Strategies for Achieving Growth and Meeting Demand M&A vs. Organic Growth in the Nuclear Industry

Prepared for

Women Leaders in the Energy Industry

September 27, 2007

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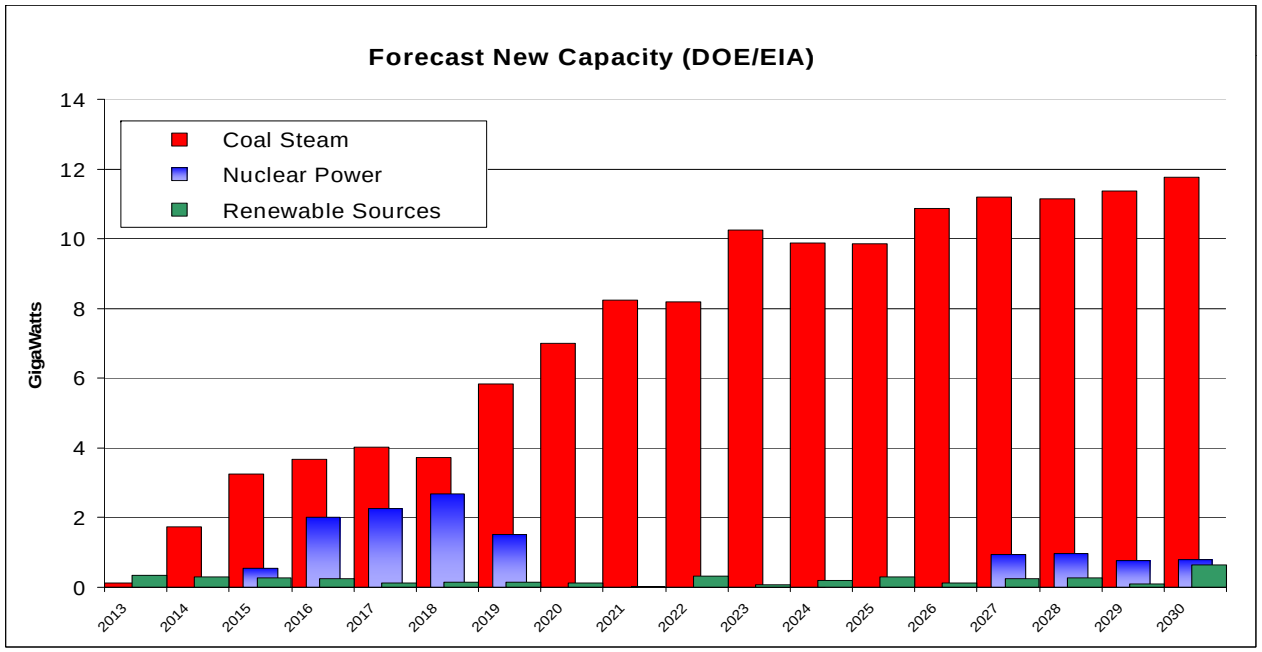
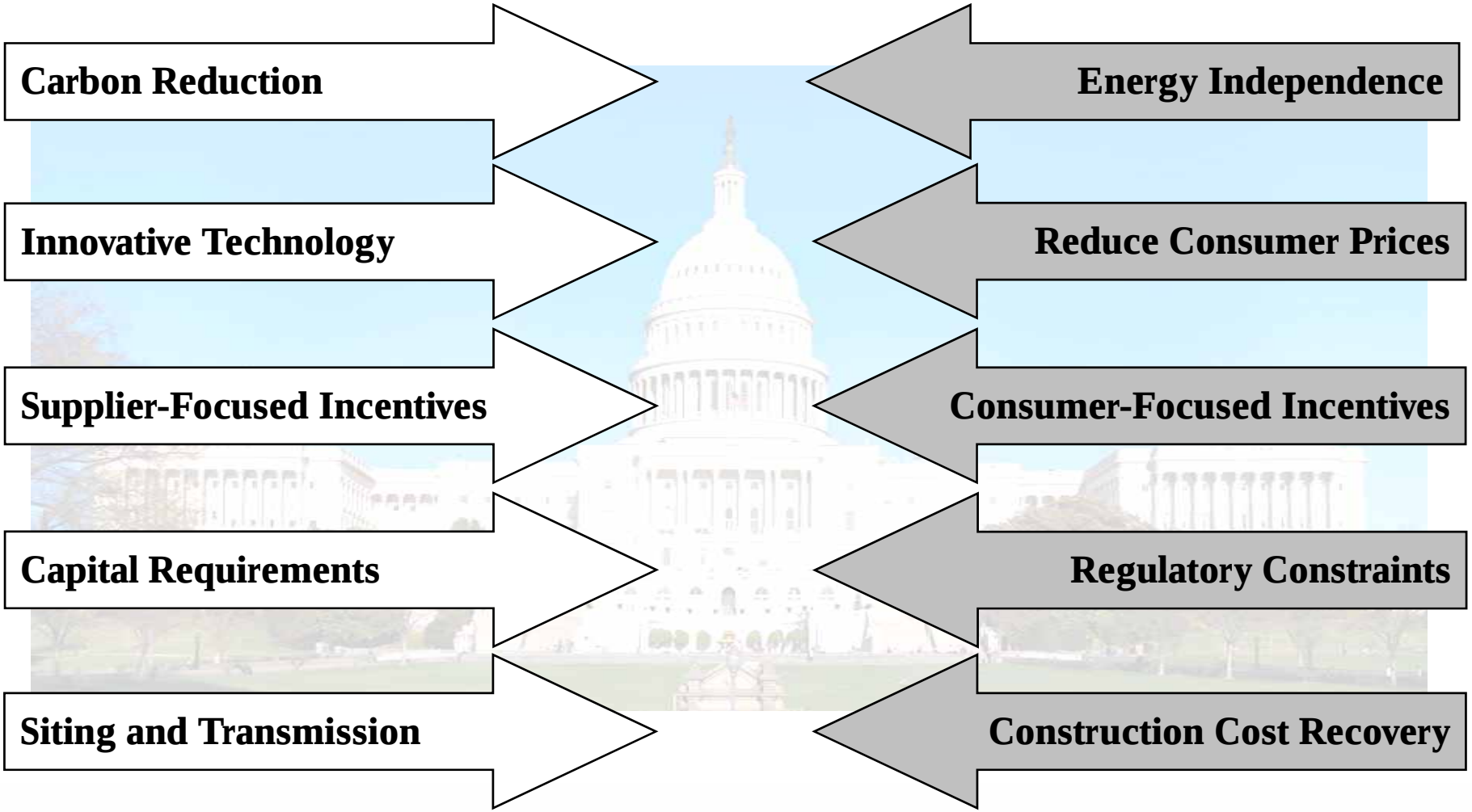
Baseload Capacity Needs & Opportunities to Meet Demand

In order to meet projected energy demand in the coming decades, the US will need to add a significant amount of baseload capacity. While coal has been perceived to be the fuel of choice, there are significant questions as to whether new coal plants can be built given current greenhouse gas concerns.



Challenges Must Be Addressed



These conflicts create additional investment risk

New Nuclear is Emerging

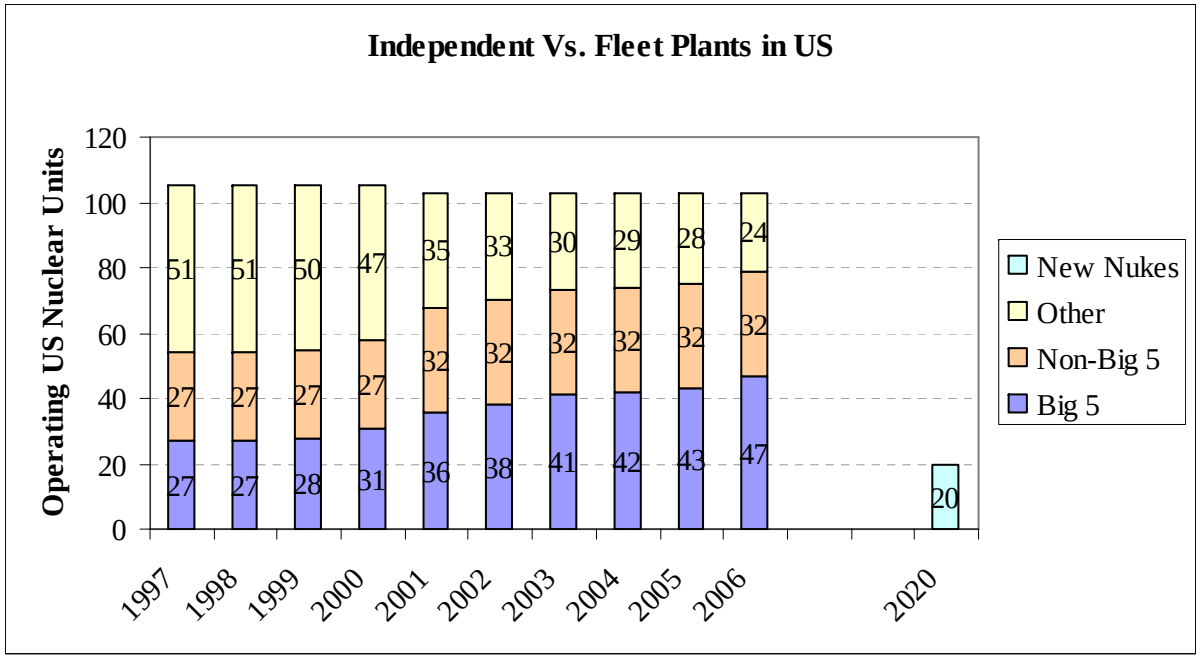
Evolving policies and public opinion has enhanced the value and viability of new nuclear development.

- The Energy Policy Act of 2005 provides economic assistance
- The NRC has streamlined its licensing mechanisms
- Federal policy is likely to shift to limiting carbon emissions
- State and Regional Policies are encouraging reduction in carbon emission
- The most recent survey of public opinion shows the majority favor nuclear energy

Source: Perspective on Public Opinion, Nuclear Energy Institute, 2007

An Example: Nuclear Investment Decisions

Options exist: (1) buy - 27 sales of a nuclear units to a "fleet" owner/operator have occurred over the past decade; (2) contract – the majority of these sales included long-term PPAs for power; (3) build – more than 20 new nuclear plants have been announced. Organic expansion (uprates) help, but aren't sufficient.



A plant is defined as "Independent" if it is not owned by a "Fleet" owner as of 12/31 of the year noted. There are 103 nuclear plants (reactors) in the U. S. Indian Point 1 and Millstone 1 shut down in 2001.

Spectrum of Alternatives

Within the basic options, traditional and non-traditional alternatives are available.

Buy	**Contract**	**Build**
• Auctions • Bi-lateral transactions • Swaps	• Sale of existing interest (100%, partial, operating, non-operating) w. PPA for power • Joint Venture	Individual Consortium Generation Development Option as Part of a Sale

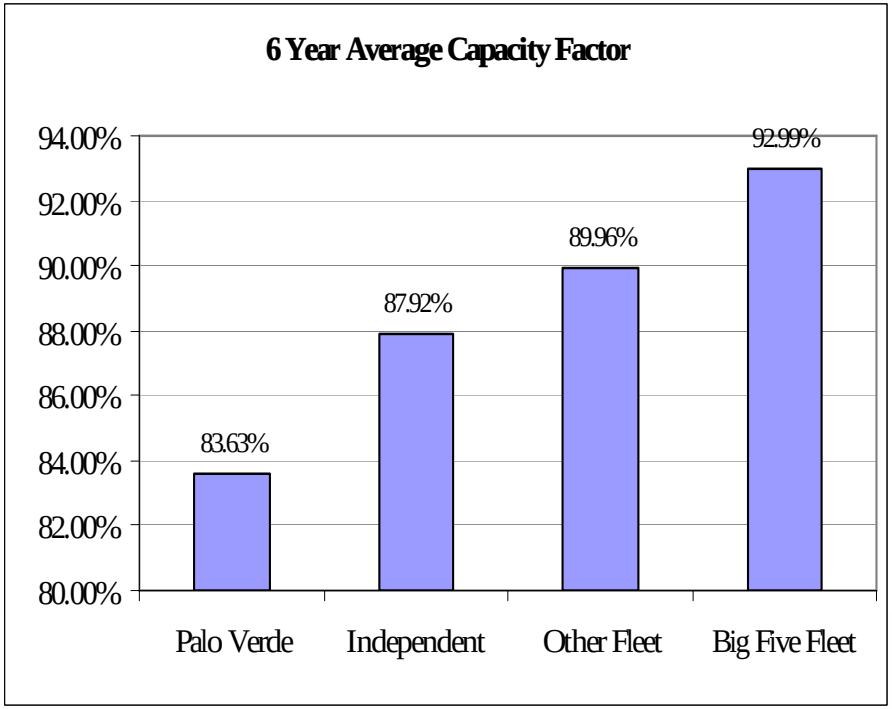
Which alternative to pursue depends on a number of factors, including:

- Strategic Interests
- Financial Capability
- Portfolio Needs
- Operating Experience
- Regulatory and Ratemaking Policies
- Economics
- Public Policy

Transactions as a Growth Initiatives for Both Counterparties

The sale of an existing nuclear interest has significant benefits.

- Seller:
  - "Ownership" of Output and "green" credits
  - Significantly Reduced Risk (operating, financial, other).
  - Decommissioning Benefits (liability transfer, release of funds)
  - Proceeds
  - Future Development
- Buyer:
  - Margin/contributions to earnings
  - Increase scope/scale
  - Platform for future growth
- Both:
  - Improved Operating performance/ increased output



Latest Nuclear M&A Area

Wisconsin Electric Power's sale of Point Beach to a subsidiary of FPL Group, expected to close shortly, is the latest major transaction.

- **Total transaction** for 1,036 MW, two-unit PWR well in excess of ***$1 billion*** sets new high
- **PPA term** is to the life of the existing NRC license *(2030/33)* for 100% plant output at fixed prices, the longest to date. The PPA is structured as energy only, where power is only paid for when produced. There is no capacity charge.
- Significant "trapped" funds to be released from ***decommissioning*** trusts for immediate benefit of customers with full transfer of decommissioning responsibility and liability to the new owner
- Various other ***value-enhancing options*** including a ***generation development option*** and transfer of liabilities

How to Decide?

Company Profile
- Risk/return thresholds
- Core competencies/strategic focus
- Interest in non-traditional alternatives
- Financial considerations (access to capital, equity and debt considerations)
- Other considerations (employee)

Portfolio Assessment
- Summary valuation of existing portfolio
- Assessment of portfolio options and composition

Structural Alternatives Assessment
- Identification of viable structural options (operation, JV, lease, swap, acquisition – full or partial, term of PPA)
- Potential terms of various alternatives
- Ownership structures

Strategic Assessment
- Company profile
- Portfolio Assessment
- Structural Alternatives
- Potential Target Identification
- Valuation and Due Diligence Considerations
- Market Assessment
- Conclusions

Potential Target (acquisition or counterparty) Identification
- Identification
- Assessment of target and "fit"
- Regulatory assessment
- Financial assessment

Valuation and Due Diligence Considerations
- Plant revenues and costs, operating characteristics
- Key considerations - decommissioning, workforce, environmental, real estate, SNF, regulatory, etc.
- Power markets review
- Preliminary valuation
- Preliminary due diligence requests

Market Assessment
- Comparable transactions
- Buyers of nuclear generation assets
- Industry issues
- Performance of stations vis-à-vis comparison group