	<u>\$ 217</u>	<u>\$ 164</u>	<u>\$ 357</u>