

MIRANT CORP
Form 10-K
February 29, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2007

Or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from to

Mirant Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

001 16107
(Commission File Number)

20-3538156
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

1155 Perimeter Center West, Suite 100, Atlanta,
Georgia

(Address of Principal Executive Offices)

30338
(Zip Code)

(678) 579 5000
(Registrant's Telephone Number, Including Area Code)

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange
Series A Warrants	New York Stock Exchange
Series B Warrants	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant is a well-known seasoned issuer (as defined by Rule 405 of the Securities Act). Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, and accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer

Non-accelerated Filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

Aggregate market value of voting stock held by non-affiliates of the registrant was approximately \$10,915,832,854 on June 30, 2007 (based on \$42.65 per share, the closing price in the daily composite list for transactions on the New York Stock Exchange that day). As of February 25, 2008, there were 213,989,279 shares of the registrant's Common Stock, \$0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for the 2008 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K to the extent described herein.

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Glossary of Certain Defined Terms

APB Accounting Principles Board.

APB 18 APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stocks*.

APB 22 APB Opinion No. 22, *Disclosure of Accounting Policies*.

APSA Asset Purchase and Sale Agreement dated June 7, 2000, between the Company and Pepco.

Bankruptcy Code United States Bankruptcy Code.

Bankruptcy Court United States Bankruptcy Court for the Northern District of Texas, Fort Worth Division.

Baseload Generating Units Units that satisfy minimum baseload requirements of the system and produce electricity at an essentially constant rate and run continuously.

CAIR Clean Air Interstate Rule.

CAISO California Independent System Operator.

Cal PX California Power Exchange.

CAMR Clean Air Mercury Rule.

CERCLA Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980.

Clean Air Act Federal Clean Air Act.

Clean Water Act Federal Water Pollution Control Act.

CO₂ Carbon dioxide.

Company Old Mirant prior to January 3, 2006, and new Mirant on or after January 3, 2006.

CPUC California Public Utilities Commission.

DOE United States Department of Energy.

DWR California Department of Water Resources.

EBITDA Earnings before interest, taxes, depreciation and amortization.

EITF The Emerging Issues Task Force formed by the Financial Accounting Standards Board.

EITF 02-3 EITF Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*.

EITF 06-3 EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*.

EOB California Electricity Oversight Board.

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EPA United States Environmental Protection Agency.

EPAct 2005 Energy Policy Act of 2005.

EPS Earnings per share.

ERISA Employee Retirement Income Security Act of 1974.

FASB Financial Accounting Standards Board.

FERC Federal Energy Regulatory Commission.

FIN FASB Interpretation.

FIN 39 FIN No. 39, Offsetting of Amounts Related to Certain Contracts.

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FIN 45 FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others An Interpretation of FASB Statements Nos. 5, 57, and 107 and Rescission of FASB Interpretation No. 34.*

FIN 46R FIN No. 46R, *Consolidation of Variable Interest Entities (revised December 2003) an Interpretation of Accounting Research Bulletin No. 51.*

FIN 47 FIN No. 47, *Accounting for Conditional Asset Retirements an interpretation of FASB Statement No. 143.*

FIN 48 FIN No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.*

FSP FASB Staff Position.

FSP FIN 39-1 FSP FIN No. 39-1, *Amendment of FASB Interpretation No. 39 (FIN 39).*

FSP FIN 46R-6 FSP FIN No. 46R-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46R.*

FSP FIN 48-1 FSP FIN No. 48-1, *Definition of Settlement in FASB Interpretation No. 48 (FIN 48).*

GAAP Generally accepted accounting principles in the United States.

Gross Margin Operating revenue less cost of fuel, electricity and other products.

Hudson Valley Gas Hudson Valley Gas Corporation.

IBEW International Brotherhood of Electrical Workers.

InterContinental Exchange InterContinental Exchange, Inc.

Intermediate Generating Units Units that meet system requirements that are greater than baseload and less than peaking.

ISO Independent System Operator.

ISO-NE Independent System Operator-New England.

JPS Jamaica Public Service Company Limited.

kW Kilowatt.

LIBOR London InterBank Offered Rate.

LTSA Long-term service agreement.

MAAC Mid-Atlantic Area Council.

MC Asset Recovery MC Asset Recovery, LLC.

MDE Maryland Department of the Environment.

Mirant Old Mirant prior to January 3, 2006, and New Mirant on or after January 3, 2006.

Mirant Americas Mirant Americas, Inc.

Mirant Americas Energy Marketing Mirant Americas Energy Marketing, LP.

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Mirant Americas Generation Mirant Americas Generation, LLC.

Mirant Asia-Pacific Mirant Asia-Pacific Limited.

Mirant Bowline Mirant Bowline, LLC.

Mirant Chalk Point Mirant Chalk Point, LLC.

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Mirant Delta Mirant Delta, LLC.

Mirant Energy Trading Mirant Energy Trading, LLC.

Mirant Lovett Mirant Lovett, LLC.

Mirant Mid-Atlantic Mirant Mid-Atlantic, LLC and its subsidiaries.

Mirant New York Mirant New York, Inc.

Mirant North America Mirant North America, LLC.

Mirant NY-Gen Mirant NY-Gen, LLC.

Mirant Pagbilao Mirant Pagbilao Corporation.

Mirant Potomac River Mirant Potomac River, LLC.

Mirant Power Purchase Mirant Power Purchase, LLC.

Mirant Services Mirant Services, LLC.

Mirant Sual Mirant Sual Corporation.

Mirant Trinidad Investments Mirant Trinidad Investments, LLC.

MISO Midwest Independent Transmission System Operator.

MW Megawatt.

MWh Megawatt hour.

NAAQS National ambient air quality standards.

NEPOOL New England Power Pool.

NERC North American Electric Reliability Council.

Net Capacity Factor The average production as a percentage of the potential net dependable capacity used over a year.

New Mirant Mirant Corporation on or after January 3, 2006.

NOL Net operating loss.

NOV Notice of violation.

NOx Nitrogen oxides.

NPCC Northeastern Power Coordinating Council.

NSR New source review.

NYISO Independent System Operator of New York.

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NYSDEC New York State Department of Environmental Conservation.

NYSE New York Stock Exchange.

Old Mirant MC 2005, LLC, known as Mirant Corporation prior to January 3, 2006.

Orange and Rockland Orange and Rockland Utilities, Inc.

OTC Over-the-Counter.

Ozone Season The period between May 1 to September 30 of each year, during which ozone levels are reported to the EPA.

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Peaking Generating Units Units used to meet demand requirements during the periods of greatest or peak load on the system.

Pension Protection Act Pension Protection Act of 2006.

Pepco Potomac Electric Power Company.

Petition Date July 14, 2003, the date Mirant and certain of its subsidiaries filed voluntary petitions for relief with the Bankruptcy Court.

PG&E Pacific Gas & Electric Company.

PJM Pennsylvania-New Jersey-Maryland Interconnection, LLC.

Plan The plan of reorganization that was approved in conjunction with the Company's emergence from bankruptcy protection on January 3, 2006.

PM2.5 Particulate matter that is 2.5 microns or less in size.

PPA Power purchase agreement.

PUHCA Public Utility Holding Company Act of 1935.

Reserve Margin Excess capacity over peak demand.

RMR Reliability-must-run.

RTO Regional Transmission Organization.

SAB SEC Staff Accounting Bulletin.

SAB 107 SAB No. 107, *Share-Based Payment*.

SAB 108 SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*.

SAB 110 SAB No. 110, *Share-Based Payment* an amendment of SAB No. 107.

SEC U.S. Securities and Exchange Commission.

Securities Act Securities Act of 1933, as amended.

SFAS Statement of Financial Accounting Standards.

SFAS 5 SFAS No. 5, *Accounting for Contingencies*.

SFAS 109 SFAS No. 109, *Accounting for Income Taxes*.

SFAS 123 SFAS No. 123, *Accounting for Stock-Based Compensation*.

SFAS 123R SFAS No. 123R, *Share-Based Payment*.

SFAS 132R SFAS No. 132R, *Employers' Disclosures about Pensions and Other Postretirement Benefits* an amendment of FASB Statements Nos. 87, 88 and 106.

SFAS 133 SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

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SFAS 143 SFAS No. 143, *Accounting for Asset Retirement Obligations*.

SFAS 144 SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

SFAS 153 SFAS No. 153, *Exchanges of Nonmonetary Assets* an amendment of APB Opinion No. 29.

SFAS 155 SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* an amendment of FASB Statements Nos. 133 and 140.

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SFAS 156 SFAS No. 156, *Accounting for Servicing of Financial Assets* an amendment of FASB Statement No. 140.

SFAS 157 SFAS No. 157, *Fair Value Measurements*.

SFAS 158 SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans: an amendment of FASB Statements Nos. 87, 88, 106 and 132R*.

SFAS 159 SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No 115*.

Shady Hills Shady Hills Power Company, L.L.C.

SO2 Sulfur dioxide.

SOP 90-7 Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*.

The Tokyo Electric Power Company The Tokyo Electric Power Company, Incorporated.

UWUA Utility Workers Union of America.

VaR Value-at-risk.

VIE Variable interest entity.

Virginia DEQ Virginia Department of Environmental Quality.

WECC Western Electric Coordinating Council.

West Georgia West Georgia Generating Company, L.L.C.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

In addition to historical information, the information presented in this Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve known and unknown risks and uncertainties and relate to future events, our future financial performance or our projected business results. In some cases, one can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, estimate, predict, or continue or the negative of these terms or other comparable terminology.

Forward-looking statements are only predictions. Actual events or results may differ materially from any forward-looking statement as a result of various factors, which include:

legislative and regulatory initiatives regarding deregulation, regulation or restructuring of the industry of generating, transmitting and distributing electricity (the electricity industry); changes in state, federal and other regulations affecting the electricity industry (including rate and other regulations); changes in, or changes in the application of, environmental and other laws and regulations to which we and our subsidiaries and affiliates are or could become subject;

failure of our plants to perform as expected, including outages for unscheduled maintenance or repair;

changes in market conditions, including developments in the supply, demand, volume and pricing of electricity and other commodities in the energy markets; changes in credit standards of market participants or the extent and timing of the entry of additional competition in our markets or those of our subsidiaries and affiliates;

increased margin requirements, market volatility or other market conditions that could increase our obligations to post collateral beyond amounts that are expected;

our inability to access effectively the over-the-counter and exchange-based commodity markets or changes in commodity market liquidity or other commodity market conditions, which may affect our ability to engage in asset management and proprietary trading activities as expected, or result in material extraordinary gains or losses from open positions in fuel oil or other commodities;

deterioration in the financial condition of our counterparties and the resulting failure to pay amounts owed to us or to perform obligations or services due to us beyond collateral posted;

hazards customary to the power generation industry and the possibility that we may not have adequate insurance to cover losses as a result of such hazards;

price mitigation strategies employed by ISOs or RTOs that reduce our revenue and may result in a failure to compensate our generating units adequately for all of their costs;

changes in the rules used to calculate capacity and energy payments;

volatility in our gross margin as a result of our accounting for derivative financial instruments used in our asset management activities and volatility in our cash flow from operations resulting from working capital requirements, including collateral, to support

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our asset management and proprietary trading activities;

our inability to enter into intermediate and long-term contracts to sell power and procure fuel, including its transportation, on terms and prices acceptable to us;

the inability of our operating subsidiaries to generate sufficient cash flow to support our operations;

our ability to borrow additional funds and access capital markets;

strikes, union activity or labor unrest;

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weather and other natural phenomena, including hurricanes and earthquakes;

the cost and availability of emissions allowances;

our ability to obtain adequate supply and delivery of fuel for our facilities;

curtailment of operations due to transmission constraints;

environmental regulations that restrict our ability or render it uneconomic to operate our business, including regulations related to the emission of carbon dioxide and other greenhouse gases;

our inability to complete construction of emissions reduction equipment by January 2010 to meet the requirements of the Maryland Healthy Air Act, which may result in reduced unit operations and reduced cash flows and revenues from operations;

war, terrorist activities or the occurrence of a catastrophic loss;

our consolidated indebtedness and the possibility that we or our subsidiaries may incur additional indebtedness in the future;

restrictions on the ability of our subsidiaries to pay dividends, make distributions or otherwise transfer funds to us, including restrictions on Mirant North America contained in its financing agreements and restrictions on Mirant Mid-Atlantic contained in its leveraged lease documents, which may affect our ability to access the cash flow of those subsidiaries to make debt service and other payments; and

the disposition of the pending litigation described in this Form 10-K.

Many of these risks are beyond our ability to control or predict. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by cautionary statements contained throughout this report. Because of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. Furthermore, forward-looking statements speak only as of the date they are made.

Factors that Could Affect Future Performance

We undertake no obligation to update publicly or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

In addition to the discussion of certain risks in Management's Discussion and Analysis of Results of Operations and Financial Condition and the accompanying Notes to Mirant's consolidated financial statements, other factors that could affect our future performance (business, financial condition or results of operations and cash flows) are set forth under Item 1A. Risk Factors.

Certain Terms

As used in this report, we, us, our, the Company and Mirant refer to Mirant Corporation and its subsidiaries, unless the context requires otherwise. Also, as used in this report we, us, our, the Company and Mirant refer to Old Mirant prior to January 3, 2006, and to New Mirant or after January 3, 2006, as further discussed in Item 1. Business.

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PART I

Item 1. Business Overview

We are a competitive energy company that produces and sells electricity in the United States. We own or lease 10,280 MW of electric generating capacity located in markets in the Mid-Atlantic (5,244 MW) and Northeast regions (2,689 MW) and in California (2,347 MW). We also operate an integrated asset management and energy marketing organization based in Atlanta, Georgia. Our customers are ISOs, investor-owned utilities, municipal systems, aggregators, electric cooperative utilities, producers, generators, marketers and large industrial customers. Our generating portfolio is diversified across fuel types, power markets and dispatch types and serves customers located near many major metropolitan load centers. Our total net generating capacity is approximately 31% baseload, 57% intermediate and 12% peaking.

Mirant Corporation was incorporated in Delaware on September 23, 2005. Pursuant to the Plan for Mirant and certain of its subsidiaries, on January 3, 2006, New Mirant emerged from bankruptcy and acquired substantially all of the assets of Old Mirant, a corporation that was formed in Delaware on April 3, 1993, and that had been named Mirant Corporation prior to January 3, 2006. The Plan provides that New Mirant has no successor liability for any unassumed obligations of Old Mirant. Old Mirant was then renamed and transferred to a trust, which is not affiliated with New Mirant.

In the third quarter of 2006, we commenced separate auction processes to sell our Philippine (2,203 MW) and Caribbean (1,050 MW) businesses and six U.S. natural gas-fired facilities totaling 3,619 MW, consisting of the Zeeland (903 MW), West Georgia (613 MW), Shady Hills (469 MW), Sugar Creek (561 MW), Bosque (546 MW) and Apex (527 MW) facilities. On May 1, 2007, we completed the sale of the six U.S. natural gas-fired facilities. On June 22, 2007, we completed the sale of our Philippine business. On August 8, 2007, we completed the sale of our Caribbean business. In addition, on May 7, 2007, we completed the sale of Mirant NY-Gen (121 MW). After transaction costs and repayment of debt, the net proceeds to us from dispositions completed for the year ended December 31, 2007, were approximately \$5.071 billion. See Note 11 to our consolidated financial statements contained elsewhere in this report for additional information regarding the accounting for these businesses and facilities as discontinued operations.

On April 9, 2007, we announced that our Board of Directors had decided to explore strategic alternatives to enhance stockholder value. In the exploration process, the Board of Directors considered whether the interests of stockholders would be best served by returning excess cash from the sale proceeds to stockholders, with us continuing to operate our retained businesses or, alternatively, whether greater stockholder value would be achieved by entering into a transaction with another company, including a sale of the Company in its entirety. On November 9, 2007, we announced the conclusion of the strategic review process. We plan to return a total of \$4.6 billion of excess cash to our stockholders. The first stage of the cash distribution is being accomplished through an accelerated share repurchase program for \$1 billion, plus open market purchases for up to an additional \$1 billion. In the fourth quarter of 2007, in conjunction with the accelerated share repurchases, we repurchased approximately 26.66 million shares of our common stock for \$1 billion. See Note 13 to our consolidated financial statements contained elsewhere in this report for further discussion. In addition, we purchased approximately 8.27 million shares of our common stock for approximately \$316 million through open market purchases. Between January 1, 2008 and February 25, 2008, we purchased an additional 7.9 million shares in open market purchases for approximately \$286 million. On February 29, 2008, we announced that we had decided to return the remaining \$2.6 billion of cash through open market purchases of common stock but that we would continue to evaluate the most efficient method to return the cash to stockholders.

The annual, quarterly and current reports, and any amendments to those reports, that we file with or furnish to the SEC, are available free of charge on our website at www.mirant.com as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. General information about us, including our

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Corporate Governance Guidelines, the charters for our Audit, Compensation, and Nominating and Governance Committees, and our Code of Ethics and Business Conduct, can also be found at www.mirant.com. We will provide print copies of these documents to any stockholder upon written request to Corporate Secretary, Mirant Corporation, 1155 Perimeter Center West, Suite 100, Atlanta, Georgia 30338-5416. Information contained on our website is not incorporated into this Form 10-K.

Business Segments

We have four operating segments: Mid-Atlantic, Northeast, California and Other Operations. The Mid-Atlantic segment consists of four generating facilities located in Maryland and Virginia. The Northeast segment consists of five generating facilities located in Massachusetts and New York. The California segment consists of three generating facilities located in or near the City of San Francisco. Other Operations includes proprietary trading, fuel oil management, and gains and losses related to a long-term PPA with Pepco (the Back-to-Back Agreement), which was terminated pursuant to a settlement agreement that became effective in the third quarter of 2007. See Note 19 to our consolidated financial statements contained elsewhere in this report for further discussion of the Back-to-Back Agreement. Other Operations also includes unallocated corporate overhead, interest on debt at Mirant Americas Generation and Mirant North America and interest income on our invested cash balances.

The table below presents our power generating performance metrics for the year ended December 31, 2007:

Region	Total (MW)	Net Capacity Factor
Mid-Atlantic	5,244	37%
Northeast	2,689	22%
California	2,347	4%

The table below summarizes selected financial information of our continuing operations by business segment for the year ended December 31, 2007 (dollars in millions):

Business Segment:	Revenues	%	Gross Margin	%	Operating Income (Loss)	%
Mid-Atlantic	\$ 1,133	56%	\$ 605	55%	\$ 164	116%
Northeast	664	33%	237	21%	(93)	(66)%
California	177	9%	135	12%	50	36%
Other Operations	45	2%	112	10%	13	9%
Eliminations		%	18	2%	7	5%
Total	\$ 2,019	100%	\$ 1,107	100%	\$ 141	100%

Eliminations are primarily related to intercompany sales of emissions allowances. For selected financial information about our business segments, see Note 15 to our consolidated financial statements contained elsewhere in this report. See Item 2. Properties for a complete list of our plants.

Commercial Operations

Our commercial operations consist primarily of procuring fuel, dispatching electricity, hedging the production and sale of electricity by our generating facilities, managing fuel oil and providing logistical support for the operation of our facilities (for example, by procuring transportation for coal). We typically sell the electricity we produce into the wholesale market at prices in effect at the time we produce it (the spot price).

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Spot prices for electricity are volatile, as are prices for fuel and emissions allowances, and in order to reduce the risk of that volatility and achieve more predictable financial results, it is our strategy to enter into hedges forward sales of electricity into the wholesale market and forward purchases of fuel and emissions allowances to allow us to produce and sell the electricity for various time periods. In addition, given the high correlation between natural gas prices and electricity prices, we enter into forward sales of natural gas to hedge our exposure to changes in the price of electricity. We procure our hedges in OTC transactions or on exchanges where electricity, fuel and emissions allowances are broadly traded, or through specific transactions with buyers and sellers, using futures, forwards, swaps and options. We also sell capacity and ancillary services where there are markets for such products and when it is economic to do so. In addition to selling the electricity we produce and buying the fuel and emissions allowances we need to produce electricity (asset management), we buy and sell some electricity, fuel and emissions allowances as part of our proprietary trading and fuel oil management activities. Proprietary trading is a small part of our commercial operations. We engage in proprietary trading to gain information about the markets to support our asset management and to take advantage of selected opportunities that we identify from time to time. All of our commercial activities are governed by a comprehensive Risk Management Policy, which requires that our hedging activities with respect to our assets be risk-reducing and sets limits on the size of positions and VaR in our proprietary trading and fuel oil management activities.

We use dispatch models to assist us in making daily decisions regarding the quantity and price of the power our facilities will generate and sell into the markets. We bid the energy from our generating facilities into the day-ahead energy market and sell ancillary services through the ISO markets. We sell capacity either bilaterally or through auction processes in each ISO in which we participate. We work with the ISOs and RTOs in real time to ensure that our generating facilities are dispatched economically to meet the reliability needs of the market.

We economically hedge a substantial portion of our Mid-Atlantic coal-fired baseload generation and certain of our Northeast coal, gas and oil-fired generation through OTC transactions. A significant portion of our hedges are financial swap transactions that are senior unsecured obligations of Mirant Mid-Atlantic and do not require the posting of cash collateral either for initial margin or for securing exposure as a result of changes in power or natural gas prices. However, we generally do not hedge our intermediate and peaking units for tenors greater than 12 months. At February 25, 2008, we were economically hedged as follows:

	Aggregate Hedge Levels Based on Expected Generation				
	2008	2009	2010	2011	2012
Power	98%	53%	38%	21%	20%
Fuel	95%	79%	31%	29%	5%
SO2/NOx	100%	100%	100%	100%	100%

Our commercial operations manage the acquisition and utilization of emissions allowances for our generating facilities. Primarily as a result of the pollution control equipment we are installing to comply with the requirements of the Maryland Healthy Air Act, we anticipate that we will have significant excess emissions allowances in future periods. We plan to continue to maintain some emissions allowances in excess of expected generation in case our actual generation exceeds our current forecasts for future periods and for possible future additions of generating capacity. During the fourth quarter of 2007, we began a program to sell excess emissions allowances dependent upon market conditions. We sold approximately \$24 million of excess emissions allowances and recognized a gain of \$22 million, which is included in gain on sales of assets in the consolidated statement of operations for the year ended December 31, 2007. At December 31, 2007, the estimated fair value of our excess emissions allowances exceeded the carrying value recorded on our consolidated balance sheet by approximately \$200 million.

While OTC transactions make up a substantial portion of our economic hedge portfolio, at times we sell non-standard, structured products to customers. Additionally, our California facilities operate under long-term contracted capacity and RMR contracts.

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We enter into contracts of varying terms to secure appropriate quantities of fuel that meet the varying specifications of our generating facilities. For our coal-fired generating facilities, we purchase coal from a variety of suppliers under contracts with terms of varying lengths, some of which extend to 2012. Our hedged percentages for fuel include transactions for which commercial terms have been negotiated but for which contracts have not yet been executed. Individual transactions may or may not be binding prior to execution of a contract. For our gas-fired units, we typically purchase fuel under short-term contracts with a variety of suppliers on a day-ahead or monthly basis.

Our coal supply comes primarily from the Central Appalachian and Northern Appalachian coal regions. All of our coal is delivered by rail; however, we are in the process of constructing a barge unloading facility at our Morgantown station that is expected to become operational in the third quarter of 2008. The barge unloader will enable us to receive coal from international locations as well. We monitor coal supply and delivery logistics carefully and, despite occasional interruptions of scheduled deliveries, to date we have managed to avoid any significant effects on our operations. We maintain an inventory of coal at our coal-fired facilities for this purpose. Interruptions of scheduled deliveries can result from a variety of disruptions, including strikes, rail system disruptions or severe weather.

Mid-Atlantic Region

We own or lease four generating facilities in the Mid-Atlantic region with total net generating capacity of 5,244 MW. Our Mid-Atlantic region had a combined 2007 net capacity factor of 37%.

Power generated by our Mid-Atlantic facilities is sold into the PJM market. For a discussion of the PJM market, see Regulatory Environment below. We have participated in standard offer service auctions in Maryland and Washington, D.C. Power sales, either directly through these auctions or indirectly through subsequent market transactions that are a result of the auction process, serve as economic hedges for the Mid-Atlantic facilities.

The following table presents the details of our Mid-Atlantic generating facilities:

Facility	Total Net Generating Capacity (MW)	Primary Fuel Type	Dispatch Type	Location	NERC Region
		Natural	Intermediate/ Baseload/Peaking		
Chalk Point	2,417	Gas/Coal/Oil		Maryland	MAAC
Morgantown	1,492	Coal/Oil	Baseload/Peaking	Maryland	MAAC
		Natural			
Dickerson	853	Gas/Coal/Oil	Baseload/Peaking	Maryland	MAAC
Potomac River	482	Coal	Intermediate/ Baseload	Virginia	MAAC
Total Mid-Atlantic	5,244				

The Chalk Point facility is our largest generating facility. It consists of two coal-fired baseload units, two dual-fueled (oil and gas) intermediate units and two oil-fired and five dual-fueled (oil and gas) peaking units. Our next largest facility is the Morgantown facility. It consists of two dual-fueled (coal and oil) baseload units and six oil-fired peaking units. The Dickerson facility has three coal-fired baseload units, and one oil-fired and two dual-fueled (oil and gas) peaking units. The Potomac River station has three coal-fired baseload units and two coal-fired intermediate units.

On May 23, 2007, the Virginia State Air Pollution Control Board directed the Virginia DEQ to issue a state operating permit (the Permit) for the Potomac River facility that significantly restricted the facility's operations by imposing stringent limits on its SO₂ emissions and constraining unit operations so that no more than three of

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the facility's five units can operate at one time. We think these limits and constraints are unreasonable and arbitrary. The Virginia DEQ issued the Permit as directed on June 1, 2007. In June 2007, Mirant Potomac River filed a petition for appeal in the Circuit Court of the City of Richmond, Virginia, seeking to set aside the Virginia State Air Pollution Control Board's directive of May 23, 2007, and the Permit issued by the Virginia DEQ on June 1, 2007. The Virginia State Air Pollution Control Board stated that the Permit is intended to be supplanted by a more comprehensive permit that it expects to issue. On October 19, 2007, the Virginia DEQ published a draft of this more comprehensive permit to solicit comments from the public. If adopted as proposed, this comprehensive permit would also impose stringent limits on SO₂ emissions that would continue to limit Mirant Potomac River to operating no more than three of the five units of the Potomac River generating facility at any one time. On November 30, 2007, the Virginia State Air Pollution Control Board directed the Virginia DEQ to develop an alternative state operating permit that would require completion of a proposed project to merge the stacks of certain of the units at the Potomac River facility, set a single SO₂ emissions limit for the facility and allow for greater operating flexibility. On December 21, 2007, the Virginia DEQ published a draft of this alternative state operating permit for public comment. If approved as currently drafted with some minor modifications, this alternative state operating permit would enable Mirant Potomac River to operate all five units of the facility at one time. We anticipate that the Virginia State Air Pollution Control Board will consider the proposed permit in March 2008.

Northeast Region

We own generating facilities in the Northeast region with total net generating capacity of 2,689 MW. Our Northeast region had a combined 2007 net capacity factor of 22%. The Northeast region is comprised of our facilities located in New York and New England. Generation is sold from our Northeast facilities through a combination of bilateral contracts, spot market transactions and structured transactions.

The following table presents the details of our facilities in the Northeast Region:

Facility	Total Net Generating Capacity (MW)	Primary Fuel Type	Dispatch Type	Location	NERC Region
Bowline	1,124	Natural Gas/Oil	Intermediate/Peaking	New York	NPCC
Lovett	183	Natural Gas/Coal	Baseload	New York	NPCC
Canal	1,112	Natural Gas/Oil	Intermediate	Massachusetts	NPCC
Kendall	256	Natural Gas/Oil/Jet Fuel	Baseload/Peaking	Massachusetts	NPCC
Martha's Vineyard	14	Diesel	Peaking	Massachusetts	NPCC
Total Northeast Region	2,689				

New York. The capacity, energy and ancillary services from our New York generating facilities are sold into the bilateral markets and into the markets administered by the NYISO. For a discussion of NYISO, see *Regulatory Environment* below.

The New York generating facilities consist of the Bowline and Lovett facilities. The Bowline facility is a dual-fueled (natural gas and oil) facility comprised of two intermediate/peaking units. The Lovett facility consists of one baseload unit capable of burning coal and gas.

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Significant developments related to these generating facilities in 2007 were as follows:

On January 26, 2007, Mirant New York, Mirant Bowline (which owns the Bowline facility) and Hudson Valley Gas (collectively the Emerging New York Entities) filed their Supplemental Joint Chapter 11 Plan of Reorganization with the Bankruptcy Court and subsequently filed amendments to that plan (as subsequently amended, the Supplemental Plan). The Supplemental Plan was confirmed by the Bankruptcy Court on March 23, 2007, and became effective on April 16, 2007.

In the second quarter of 2007, we shut down units 3 and 4 at the Lovett facility. On October 20, 2007, Mirant Lovett submitted notices of its intent to discontinue operation of unit 5 at the Lovett generating facility as of midnight on April 19, 2008, to the New York Public Service Commission, the NYISO, Orange and Rockland and several other potentially affected transmission and distribution companies in New York.

On July 13, 2007, Mirant Lovett (which owns the Lovett facility) filed a plan of reorganization (the Mirant Lovett Plan) with the Bankruptcy Court. The Mirant Lovett Plan was confirmed by the Bankruptcy Court on September 19, 2007, and became effective on October 2, 2007. As a result of Mirant Lovett's emergence from bankruptcy, we do not have any subsidiaries remaining in bankruptcy. See Note 12 to our consolidated financial statements contained elsewhere in this report for additional information regarding the emergence from bankruptcy of Mirant Lovett and the Emerging New York Entities.

New England. The Canal facility consists of one oil-fired intermediate unit and one dual-fueled (oil and gas) intermediate unit. The Kendall facility consists of one combined cycle dual-fueled (oil and gas) baseload unit, two 1,300 pound steam boilers and one simple cycle jet engine peaking unit. The Martha's Vineyard facility consists of five diesel peaking units.

The capacity, energy and ancillary services from our New England generating units are sold into the NEPOOL bilateral markets and into the markets administered by the ISO-NE. For a discussion of the NEPOOL and the ISO-NE, see Regulatory Environment below.

California

We own three generating facilities in California with total net generating capacity of 2,347 MW. Our California facilities had a combined 2007 net capacity factor of 4%. The following table presents the details of our California facilities:

Facility	Total Net Generating Capacity (MW)	Primary Fuel Type	Dispatch Type	Location	NERC Region
Pittsburg	1,311	Natural Gas	Intermediate	California	WECC
Contra Costa	674	Natural Gas	Intermediate	California	WECC
Potrero	362	Natural Gas/Oil	Intermediate/ Peaking	California	WECC
Total California	2,347				

The Pittsburg and Contra Costa facilities are located in Contra Costa County and the Potrero facility is located in the City of San Francisco. Through the end of 2006, the majority of our California units were subject to RMR arrangements with the CAISO. These agreements are described further under Regulatory Environment below. Pittsburg unit 7 and Contra Costa unit 6 were not subject to an RMR arrangement, and thus functioned solely as merchant facilities in the CAISO. In 2006, we either sold the output of Pittsburg unit 7 and Contra

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Costa unit 6 into the market through bilateral transactions with utilities and other merchant generators, or dispatched the units in the CAISO clearing markets.

On July 28, 2006, we signed two tolling agreements with PG&E to provide electricity from all our natural gas-fired units in service at Pittsburg and Contra Costa, including Pittsburg unit 7 and Contra Costa unit 6. The agreements are for 100% of the capacity from these units. The contracts have varying tenors for each unit covering from one to five years, and include capacity of 1,985 MW for 2008 and 2009, 1,303 MW for 2010 and 674 MW for 2011. The contracted capacity for 2007 was 1,985 MW. We receive monthly capacity payments with bonuses and/or penalties based on guaranteed heat rate and availability tolerances. As a result of these contracts, the Pittsburg and Contra Costa units are no longer subject to the RMR agreements. All of our Potrero units continue to be subject to RMR arrangements that continue through 2008 and are then renewable annually.

Competitive Environment

The power generating industry is capital intensive and highly competitive. Our competitors include regulated utilities, merchant energy companies, financial institutions and other companies, including companies owned by hedge funds and private equity funds. For a discussion of competitive factors and the effects of seasonality on our business see Item 1A. Risk Factors. Coal-fired generation, natural gas-fired generation and nuclear generation currently account for approximately 48%, 22% and 19%, respectively, of the electricity produced in the United States. Hydroelectric and other energy sources account for the remaining 11% of electricity produced.

While the demand for electricity is increasing, supply has not appreciably increased. Given the substantial time necessary to permit and construct new power plants, we think that the markets in which we operate need to begin the process now of adding generating capacity to meet growing demand. A number of ISOs, including those in markets in which we operate, have implemented capacity markets as a way to encourage such construction of additional generation, but it is not clear whether and when independent power producers will be sufficiently incented to build this required new generation.

Falling reserve margins, as well as high electricity prices as a result of high natural gas prices, have led to renewed interest in new coal-fired or nuclear plants. However, the costs to construct new generation facilities are rising and there is substantial environmental opposition to building either coal-fired or nuclear plants.

Regulatory Environment

The electricity industry is subject to comprehensive regulation at the federal, state and local levels. At the federal level, the FERC has exclusive jurisdiction under the Federal Power Act over sales of electricity at wholesale and the transmission of electricity in interstate commerce. Each of our subsidiaries that owns a generating facility selling at wholesale or that markets electricity at wholesale is a public utility subject to the FERC's jurisdiction under the Federal Power Act. These subsidiaries must comply with certain FERC reporting requirements and FERC-approved market rules and are subject to FERC oversight of mergers and acquisitions, the disposition of FERC-jurisdictional facilities and the issuance of securities. In addition, under the Natural Gas Act, the FERC has limited jurisdiction over certain resales of natural gas, but does not regulate the prices received by our subsidiary, Mirant Energy Trading, that markets natural gas.

The FERC has authorized our subsidiaries that constitute public utilities under the Federal Power Act to sell energy, capacity and certain ancillary services for wholesale at market based rates. The majority of the output of the generating facilities owned by our subsidiaries is sold pursuant to this authorization, although certain of our facilities sell their output under cost based RMR agreements, as explained below. The FERC may revoke or limit our market based rate authority if it determines that we possess undue market power in a regional electricity market. Under the Natural Gas Act, our subsidiary that sells natural gas for resale is deemed by the FERC to have blanket certificate authority to undertake these sales at market based rates. The FERC requires that our public

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utility subsidiaries with market based rate authority, as well as the subsidiary deemed to have blanket certificate authority to sell natural gas, adhere to certain market behavior rules and codes of conduct, respectively. If any of our subsidiaries violates the market behavior rules or codes of conduct, the FERC may require a disgorgement of profits or revoke its market based rate authority or blanket certificate authority. If the FERC were to revoke market based rate authority, our affected public utility subsidiary would have to file a cost based rate schedule for all or some of its sales of electricity at wholesale. If the FERC revoked the blanket certificate authority of any of our subsidiaries, certain sales of natural gas would be prohibited.

Our facilities operate in ISO/RTO markets. In areas where ISOs or RTOs control the regional transmission systems, market participants have access to broader geographic markets compared to regions without ISOs and RTOs. ISOs operate real-time and day-ahead energy and ancillary services markets, typically governed by FERC-approved tariffs and market rules. Some ISOs and RTOs also operate capacity markets. Changes to the applicable tariffs and market rules may be requested by market participants, state regulatory agencies and the system operator, and such proposed changes, if approved by the FERC, could have a significant effect on our operations and business plan. While participation by transmission-owning public utilities in ISOs and RTOs has been and is expected to continue to be voluntary, the majority of such public utilities in New England, New York, the Mid-Atlantic and California have joined the applicable ISO/RTO.

Our subsidiaries owning generating facilities were exempt wholesale generators under the PUHCA, as amended. With the repeal of the PUHCA and the adoption of the Public Utility Holding Company Act of 2005, the FERC adopted new regulations effective February 8, 2006, that allow our subsidiaries owning generating facilities to retain their exempt wholesale generator status.

State and local regulatory authorities have historically overseen the distribution and sale of electricity at retail to the ultimate end user, as well as the siting, permitting and construction of generating and transmission facilities. Our existing generating facilities are subject to a variety of state and local regulations, including regulations regarding the environment, health and safety, maintenance and expansion of the facilities.

Mid-Atlantic Region. Our Mid-Atlantic facilities sell electricity into the markets operated by PJM, which the FERC approved to operate as an ISO in 1997 and as an RTO in 2002. We have access to the PJM transmission system pursuant to PJM's Open Access Transmission Tariff. PJM operates the PJM Interchange Energy Market, which is the region's spot market for wholesale electricity, provides ancillary services for its transmission customers, performs transmission planning for the region and economically dispatches generating facilities. PJM administers day-ahead and real-time single clearing price markets and calculates electricity prices based on a locational marginal pricing model. A locational marginal pricing model determines a price for energy at each node in a particular zone taking into account the limitations on transmission of electricity and losses involved in transmitting energy into the zone, resulting in a higher zonal price when less expensive energy cannot be imported from another zone. Generation owners in PJM are subject to mitigation, which limits the prices that they may receive under certain specified conditions.

Load-serving entities within PJM are required to have adequate sources of generating capacity. Our facilities located in the Mid-Atlantic region that sell electricity into the PJM market participate in the reliability pricing model (the RPM) forward capacity market. The RPM capacity auctions are designed to provide forward prices for capacity that are intended to ensure that adequate resources are in place to meet the region's demand requirements. PJM has conducted four RPM capacity auctions and we began receiving payments in June 2007 as a result of the first auction. The FERC's orders approving and implementing the PJM RPM capacity auctions are pending review with the United States Court of Appeals. We cannot predict what, if any, effect the appeal process will have on the RPM forward capacity market and the capacity payments that we receive from that market.

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The results of the PJM RPM capacity auctions for the delivery area where our facilities are located were as follows:

Auction Date	Capacity Period	Resource Clearing Price per MW-day
April 2007	June 1, 2007 to May 31, 2008	\$ 188.54
July 2007	June 1, 2008 to May 31, 2009	\$ 210.11
October 2007	June 1, 2009 to May 31, 2010	\$ 237.33
January 2008	June 1, 2010 to May 31, 2011	\$ 174.29

Hereafter, annual auctions will be conducted to procure capacity three years prior to each delivery period. The first such auction will take place in May 2008, for the provision of capacity from June 1, 2011 to May 31, 2012.

In addition, PJM and the MISO have been directed by the FERC to establish a common and seamless market. The development of a joint market is contingent on the approval of the internal costs to both entities to develop and operate the infrastructure necessary for joint operations. It is unclear at this time if either the respective entities or the FERC will approve such costs to achieve a common and seamless market.

Northeast Region. Our New York facilities participate in a market controlled by the NYISO, which replaced the New York Power Pool. The NYISO provides statewide transmission service under a single tariff and interfaces with neighboring market control areas. To account for transmission congestion and losses, the NYISO calculates energy prices using a locational marginal pricing model. The NYISO also administers a spot market for energy, as well as markets for installed capacity and services that are ancillary to transmission service, such as operating reserves and regulation service (which balances resources with load). The NYISO's locational capacity market rules use a demand curve mechanism to determine for every month the required amount of installed capacity as well as installed capacity prices to be paid for three locational zones: New York City, Long Island and Rest of State. Our facilities operate in the Rest of State locational zone. On April 21, 2005, the FERC issued an order accepting the NYISO's demand curves for 2005/2006, 2006/2007 and 2007/2008 with minor modifications to the NYISO's proposal. On November 20, 2007, the NYISO filed demand curves for 2008/2009, 2009/2010 and 2010/2011. On January 29, 2008, the FERC issued an order accepting the NYISO's proposal without modification. The demand curves approved by the FERC may result in increased prices within the NYISO for capacity in those years.

Our New England facilities participate in a market administered by ISO-NE. Mirant Energy Trading is a member of NEPOOL, which is a voluntary association of electric utilities and other market participants in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont, and which functions as an advisory organization to ISO-NE. The FERC approved ISO-NE as the RTO for the New England region effective on February 1, 2005, making ISO-NE responsible for market rule filings at the FERC, in addition to its responsibilities for the operation of transmission systems and administration and settlement of the wholesale electric energy, capacity and ancillary services markets. ISO-NE utilizes a locational marginal pricing model similar to that used in PJM and NYISO.

On March 6, 2006, a settlement proposal was filed with the FERC among ISO-NE and multiple market participants for a forward capacity market (the FCM) under which annual capacity auctions would be conducted for supply three years in advance of provision. The settlement provided for a four-year transition period during which capacity suppliers receive a set price for their capacity commencing on December 1, 2006, and continuing with price escalators through May 31, 2010. The first auction took place in February 2008 for the period June 1, 2010 to May 31, 2011. The clearing price was \$4.50 per kW-month, which was the price floor established as part of the FCM settlement. Our generating facilities will receive \$4.50 per kW-month based on our pro-rata amount of the generation that was sold in the auction. The next auction for the period June 1, 2011 to May 31, 2012, will be held in December 2008. Beginning December 1, 2006, our generating facilities began

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receiving capacity revenues under the FCM transition period. The FERC's orders approving and implementing the FCM are pending review with the United States Court of Appeals. We cannot predict what, if any, effect the appeal process will have on the FCM and the capacity payments we receive under the FCM.

California. Our California facilities are located inside the CAISO's control area. The CAISO schedules transmission transactions, arranges for necessary ancillary services and administers a real-time balancing energy market. Most sales in California are pursuant to bilateral contracts, but a significant percentage of electrical energy is sold in the real-time market. The CAISO does not operate a forward market like those described for PJM and other eastern ISO markets, nor does it currently operate a capacity market.

Mirant Potrero is party to a PPA with PG&E that from 2006 through 2012 allows PG&E to dispatch and purchase the power output of our Potrero units that have been designated RMR units which for 2008 includes all of the Potrero units. Under the PPA, through 2008, PG&E is paying us charges equivalent to the rates we charged during 2004 when the units were designated RMR Contract Condition 2 reduced by \$1.4 million for each year since 2004. For 2009 through 2012, the charges for the units that are then subject to the PPA will be determined annually by the FERC pursuant to the cost based formula rates set forth in the RMR agreement.

The CAISO has proposed changes to its market design to mirror more closely the eastern ISO markets, but not including a capacity market. Although the CAISO has delayed the market redesign several times, it now expects to fully implement it in 2008. The CPUC has begun a proceeding to develop, together with the CAISO, a wholesale capacity market. FERC approval would be required for any such capacity market to become effective. We cannot at this time predict the outcome of the CPUC proceeding or the timing or structure of a wholesale capacity market in California.

Environmental Regulation

Our business is subject to extensive environmental regulation by federal, state and local authorities. We must comply with applicable laws and regulations, and obtain and comply with the terms of government issued permits. Our costs of complying with environmental laws, regulations and permits are substantial, including significant environmental capital expenditures.

The following table details our estimated environmental capital expenditures, excluding capitalized interest (in millions):

	2008	2009	2010
Maryland Healthy Air Act	\$ 689	\$ 286	\$ 125
Other environmental	63	35	28
Total environmental capital expenditures	\$ 752	\$ 321	\$ 153

We expect that cash on hand and cash flows from operations will be sufficient to fund these capital expenditures.

Air Emissions Regulations

Our most significant environmental requirements generally fall under the Clean Air Act and similar state laws. Under the Clean Air Act, we are required to comply with a broad range of mandates concerning air emissions, operating practices and pollution control equipment. Most of our facilities are located in or near metropolitan areas, including New York City, Boston, San Francisco and Washington D.C., which are classified by the EPA as not achieving certain NAAQS. As a result of the NAAQS classification of these areas, our operations are subject to more stringent air pollution requirements than applicable to plants located elsewhere. Various states where we have facilities also have other air quality laws and regulations with increasingly

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stringent limitations and requirements that will become effective in future years for our facilities and operations. In the future, we expect increased regulation of our air emissions. Significant air regulatory programs to which we are subject are described below.

Clean Air Interstate Rule (CAIR). In 2005, the EPA promulgated the CAIR, which established in the eastern United States an SO₂ and NO_x cap-and-allowance trading program applicable directly to states and indirectly to generating facilities. These cap-and-trade programs will be implemented in two phases, with the first phase going into effect in 2009 for NO_x and 2010 for SO₂ and more stringent caps going into effect in 2015. We are installing pollution control equipment at certain of our coal-fired facilities in Maryland to address the requirements under the Maryland Healthy Air Act, which will also enable us to satisfy the requirements of the first phase of the CAIR without purchasing additional allowances. The costs of that equipment are included in our estimate of anticipated environmental capital expenditures from 2008 through 2010.

Maryland Healthy Air Act. The Maryland Healthy Air Act was enacted in April 2006 and requires reductions in NO_x, SO₂ and mercury emissions from large coal-fired power facilities. The state law also requires Maryland to join the Regional Greenhouse Gas Initiative (the RGGI), which is discussed below. On August 3, 2006, we announced a plan to comply with the requirements of the Maryland Healthy Air Act by reducing SO₂ emissions by as much as 95% at our Maryland power facilities. The Maryland Healthy Air Act prohibits power facilities from purchasing emissions allowances instead of installing pollution control equipment. We are installing flue gas desulphurization (FGD) emissions controls at our Chalk Point, Dickerson and Morgantown coal-fired units. In addition, we are installing selective catalytic reduction (SCR) systems at the Morgantown and Chalk Point coal-fired units, which will reduce NO_x emissions by approximately 80%. Together, the FGDs and the SCRs will reduce the emissions of ionic mercury from the three Maryland power facilities.

The Maryland Healthy Air Act imposes tonnage limits for (i) emissions of NO_x in 2009 with further reductions in 2012 (including sublimits during the Ozone Season) and (ii) emissions of SO₂ in 2010 with further reductions in 2013. The Maryland Healthy Air Act also imposes restrictions on emissions of mercury beginning in 2010 with further reductions in 2013. The control equipment we plan to install to meet Maryland state standards will allow our Maryland facilities to comply with the first phase of the CAIR without having to purchase allowances.

We expect to incur total capital expenditures of \$1.6 billion through the first quarter of 2010 to comply with the requirements for SO₂ and NO_x emissions under the Maryland Healthy Air Act. On July 30, 2007, our indirect subsidiaries Mirant Mid-Atlantic and Mirant Chalk Point entered into an agreement with Stone & Webster, Inc. for engineering, procurement and construction services relating to the installation of air quality control systems at the Morgantown, Dickerson and Chalk Point coal-fired units. The expected cost under the agreement is approximately \$1.1 billion and is a part of the capital expenditures that we expect to incur to comply with the Maryland Healthy Air Act. We will have extended planned outages during equipment installation. During those outages, we also will perform routine maintenance activities. As of December 31, 2007, we have paid approximately \$500 million for capital expenditures related to the Maryland Healthy Air Act.

Clean Air Mercury Rule (CAMR). In 2005, the EPA issued the CAMR, which would have limited total annual mercury emissions from coal-fired power plants across the United States through a two-phased cap-and-trade program. The first phase was to have begun in 2010 and the second phase was to have begun in 2018. On February 8, 2008, The United States Court of Appeals for the District of Columbia Circuit (the DC Circuit) issued its opinion vacating and remanding two rules regarding mercury emissions from Electric Generating Units (EGUs). First, the DC Circuit's opinion vacated the rule by which the EPA removed EGUs from the list of sources with emissions of hazardous air pollutants subject to regulation under section 112 of the Clean Air Act which requires maximum achievable control standards. Second, the DC Circuit's opinion vacated the EPA's CAMR. At this time, we cannot predict the EPA's action on remand. We expect many of our coal-fired facilities to emit less mercury as a result of the NO_x and SO₂ controls that are, or will soon be, installed.

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NSR Enforcement Initiative. In 2001, the EPA requested information concerning some of our facilities in Maryland and Virginia covering a time period that pre-dates our acquisition or lease of those facilities in December 2000. We responded fully to this request. Under the APSA, Pepco is responsible for fines and penalties arising from any violation associated with operations prior to our subsidiaries' acquisition or lease of the facilities. If a violation is determined to have occurred at any of the facilities, our subsidiary owning or leasing the facilities may be responsible for the cost of purchasing and installing emissions control equipment, the cost of which may be material. Our subsidiaries owning or leasing the Chalk Point, Dickerson and Morgantown facilities in Maryland are installing a variety of emissions control equipment on those facilities to comply with the Maryland Healthy Air Act, but that equipment may not include all of the pollution control equipment that could be required if a violation of the EPA's NSR regulations is determined to have occurred at one or more of those facilities. If such a violation is determined to have occurred after our subsidiaries acquired or leased the facilities or, if occurring prior to the acquisition or lease, is determined to constitute a continuing violation, our subsidiary owning or leasing the facility at issue could also be subject to fines and penalties by the state or federal government for the period after its acquisition or lease of the facility, the cost of which may be material, although applicable bankruptcy law may bar such liability for periods prior to January 3, 2006, when the Plan became effective for us and our subsidiaries that own or lease these facilities.

Massachusetts CAIR Implementation. The Commonwealth of Massachusetts Department of Environmental Protection promulgated regulations to take effect in 2009 to implement the requirements under the federal CAIR to reduce NOx emissions from certain generating facilities. The Massachusetts regulations will require our Canal and Kendall generating facilities during the Ozone Season to reduce their emissions of NOx or utilize emissions allowances greater than what are currently utilized.

New York CAIR Implementation. The New York State Department of Environmental Conservation promulgated regulations implementing the NOx and SO2 emissions reductions required by the federal CAIR. Beginning in 2009, the regulations limit NOx emissions through both an annual cap-and-trade program and through a seasonal cap-and-trade program during the Ozone Season, which will require our Bowline generating facility to reduce its emissions of NOx by running less or to increase its utilization of emissions allowances. The regulations also implement an SO2 emissions program beginning in 2010 that mandates increased utilization of federal SO2 allowances for every ton of SO2 emitted.

Virginia CAIR Implementation. In April 2006, Virginia enacted legislation, which among other things granted the Virginia State Air Pollution Control Board the discretion to prohibit electric generating facilities located in an area that is not in compliance with a particular NAAQ standard (non-attainment area), from purchasing SO2 and NOx allowances to achieve compliance under the CAIR. In the fourth quarter of 2007, the Virginia State Air Pollution Control Board approved regulations that it interprets as prohibiting the trading of SO2 and NOx allowances by facilities in non-attainment areas to satisfy the requirements of the CAIR as implemented by Virginia. The only generating facility in Virginia currently affected is our Potomac River facility which is located in a non-attainment area for ozone and PM2.5. Mirant Potomac River has appealed these regulations in Virginia State Court. We have also petitioned (a) the EPA to reconsider and (b) the United States Court of Appeals for the Fourth Circuit to review the EPA's final rule approving Virginia's CAIR program. Application of these regulations, if not modified or waived, will reduce our flexibility in complying with the CAIR in Virginia beginning in 2009 and could result in operating restrictions for our Potomac River generating facility.

Massachusetts Emissions Standards for Power Plants. The Commonwealth of Massachusetts Department of Environmental Protection promulgated regulations affecting certain generating facilities, including our Canal facility, that established emissions output limits beginning in 2006 for NOx and SO2 and beginning in 2008 for CO2 and an annual cap on CO2 emissions beginning in 2008. We are achieving compliance with the NOx and SO2 emissions limits by utilizing lower sulfur fuels and natural gas and by optimizing the operation of our unit with selective catalytic reduction capability. Under our current operating profile, we are in compliance with the output limit on CO2, and we plan to comply with the annual CO2 cap by purchasing offsets or by making payments into a newly-established Greenhouse Gas Expendable Trust, which is expected to be finalized during the first quarter of 2008.

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New York Consent Decree. In 2000, the State of New York issued an NOV to the previous owner of our Lovett facility alleging NSR violations associated with the operation of that facility prior to its acquisition by us. On June 11, 2003, Mirant New York, Mirant Lovett and the State of New York entered into a consent decree (the 2003 Consent Decree). The 2003 Consent Decree was approved by the Bankruptcy Court on October 15, 2003. Under the 2003 Consent Decree, Mirant Lovett has three options: (1) install emissions controls on Lovett's two coal-fired units; (2) shut down unit 5 and convert unit 4 to natural gas; or (3) shut down both coal-fired units in 2007 and 2008. We have concluded that the installation of the required emissions controls is uneconomic.

On October 19, 2006, Mirant Lovett notified the New York Public Service Commission, the NYISO, Orange and Rockland and certain other affected transmission and distribution companies in New York of its intent to discontinue operation of units 3 and 5 of the Lovett facility in April 2007. The 2003 Consent Decree imposed similar requirements with respect to unit 4 that had to be met by April 30, 2008.

On May 10, 2007, Mirant Lovett entered into an amendment to the 2003 Consent Decree with the State of New York that switched the deadlines for shutting down units 4 and 5 so that the deadline for compliance by unit 5 was extended until April 30, 2008, and the deadline for unit 4 was shortened. Unit 4 discontinued operation as of May 7, 2007. In addition, unit 3 discontinued operation because it was uneconomic for the unit to continue to run.

On October 20, 2007, Mirant Lovett submitted notices of its intent to discontinue operations of unit 5 of the Lovett generating facility as of midnight on April 19, 2008, to the New York Public Service Commission, the NYISO, Orange and Rockland and several other potentially affected transmission and distribution companies in New York. Barring a new agreement with the State of New York, unit 5 will shut down as required under the amendment to the 2003 Consent Decree.

State Regulation of Greenhouse Gases, including the Regional Green House Gas Initiative (RGGI). Concern over climate change has led to significant legislative and regulatory efforts at the state level to limit greenhouse gas emissions. One such effort is the RGGI, a multi-state Northeast regional initiative outlining a cap-and-trade program to reduce CO₂ emissions from units of 25 MW or greater. The RGGI program calls for signatory states to stabilize CO₂ emissions to current levels from 2009 to 2015, followed by a 2.5% reduction each year from 2015 to 2018. In August 2006, seven states including New York signed the RGGI Memorandum of Understanding (MOU), which puts forth a model set of regulations to guide the states in structuring their individual programs. Both Massachusetts and Maryland joined the RGGI in 2007. Our generating facilities in Maryland, Massachusetts and New York will be affected by the implementation of the RGGI. In August 2007, the Massachusetts Department of Environmental Protection and the Massachusetts Department of Energy Resources proposed regulations to implement the RGGI. In October 2007, the NYSDEC and the New York State Energy Research and Development Authority issued proposed regulations to implement the RGGI. In January 2008, the MDE issued for public comment proposed regulations to implement the RGGI. The proposed Maryland regulations include a mechanism such that in the event of carbon credit prices exceeding \$7 per ton, we and other Maryland generators will have the option to purchase up to 50% of our needs at \$7 per ton regardless of auction clearing prices.

We expect to produce a total of approximately 15.8 million tons of CO₂ at our Maryland, Massachusetts and New York generating facilities in 2009. If adopted in their current form, the proposed and draft RGGI regulations would require those facilities to obtain allowances to emit CO₂. No allowances would be granted to existing sources of such emissions. Instead, allowances would be made available for such facilities only by purchase through an auction process conducted regionally or through subsequent purchase from a party that held the allowances that had been sold through the auction. We and a number of other parties have submitted comments on the proposed regulations in Massachusetts and New York, and we expect to comment on the proposed rules to be issued in Maryland. The final form and timing of the regulations in each state are uncertain. We are continuing to evaluate our options to comply with the RGGI, but its implementation in Maryland, Massachusetts and New York could have a material effect upon our operations and our operating costs, depending upon the

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availability and cost of emissions allowances and the extent to which such costs may be offset by higher market prices to recover increases in operating costs caused by the RGGI.

In California, emissions of greenhouse gases are governed by the Global Warming Solutions Act (AB 32), which requires that greenhouse gas emissions be reduced to 1990 levels by 2020. AB 32 also requires the California Air Resources Board to develop by January 2009, a greenhouse gas reduction plan for all industrial sectors. That plan could have a material effect on how we operate our California facilities and the costs of operating the facilities.

Federal Regulation of Greenhouse Gases. At the federal level, various bills have been proposed to govern CO2 emissions from generating facilities. We do not know how any law, if ultimately enacted, would affect the state laws and regulations described. We expect that any federal law governing CO2 emissions would significantly affect our generating facilities.

Water Regulations

We are required under the Clean Water Act to comply with intake and discharge requirements, requirements for technological controls and operating practices. To discharge water, we must have permits under the Clean Water Act. Such permits typically are subject to review every five years. As with air quality regulations, federal and state water regulations are expected to impose additional and more stringent requirements or limitations in the future. This is particularly the case for regulatory requirements governing cooling water intake structures, which are subject to regulation under section 316(b) of the Clean Water Act. A 2007 decision by the United States Court of Appeals for the Second Circuit in *Riverkeeper Inc. et al v. EPA*, in which the court remanded to the EPA for reconsideration numerous provisions of the EPA's section 316(b) regulations for existing power plants, has created substantial uncertainty about exactly what technologies or other measures will be needed to satisfy section 316(b) requirements in the future and when any new requirements will be imposed.

Endangered Species Acts. Mirant Delta's use of water from the Sacramento-San Joaquin Delta at its Contra Costa and Pittsburg generating facilities potentially affects certain fish species protected under the Federal Endangered Species Act and the California Endangered Species Act. Mirant Delta therefore must maintain authorization under both statutes to engage in operations that could result in a take of (i.e., harm to) fish of the protected species. In January and February 2006, Mirant Delta received correspondence from the U.S. Fish and Wildlife Service and the Army Corps of Engineers expressing the view that the Federal Endangered Species Act take authorization for the Contra Costa and Pittsburg facilities was no longer in effect due to changed circumstances. Mirant Delta disagreed with the agencies' characterization of its take authorization as no longer being in effect. In late October 2007, Mirant Delta received correspondence from the U.S. Fish and Wildlife Service, the National Marine Fisheries Service and the Army Corps of Engineers clarifying that Mirant Delta continued to be authorized to take four species of fish protected under the federal Endangered Species Act. The agencies have initiated a process that will review the environmental effects of Mirant Delta's water usage, including effects on the protected species of fish. That process could lead to changes in the manner in which Mirant Delta can use river water for the operation of the Pittsburg and Contra Costa generating facilities.

Mirant and Mirant Delta received two letters, one dated September 27, 2007, sent on behalf of the Coalition for a Sustainable Delta, four water districts, and an individual, and the second dated October 16, 2007, sent on behalf of San Francisco Baykeeper (collectively with the parties sending the September 27, 2007, letter, the Noticing Parties), providing notice that the Noticing Parties intend to file suit alleging that Mirant Delta has violated, and continues to violate, the federal Endangered Species Act through the operation of its Contra Costa and Pittsburg generating facilities. The Noticing Parties contend that the facilities use of water drawn from the Sacramento-San Joaquin Delta for cooling purposes results in harm to four species of fish listed as endangered species. The Noticing Parties assert that the take authorizations, a biological opinion and incidental take statement issued by the National Marine Fisheries Service on October 17, 2002, for three of the fish species and a

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biological opinion and incidental take statement issued by the U.S. Fish and Wildlife Service on November 4, 2002, for the fourth fish species, have been violated by Mirant Delta and no longer apply to permit the effects on the four fish species caused by the operation of the Contra Costa and Pittsburg generating facilities. Following receipt of these letters, Mirant Delta received the correspondence described above from the U.S. Fish and Wildlife Service, the National Marine Fisheries Service and the Army Corps of Engineers clarifying that Mirant Delta continues to be authorized to take the four species of fish protected under the federal Endangered Species Act. In a subsequent letter, the Coalition for a Sustainable Delta also alleged violations of the National Environmental Policy Act and the California Endangered Species Act associated with the operation of Mirant Delta's facilities. Mirant Delta disputes the allegations made by the Noticing Parties. No lawsuits have been filed to date, and San Francisco Baykeeper, on February 1, 2008, withdrew its notice of intent to sue.

Additionally, in September 2007, Mirant Delta signed an amendment to a Memorandum of Agreement with the California Department of Fish and Game. The amendment requires Mirant Delta to initiate monitoring of the effects on fish of the operations of the Pittsburg and Contra Costa facilities, to prepare an environmental impact report, and to submit within 24 months an application for a new permit authorizing Mirant Delta to take the protected fish species affected by the operation of its facilities. The amendment extends Mirant Delta's authorization for take of fish species protected under the California Endangered Species Act until the California Department of Fish and Game completes its consideration of the application for the new permit.

National Pollution Discharge Elimination System. On June 8, 2006, Bayview-Hunters Point Community Advocates and Communities for a Better Environment filed a petition challenging the issuance of the National Pollution Discharge Elimination System (NPDES) permit for our Potrero facility. On February 8, 2007, Bayview-Hunters Point Community Advocates and Communities for a Better Environment filed another petition with a request to amend their initial petition. On March 21, 2007, the California State Water Resources Control Board notified the parties that petitioners requested that as of March 19, 2007, the two petitions be moved from active status to abeyance. Those petitions currently remain in abeyance. Additionally, on June 15, 2007, Bayview-Hunters Point Community Advocates and Communities for a Better Environment and San Francisco Baykeeper filed a third petition requesting that the NPDES permits for Potrero and Mirant Delta's Pittsburg facility be reopened. The State Water Resources Control Board denied that petition on November 27, 2007.

Kendall NPDES and Surface Water Discharge Permit. On September 26, 2006, the Massachusetts Department of Environmental Protection and the EPA jointly issued to Mirant Kendall a Surface Water Discharge Permit (SWDP), a water quality certificate and an NPDES permit for the Kendall generating facility. The new permits impose new temperature limits at various points in the Charles River, an extensive temperature, water quality and biological monitoring program and a requirement to develop and install a barrier net system to reduce fish impingement and entrainment. The provisions regulating the thermal discharge could cause substantial curtailments of the operations of the Kendall facility. Mirant Kendall has appealed the permits in three proceedings: (1) appeal of the NPDES permit to the Environmental Appeals Board; (2) appeal of the SWDP to the Massachusetts Department of Environmental Protection; and (3) appeal of the Water Quality Certification to the Massachusetts Department of Environmental Protection. The effect of the permits has been stayed pending the outcome of these appeals. The two appeals to the Massachusetts Department of Environmental Protection have been stayed pending the outcome of the appeal to the Environmental Appeals Board. On September 28, 2007, the Environmental Appeals Board stayed the appeal proceedings until April 18, 2008, in order for the EPA to address the sections of the permit that are affected by the EPA's suspension of the 316(b) regulations as described above under Water Regulations. We are unable to predict the outcome of these proceedings.

Wastes, Hazardous Materials and Contamination

Our facilities are subject to laws and regulations governing waste management. The federal Resource Conservation and Recovery Act of 1976 contains comprehensive requirements for the handling of solid and hazardous wastes. The generation of electricity produces non-hazardous and hazardous materials, and we incur substantial costs to store and dispose of waste materials. The EPA and the states in which we operate coal-fired

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units may develop new regulations that impose additional requirements on facilities that store or dispose of fossil fuel combustion materials, including types of coal ash. If so, we may be required to change the current waste management practices at some facilities and incur additional costs for increased waste management requirements. The MDE has proposed new regulations to govern the disposal of coal ash and we expect these regulations to become final in 2008. We do not expect any significant effect on the operations of our coal ash disposal facilities as a result of these new regulations.

Additionally, CERCLA, also known as the Superfund law, establishes a federal framework for dealing with the cleanup of contaminated sites. Many states have enacted similar state superfund statutes as well as other laws imposing obligations to investigate and clean up contamination. Our Pittsburg, Contra Costa and Potrero facilities have areas of soil and groundwater contamination subject to CERCLA and the California Health and Safety Code. Prior to our acquisition of those facilities from PG&E in 1998, PG&E conducted soil and groundwater investigations at those facilities which revealed contamination. The consultants conducting the investigation estimated the aggregate cleanup costs at those facilities could be as much as \$60 million. Pursuant to the terms of the Purchase and Sale Agreement with PG&E, PG&E has responsibility for the containment or capping of all soil and groundwater contamination and the disposition of up to 60,000 cubic yards of contaminated soil from the Potrero generating facility and the remediation of any groundwater or solid contamination identified at the Pittsburg and Contra Costa generating facilities, in each case with respect to contamination existing at those facilities in 1999 when they were purchased by our subsidiaries. Pursuant to our requests, PG&E has disposed of 807 cubic yards of contaminated soil from the Potrero generating facility. We are not aware of soil or groundwater conditions for which we expect remediation costs to be material that are not the responsibility of other parties.

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At December 31, 2007, we employed 1,740 people, which included approximately 1,175 employees at our generating facilities, 70 employees at our regional offices and 495 employees at our corporate headquarters in Atlanta, Georgia. The following details the employees subject to collective bargaining agreements:

Union	Location	Number of Employees Covered	Contract Expiration Date
Mid-Atlantic Region			
IBEW Local 1900	Maryland and Virginia	503	6/1/2010
Northeast Region			
IBEW Local 503	New York	122	6/1/2008
UWUA Local 369	Cambridge, Massachusetts	33	2/28/2009
UWUA Local 480	Sandwich, Massachusetts	51	6/1/2011
California			
IBEW Local 1245	California	124	10/31/2008
Total		833	

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Item 1A. Risk Factors

The following are factors that could affect our future performance:

Our revenues are unpredictable because most of our facilities operate without long-term power sales agreements, and our revenues and results of operations depend on market and competitive forces that are beyond our control.

We sell capacity, energy and ancillary services from most of our generating facilities into competitive power markets on a short-term fixed price basis or through power sales agreements. Since mid-2007, our revenues from selling capacity have become a significant part of our overall revenues. We are not guaranteed recovery of our costs or any return on our capital investments through mandated rates. The market for wholesale electric energy and energy services reflects various market conditions beyond our control, including the balance of supply and demand, the marginal and long run costs incurred by our competitors and the effect of market regulation. Being concentrated in a few geographic markets results in concentrated exposure to those markets, especially PJM. The price for which we can sell our output may fluctuate on a day-to-day basis. The markets in which we compete remain subject to one or more forms of regulation that limit our ability to raise prices during periods of shortage to the degree that would occur in a fully deregulated market and may thereby limit our ability to recover costs and an adequate return on our investment. Our revenues and results of operations are influenced by factors that are beyond our control, including:

the failure of market regulators to develop and maintain efficient mechanisms to compensate merchant generators for the value of providing capacity needed to meet demand;

actions by regulators, ISOs, RTOs and other bodies that may prevent capacity and energy prices from rising to the level necessary for recovery of our costs, our investment and an adequate return on our investment;

legal and political challenges to the rules used to calculate capacity payments in the markets in which we operate;

the possibility that appellate courts considering the pending appeals of the FERC's rulings that approved the RPM and FCM tariffs do not affirm the FERC's approval of those tariffs, resulting in modifications to the capacity payments made under those tariffs in the future and possibly refunds for past periods;

the ability of wholesale purchasers of power to make timely payment for energy or capacity, which may be adversely affected by factors such as retail rate caps, refusals by regulators to allow utilities to recover fully their wholesale power costs and investments through rates, catastrophic losses and losses from investments by utilities in unregulated businesses;

the fact that increases in prevailing market prices for fuel oil, coal, natural gas and emissions allowances may not be reflected in prices we receive for sales of energy;

increases in supplies due to actions of our current competitors or new market entrants, including the development of new generating facilities or alternative energy sources that may be able to produce electricity less expensively than our generating facilities and improvements in transmission that allow additional supply to reach our markets;

decreases in energy consumption resulting from demand-side management programs such as automated demand response, which may alter the amount and timing of consumer energy use;

the competitive advantages of certain competitors including continued operation of older power plants in strategic locations after recovery of historic capital costs from ratepayers;

existing or future regulation of our markets by the FERC, ISOs and RTOs, including any price limitations and other mechanisms to address some of the price volatility or illiquidity in these markets or the physical stability of the system;

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regulatory policies of state agencies that affect the willingness of our customers to enter into long-term contracts generally, and contracts for capacity in particular;

weather conditions that depress demand or increase the supply of hydro power; and

changes in the rate of growth in electricity usage as a result of such factors as national and regional economic conditions and implementation of conservation programs.

In addition, unlike most other commodities, electric energy can only be stored on a very limited basis and generally must be produced at the time of use. As a result, the wholesale power markets are subject to substantial price fluctuations over relatively short periods of time and can be unpredictable.

Changes in commodity prices may negatively affect our financial results by increasing the cost of producing power or lowering the price at which we are able to sell our power.

Our generating business is subject to changes in power prices and fuel costs, and these commodity prices are influenced by many factors outside of our control, including weather, market liquidity, transmission and transportation inefficiencies, availability of competitively priced alternative energy sources, demand for energy commodities, production of natural gas, crude oil and coal, natural disasters, wars, embargoes and other catastrophic events, and federal, state and environmental regulation and legislation. Significant fluctuations in commodity prices may affect our financial results and financial position by increasing the cost of producing power and decreasing the amounts we receive from the sale of power.

Our use of derivative contracts in our asset management activities will not fully protect us from fluctuations in commodity prices and our risk management policy cannot eliminate the risks associated with these activities.

We engage in asset management activities related to sales of electricity and purchases of fuel. The income and losses from these activities are recorded as operating revenues and fuel costs. We may use forward contracts and other derivative financial instruments to manage market risk and exposure to volatility in prices of electricity, coal, natural gas, emissions and oil. We cannot provide assurance that these strategies will be successful in managing our price risks, or that they will not result in net losses to us as a result of future volatility in electricity, fuel and emissions markets. Actual power prices and fuel costs may differ from our expectations.

Our asset management activities include natural gas derivative instruments that we use to hedge power prices for our baseload generation. The effectiveness of these hedges is dependent upon the correlation between power and natural gas prices in the markets where we operate. If those prices are not sufficiently correlated, our financial results and financial position could be adversely affected.

Additionally, we expect to have an open position in the market, within our established guidelines, resulting from the management of our portfolio. To the extent open positions exist, fluctuating commodity prices can affect our financial results and financial position, either favorably or unfavorably. Furthermore, the risk management procedures we have in place may not always be followed or may not always work as planned. Unauthorized hedging and related activities by our employees could result in significant penalties and financial losses. As a result of these and other factors, we cannot predict the outcome that risk management decisions may have on our businesses, operating results or financial position. Although management devotes a considerable amount of attention to these issues, their outcome is uncertain.

We are exposed to the risk of fuel and fuel transportation cost increases and volatility and interruption in fuel supply because our facilities generally do not have long-term agreements for the supply of natural gas, coal and oil.

Although we attempt to purchase fuel based on our expected fuel requirements, we still face the risks of supply interruptions and fuel price volatility. Our cost of fuel may not reflect changes in energy and fuel prices in part because we must pre-purchase inventories of coal and oil for reliability and dispatch requirements, and thus

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the price of fuel may have been determined at an earlier date than the price of energy generated from it. The price we can obtain from the sale of energy may not rise at the same rate, or may not rise at all, to match a rise in fuel costs. This may have a material adverse effect on our financial performance. The volatility of fuel prices could adversely affect our financial results and operations.

Our asset management and proprietary trading activities may increase the volatility of our quarterly and annual financial results.

We engage in asset management activities to hedge economically our exposure to market risk with respect to: (1) electricity sales from our generating facilities; (2) fuel used by those facilities; and (3) emissions allowances. We generally attempt to balance our fixed-price purchases and sales commitments in terms of contract volumes and the timing of performance and delivery obligations through the use of financial and physical derivative contracts. We also use derivative contracts with respect to our limited proprietary trading and fuel oil management activities, through which we attempt to achieve incremental returns by transacting where we have specific market expertise. Derivatives from our asset management and proprietary trading activities are recorded on our balance sheet at fair value pursuant to SFAS 133. None of our derivatives recorded at fair value are designated as hedges under SFAS 133 and changes in their fair values are therefore recognized currently in earnings as unrealized gains or losses. As a result, our financial results including gross margin, operating income and balance sheet ratios will, at times, be volatile and subject to fluctuations in value primarily due to changes in forward electricity and fuel prices. For a more detailed discussion of the accounting treatment of our asset management and proprietary trading activities, see Note 4 to our consolidated financial statements contained elsewhere in this report.

Operation of our generating facilities involves risks that may have a material adverse effect on our cash flows and results of operations.

The operation of our generating facilities involves various operating risks, including, but not limited to:

the output and efficiency levels at which those generating facilities perform;

interruptions in fuel supply;

disruptions in the delivery of electricity;

adverse zoning;

breakdowns or equipment failures (whether due to age or otherwise);

restrictions on emissions;

violations of our permit requirements or changes in the terms of or revocation of permits;

releases of pollutants and hazardous substances to air, soil, surface water or groundwater;

shortages of equipment or spare parts;

labor disputes;

operator errors;

curtailment of operations due to transmission constraints;

failures in the electricity transmission system which may cause large energy blackouts;

implementation of unproven technologies in connection with environmental improvements; and

catastrophic events such as fires, explosions, floods, earthquakes, hurricanes or other similar occurrences.

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A decrease in, or the elimination of, the revenues generated by our facilities or an increase in the costs of operating such facilities could materially affect our cash flows and results of operations, including cash flows available to us to make payments on our debt or our other obligations.

Our operating results are subject to quarterly and seasonal fluctuations.

Our operating results have fluctuated in the past and may continue to do so in the future as a result of a number of factors, including seasonal variations in demand and fuel prices.

We compete to sell energy and capacity in the wholesale power markets against some competitors that enjoy competitive advantages, including the ability to recover fixed costs through rate base mechanisms and a lower cost of capital.

Regulated utilities in the wholesale markets generally enjoy a lower cost of capital than we do and often are able to recover fixed costs through regulated retail rates including, in many cases, the costs of generation, allowing them to build, buy and upgrade generating facilities without relying exclusively on market clearing prices to recover their investments. The competitive advantages of such participants could adversely affect our ability to compete effectively and could have an adverse impact on the revenues generated by our facilities.

Our business and activities are subject to extensive environmental requirements and could be adversely affected by such requirements, including future changes to them.

Our business is subject to extensive environmental regulations promulgated by federal, state and local authorities, which, among other things, restrict the discharge of pollutants into the air, water and soil, and also govern the use of water from adjacent waterways. Such laws and regulations frequently require us to obtain operating permits and remain in continuous compliance with the conditions established by those operating permits. To comply with these legal requirements and the terms of our operating permits, we must spend significant sums on environmental monitoring, pollution control equipment and emissions allowances. If we were to fail to comply with these requirements, we could be subject to civil or criminal liability and the imposition of liens or fines. We may be required to shut down facilities if we are unable to comply with the requirements, or if we determine the expenditures required to comply are uneconomic.

From time to time we may not be able to obtain necessary environmental regulatory approvals. Such approvals could be delayed or subject to onerous conditions. If there is a delay in obtaining environmental regulatory approval or if onerous conditions are imposed, the operation of our generating facilities or the sale of electricity to third parties could be prevented or become subject to additional costs. Such delays or onerous conditions could have a material adverse effect on our financial performance and condition.

In addition, environmental laws, particularly with respect to air emissions, wastewater discharge and cooling water systems, are generally becoming more stringent, which may require us to make expensive facility upgrades or restrict our operations. With the trend toward stricter standards, greater regulation and more extensive permitting requirements, we expect our environmental expenditures to be substantial in the future. Although we have budgeted for significant expenditures to comply with these requirements, actual expenditures may be greater than budgeted amounts. We may have underestimated the cost of the environmental work we are planning or the air emissions allowances we anticipate buying. In addition, new environmental laws may be enacted, new or revised regulations under those laws may be issued, the interpretation of such laws and regulations by regulatory authorities or the courts may change, or additional information concerning the way in which such requirements apply to us may be identified. For example, in April 2006, Maryland enacted the Healthy Air Act, which requires more significant reductions in emissions of NO_x, SO₂ and mercury than the CAIR. This legislation affects our coal-fired units at Chalk Point, Dickerson and Morgantown. We anticipate that the total capital expenditures to achieve compliance for SO₂ and NO_x emissions at these facilities will be approximately \$1.6 billion through the first quarter of 2010.

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Increased public concern and growing political pressure related to global warming has resulted in significant increases in the regulation of greenhouse gases, including CO₂ at the state level. Future local, state and federal regulation of greenhouse gases are likely to create substantial environmental costs for us in the form of taxes or purchases of emissions allowances. Many of the states where we own generating facilities, including California, Maryland, Massachusetts and New York, have recently committed to mandatory reductions in statewide CO₂ emissions through a regional cap-and-trade program. Some of these programs include proposals that would not allocate emissions allowances to existing sources of emissions and instead require all allowances to be purchased initially through an auction process. This could decrease the amount of available allowances and substantially increase their prices. Because our generating facilities emit CO₂, these regulations and similar future laws may significantly increase our operating costs.

Certain environmental laws, including CERCLA and comparable state laws, impose strict and, in many circumstances, joint and several liability for costs of remediating contamination in soil, groundwater and elsewhere. Some of our facilities have areas with known soil and/or groundwater contamination. Releases of hazardous substances at our generating facilities, or at locations where we dispose of (or in the past disposed of) hazardous substances and other waste, could require us to spend significant sums to remediate contamination, regardless of whether we caused such contamination. The discovery of significant contamination at our generating facilities, at disposal sites we currently use or have used, or at other locations for which we may be liable, or the failure or inability of parties contractually responsible to us for contamination to respond when claims or obligations regarding such contamination arise, could have a material adverse effect on our financial performance and condition.

Major environmental construction projects planned by 2010 at our Mid-Atlantic coal facilities may not meet their anticipated schedule, which would restrict these units from running at their maximum economic levels. In the event that the operating constraints were sufficiently severe, Mirant Mid-Atlantic may not have sufficient cash flow to permit it to make distributions or, if more severe, to meet its obligations.

Under the Maryland Healthy Air Act, we are required to reduce annual emissions below certain levels by January 2010. The levels established do not allow for the use of emissions allowances to meet the mandated levels. To meet these requirements, we are installing pollution control equipment on all of our Maryland coal facilities. We may not meet this construction schedule by January 2010 due to a number of factors, including:

failure or delays in obtaining necessary permits and approvals;

adverse weather conditions;

unanticipated cost increases;

engineering problems;

shortages of equipment, materials or skilled labor;

unscheduled delays in delivery of materials and equipment; and

work stoppages.

Any of these factors may significantly increase the estimated costs of our environmental construction projects or result in a loss of cash flows from operations due to reduced unit operations.

The expected decommissioning and/or site remediation obligations of certain of our generating facilities may negatively affect our cash flows.

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We expect that certain of our generating facilities and related properties will become subject to decommissioning and/or site remediation obligations that may require material expenditures. For example, we may start decommissioning the Lovett facility if the final operating unit ceases operation on April 19, 2008. We expect the decommissioning of the Lovett facility to cost approximately \$20 million. The exact amount and

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timing of such expenditures is not presently known. Furthermore, laws and regulations may change to impose material additional decommissioning and remediation obligations on us in the future. If we are required to make material expenditures to decommission or remediate one or more of our facilities, such obligations will affect our cash flows and may adversely affect our ability to make payments on our obligations.

Our consolidated indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from meeting or refinancing our obligations.

As of December 31, 2007, our consolidated indebtedness was \$3.095 billion. In addition, the present value of lease payments under the Mirant Mid-Atlantic leveraged leases is approximately \$1 billion (assuming a 10% discount rate) and the termination value of the Mirant Mid-Atlantic leveraged leases is \$1.4 billion. Our leverage could have important consequences, including the following: (1) it may limit our ability to obtain additional debt or equity financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; (2) a substantial portion of our cash flows from operations must be dedicated to the payment of principal and interest on our indebtedness and will not be available for other purposes, including our operations, capital expenditures and future business opportunities; (3) the debt service requirements of our indebtedness could make it more difficult for us to satisfy or refinance our financial obligations; (4) certain of our borrowings, including borrowings under our senior secured credit facilities, are at variable rates of interest, exposing us to the risk of increased interest rates; (5) it may limit our ability to adjust to changing market conditions and place us at a competitive disadvantage compared with our competitors that have less debt; and (6) we may be more vulnerable in a downturn in general economic conditions or in our business and we may be unable to carry out capital expenditures that are important to our long-term growth or necessary to comply with environmental regulations.

Mirant Corporation and its subsidiaries that are holding companies, including Mirant Americas Generation and Mirant North America, may not have access to sufficient cash to meet their obligations if their subsidiaries, in particular, Mirant Mid-Atlantic, are unable to make distributions.

We and certain of our subsidiaries, including Mirant Americas Generation and Mirant North America, are holding companies and, as a result, we are dependent upon dividends, distributions and other payments from our operating subsidiaries to generate the funds necessary to meet our obligations. The ability of certain of our subsidiaries to pay dividends and distributions is restricted under the terms of their debt or other agreements. In particular, a significant portion of cash from our operations is generated by the power generating facilities of Mirant Mid-Atlantic. Under the Mirant Mid-Atlantic leveraged leases, Mirant Mid-Atlantic is subject to a covenant that restricts its right to make distributions to its immediate parent, Mirant North America. In turn, Mirant North America is subject to covenants that restrict its ability to make distributions to its parent, Mirant Americas Generation. The ability of Mirant North America and Mirant Mid-Atlantic to satisfy the criteria set forth in their respective debt covenants in the future could be impaired by factors which negatively affect the performance of the power generating facilities of Mirant Mid-Atlantic, including interruptions in operation or curtailment of operations to comply with environmental restrictions.

The obligations of Mirant Corporation and its holding company subsidiaries, including the indebtedness of Mirant Americas Generation and Mirant North America, are effectively subordinated to the obligations or indebtedness of their respective subsidiaries, including the Mirant Mid-Atlantic leveraged leases.

We may be unable to generate sufficient liquidity to service our debt and to post required amounts of cash collateral necessary to hedge market risk effectively.

Our ability to pay principal and interest on our debt depends on our future operating performance. If our cash flows and capital resources are insufficient to allow us to make scheduled payments on our debt, we may have to reduce or delay capital expenditures, sell assets, seek additional capital, restructure or refinance. There

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can be no assurance that the terms of our debt will allow these alternative measures, that the financial markets will be available to us on acceptable terms or that such measures would satisfy our scheduled debt service obligations.

We seek to manage the risks associated with the volatility in the price at which we sell power produced by our generating facilities and in the prices of fuel, emissions allowances and other inputs required to produce such power by entering into hedging transactions. These asset management activities may require us to post collateral either in the form of cash or letters of credit. As of December 31, 2007, we had approximately \$110 million of posted cash collateral and \$290 million of letters of credit outstanding primarily to support our asset management activities, debt service reserve requirements and other commercial arrangements. See Note 10 to our consolidated financial statements contained elsewhere in this report for further information on our posted cash collateral and letters of credit. While we seek to structure transactions in a way that reduces our potential liquidity needs for collateral, we may be unable to execute our hedging strategy successfully if we are unable to post the amount of collateral required to enter into and support hedging contracts.

We are an active participant in energy exchange and clearing markets. These markets require a per contract initial margin to be posted, regardless of the credit quality of the participant. The initial margins are determined by the exchanges through the use of proprietary models that rely on a variety of inputs and factors, including market conditions. We have limited notice of any changes to the margin rates. Consequently, we are exposed to changes in the per unit margin rates required by the exchanges and could be required to post additional collateral on short notice.

If our facilities experience unplanned outages, we may be required to procure replacement power in the open market to satisfy contractual commitments. Without adequate liquidity to post margin and collateral requirements, we may be exposed to significant losses and may miss significant opportunities, and we may have increased exposure to the volatility of spot markets.

Our business is subject to complex government regulations. Changes in these regulations, or their administration, by legislatures, state and federal regulatory agencies, or other bodies may affect the costs of operating our facilities or our ability to operate our facilities. Such cost impacts, in turn, may negatively affect our financial condition and results of operations.

We are subject to regulation by the FERC regarding the terms and conditions of wholesale service and rates, as well as by state agencies regarding physical aspects of our generating facilities. The majority of our generation is sold at market prices under market based rate authority granted by the FERC. If certain conditions are not met, the FERC has the authority to withhold or rescind market based rate authority and require sales to be made based on cost-of-service rates. A loss of our market based rate authority could have a materially negative impact on our generating business.

Even where market based rate authority has been granted, the FERC may impose various forms of market mitigation measures, including price caps and operating restrictions, where it determines that potential market power might exist and that the public interest requires such potential market power to be mitigated. In addition to direct regulation by the FERC, most of our facilities are subject to rules and terms of participation imposed and administered by various RTOs and ISOs. Although these entities are themselves ultimately regulated by the FERC, they can impose rules, restrictions and terms of service that are quasi-regulatory in nature and can have a material adverse impact on our business. For example, ISOs and RTOs may impose bidding and scheduling rules, both to curb the potential exercise of market power and to ensure market functions. Such actions may materially affect our ability to sell and the price we receive for our energy and capacity.

To conduct our business, we must obtain and periodically renew licenses, permits and approvals for our facilities. These licenses, permits and approvals can be in addition to any required environmental permits. No assurance can be provided that we will be able to obtain and comply with all necessary licenses, permits and

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approvals for these facilities. If we cannot comply with all applicable regulations, our business, results of operations and financial condition could be adversely affected.

On August 8, 2005, the EPAct 2005 was enacted. Among other things, the EPAct 2005 provides incentives for various forms of electric generating technologies, which will subsidize certain of our competitors. Regulations that could be issued pursuant to the EPAct 2005 may have an adverse impact on our business.

We cannot predict whether the federal or state legislatures will adopt legislation relating to the restructuring of the energy industry. There are proposals in many jurisdictions both to advance and to roll back the movement toward competitive markets for the supply of electricity, at both the wholesale and retail levels. In addition, any future legislation favoring large, vertically integrated utilities and a concentration of ownership of such utilities could affect our ability to compete successfully, and our business and results of operations could be adversely affected. We cannot provide assurance that the introductions of new laws, or other future regulatory developments, will not have a material adverse impact on our business, operations or financial condition.

Changes in technology may significantly affect our generating business by making our generating facilities less competitive.

We generate electricity using fossil fuels at large central facilities. This method results in economies of scale and lower costs than newer technologies such as fuel cells, microturbines, windmills and photovoltaic solar cells. It is possible that advances in those technologies will reduce their costs to levels that are equal to or below that of most central station electricity production, which could have a material adverse effect on our results of operations.

Terrorist attacks, future war or risk of war may adversely affect our results of operations, our ability to raise capital or our future growth.

As power generators, we face heightened risk of an act of terrorism, either a direct act against one of our generating facilities or an inability to operate as a result of systemic damage resulting from an act against the transmission and distribution infrastructure that we use to transport our power. If such an attack were to occur, our business, financial condition and results of operations could be materially adversely affected. In addition, such an attack could affect our ability to service our indebtedness, our ability to raise capital and our future growth opportunities.

Our operations are subject to hazards customary to the power generating industry. We may not have adequate insurance to cover all of these hazards.

Our operations are subject to many hazards associated with the power generating industry, which may expose us to significant liabilities for which we may not have adequate insurance coverage. Power generation involves hazardous activities, including acquiring, transporting and unloading fuel, operating large pieces of rotating equipment and delivering electricity to transmission and distribution systems. In addition to natural risks, such as earthquake, flood, lightning, hurricane and wind, hazards, such as fire, explosion, collapse and machinery failure, are inherent risks in our operations. These hazards can cause significant injury to personnel or loss of life, severe damage to and destruction of property, plant and equipment, contamination of, or damage to, the environment and suspension of operations. The occurrence of any one of these events may result in our being named as a defendant in lawsuits asserting claims for substantial damages, environmental cleanup costs, personal injury and fines and/or penalties. We maintain an amount of insurance protection that we consider adequate, but we cannot assure that our insurance will be sufficient or effective under all circumstances and against all hazards or liabilities to which we may be subject. A successful claim for which we are not fully insured could have a material adverse effect on our financial results and our financial condition.

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We are currently involved in significant litigation that, if decided adversely to us, could materially adversely affect our results of operations and profitability.

We are currently involved in various litigation matters, which are described in more detail in this Form 10-K. We intend to defend vigorously against those claims that we are unable to settle, but the results of this litigation cannot be determined. Adverse outcomes for us in this litigation could require significant expenditures by us and could have a material adverse effect on our results of operations and profitability.

Item 1B. *Unresolved Staff Comments*

None.

Table of Contents**Item 2. Properties**

The properties below were owned or leased as of December 31, 2007. Our leasehold or ownership interest is 100% for each property.

Operating Plants	Location	Plant Type	Primary Fuel	Total MW(1)	2007 Net Capacity Factor(2)
Mid-Atlantic Region:					
Chalk Point	Maryland	Intermediate/Baseload/ Peaking	Natural Gas/Coal/Oil Natural	2,417	24%
Dickerson	Maryland	Baseload/Peaking	Gas/Coal/Oil	853	41%
Morgantown	Maryland	Baseload/Peaking	Coal/Oil	1,492	54%
Potomac River	Virginia	Intermediate/Baseload	Coal	482	34%
Total Mid-Atlantic				5,244	37%
Northeast Region:					
Canal	Massachusetts	Intermediate	Natural Gas/Oil Natural Gas/Oil/	1,112	23%
Kendall	Massachusetts	Baseload/Peaking	Jet fuel	256	65%
Martha s Vineyard	Massachusetts	Peaking	Diesel	14	3%
Total New England				1,382	30%
Bowline	New York	Intermediate/Peaking	Natural Gas/Oil Natural	1,124	6%
Lovett	New York	Baseload	Gas/Coal	183	67%
Total New York				1,307	15%
Total Northeast				2,689	22%
California:					
Contra Costa	California	Intermediate	Natural Gas	674	2%
Pittsburg	California	Intermediate	Natural Gas	1,311	2%
Potrero	California	Intermediate/Peaking	Natural Gas/Oil	362	16%
Total California				2,347	4%
Total Operations				10,280	25%

(1) Total MW amounts reflect nominal net dependable capacity.

(2) Net capacity factor is the average production as a percentage of the potential net dependable capacity used over a year. We also own an oil pipeline, which is approximately 51.5 miles long and serves the Chalk Point and Morgantown generating facilities.

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Item 3. *Legal Proceedings* See Note 18 to our consolidated financial statements contained elsewhere in this report for discussion of the material legal proceedings to which we are a party.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**
Common Stock

All shares of Old Mirant's common stock were cancelled on January 3, 2006, and 276,500,000 shares of New Mirant common stock were distributed to holders of unsecured claims and equity securities. In addition, we reserved 23,500,000 shares for unresolved claims, of which approximately one million shares had not yet been distributed as of December 31, 2007. New Mirant also issued Series A and Series B warrants, expiring January 3, 2011, which entitle their holders to purchase an aggregate of 35,294,118 and 17,647,059 shares of common stock, respectively. The exercise price of the Series A and Series B warrants is \$21.87 and \$20.54 per share, respectively. On December 31, 2007, there were 35,023,201 Series A warrants and 17,172,929 Series B warrants yet to be exercised. New Mirant is authorized to issue 1,500,000,000 shares of common stock having a par value of \$.01 per share and 100,000,000 shares of preferred stock having a par value of \$.01 per share.

All of the New Mirant common stock was issued in accordance with Section 1145 of the Bankruptcy Code, and we received no proceeds from such issuance. The issuance of shares of New Mirant common stock was exempt from the registration requirements of the Securities Act, as amended, and equivalent provisions of state securities laws, in reliance upon Section 1145(a) of the Bankruptcy Code.

Our common stock is currently traded on the NYSE under the ticker symbol MIR. We have submitted to the NYSE our 2007 annual certificate from our Chief Executive Officer certifying that he is not aware of any violation by the Company of NYSE corporate governance listing standards. The closing price of our stock on December 31, 2007, was \$38.98. The following table sets forth the high and low prices for our common stock as reported by the NYSE for the periods indicated.

Price Range of Common Stock

Quarter	High	Low
2006		
First	\$ 29.00	\$ 23.93
Second	\$ 26.86	\$ 23.36
Third	\$ 29.59	\$ 26.02
Fourth	\$ 32.61	\$ 25.10
2007		
First	\$ 41.70	\$ 30.41
Second	\$ 49.00	\$ 39.61
Third	\$ 44.20	\$ 34.77
Fourth	\$ 44.61	\$ 36.20

Holders

As of February 25, 2008, there were approximately 58,873 record holders of our common stock, par value \$.01 per share.

Dividends

We have not paid or declared any cash dividends on our common stock in the last two fiscal years and we do not anticipate paying any quarterly cash dividends in the foreseeable future.

Table of Contents**Return of Cash**

On November 9, 2007, we announced the conclusion of the strategic review process that was initiated in April 2007. We plan to return a total of \$4.6 billion of excess cash to our stockholders. The first stage of the cash distribution is being accomplished through an accelerated share repurchase program for \$1 billion, plus open market purchases for up to an additional \$1 billion. In the fourth quarter of 2007, in conjunction with the accelerated share repurchases, we repurchased approximately 26.66 million shares of our common stock for \$1 billion. See Note 13 to our consolidated financial statements contained elsewhere in this report for further discussion. In addition, we purchased approximately 8.27 million shares of our common stock for approximately \$316 million through open market purchases. Between January 1, 2008 and February 25, 2008, we purchased an additional 7.9 million shares in open market purchases for approximately \$286 million. On February 29, 2008, we announced that we had decided to return the remaining \$2.6 billion of cash through open market purchases of common stock but that we would continue to evaluate the most efficient method to return the cash to stockholders.

Share Repurchases

The following table sets forth information regarding repurchases by us of our common shares on the NYSE during the three-month period ended December 31, 2007:

Period	Shares repurchased (in millions)	Average price paid per share	Total number of shares purchased as part of publicly announced plans (in millions)	Approximate dollar value of shares that may yet be purchased under the plans (in millions)
Oct 1, 2007 Oct 31, 2007		\$		\$
Nov 1, 2007 Nov 30, 2007	30.56	\$ 37.50	30.56	\$ 854.18
Dec 1, 2007 Dec 31, 2007	4.37	\$ 38.83	4.37	\$ 684.32
Total	34.93	\$ 37.67	34.93	\$ 684.32

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth the compensation plans under which our equity securities were authorized for issuance as of December 31, 2007:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (in millions)	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities to be issued upon exercise of outstanding options, warrants and rights) (in millions)
Equity compensation plans approved by security holders	5.4	\$ 28.06	13.2
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	5.4	\$ 28.06	13.2

Our 2005 Omnibus Incentive Plan for certain employees and directors of Mirant became effective on January 3, 2006, and is deemed to have been approved by our stockholders by virtue of its approval under the Plan.

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Stock Performance Graph

The performance graph below compares the cumulative total stockholder return on our common stock with the Standard & Poor's 500 Index, the Standard & Poor's Multi-Utility Index and the Standard & Poor's Independent Power Producers and Energy Traders Index since the re-issuance of our common stock in connection with our emergence from bankruptcy on January 3, 2006. Our stock was re-listed on the New York Stock Exchange on January 11, 2006. Because all of Old Mirant's outstanding common stock was cancelled upon emergence from bankruptcy, stock performance prior to 2006 does not provide a meaningful comparison for current stockholders and thus has not been provided. The graph assumes that \$100 was invested on January 11, 2006, in our common stock and each of the above indices, and that all dividends are reinvested. The stockholder return shown below may not be indicative of future performance.

Table of Contents**Total Return to Stockholders**

(Includes reinvestment of dividends)

Quarterly Return Percentage**Quarter Ending**

Company / Index	3/31/2006	6/30/2006	9/30/2006	12/31/2006
Mirant	0.08%	7.20%	1.90%	15.60%
S&P 500 Index	0.51%	(1.44)%	5.67%	6.70%
S&P 500 Multi-Utilities Index	(3.17)%	3.47%	4.20%	10.54%
S&P 500 Independent Power Producers & Energy Traders	(1.92)%	19.28%	7.07%	(0.18)%

Company / Index	3/31/2007	6/30/2007	9/30/2007	12/31/2007
Mirant	28.16%	5.41%	(4.62)%	(4.18)%
S&P 500 Index	0.64%	6.28%	2.03%	(3.33)%
S&P 500 Multi-Utilities Index	6.96%	(3.07)%	1.46%	5.39%
S&P 500 Independent Power Producers & Energy Traders	15.55%	3.30%	(1.07)%	6.82%

Indexed Returns**Quarter Ending**

Company / Index	Base Period				
	1/11/2006	3/31/2006	6/30/2006	9/30/2006	12/31/2006
Mirant	\$ 100	\$ 100.08	\$ 107.29	\$ 109.33	\$ 126.38
S&P 500 Index	\$ 100	\$ 100.51	\$ 99.06	\$ 104.68	\$ 111.69
S&P 500 Multi-Utilities Index	\$ 100	\$ 96.83	\$ 100.19	\$ 104.40	\$ 115.41
S&P 500 Independent Power Producers & Energy Traders	\$ 100	\$ 98.08	\$ 116.99	\$ 125.26	\$ 125.03

Company / Index	3/31/2007	6/30/2007	9/30/2007	12/31/2007
Mirant	\$ 161.97	\$ 170.74	\$ 162.85	\$ 156.04
S&P 500 Index	\$ 112.40	\$ 119.46	\$ 121.89	\$ 117.82
S&P 500 Multi-Utilities Index	\$ 123.45	\$ 119.66	\$ 121.40	\$ 127.95
S&P 500 Independent Power Producers & Energy Traders	\$ 144.47	\$ 149.24	\$ 147.64	\$ 157.71

Table of Contents**Item 6. Selected Financial Data**

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto, which are included elsewhere in this Form 10-K. The following tables present our selected consolidated financial information, which is derived from our consolidated financial statements.

During our bankruptcy proceedings, our consolidated financial statements were prepared in accordance with SOP 90-7. Our Statements of Operations Data for the years ended December 31, 2004 and 2003, do not include interest expense on debt that was subject to compromise subsequent to the Petition Date and include goodwill impairment losses of \$582 million and \$2.067 billion, respectively. Our Statement of Operations Data for the year ended December 31, 2005, reflects the effects of accounting for the Plan confirmed on December 9, 2005.

Our Statement of Operations Data for the year ended December 31, 2006, reflects significant income tax benefits as discussed in Note 7 to our consolidated financial statements. Our Statement of Operations Data for the year ended December 31, 2007, reflects gains on sales of discontinued operations as discussed in Note 11 to our consolidated financial statements. EPS information for years prior to 2006 has not been presented because the information is not relevant in any material respect for users of our financial statements. See Note 14 to our consolidated financial statements contained elsewhere in this report for additional information.

	2007	Years Ended December 31,			2003
		2006	2005	2004	
(in millions except per share data)					
Statements of Operations Data:					
Operating revenues	\$ 2,019	\$ 3,087	\$ 2,620	\$ 3,231	\$ 3,856
Income (loss) from continuing operations	433	1,752	(1,385)	(9)	(3,863)
Income (loss) from discontinued operations	1,562	112	93	(467)	57
Cumulative effect of changes in accounting principles			(15)		(29)
Net income (loss)	1,995	1,864	(1,307)	(476)	(3,835)
Basic EPS per common share from continuing operations	\$ 1.72	\$ 6.15	N/A	N/A	N/A

The consolidated Balance Sheet Data for years 2006, 2005, 2004 and 2003, segregates pre-petition liabilities subject to compromise from those liabilities that were not subject to compromise.

	2007	Years Ended December 31,			2003
		2006	2005	2004	
Balance Sheet Data:					
Total assets	\$ 9,452	\$ 11,496	\$ 12,912	\$ 11,424	\$ 12,123
Total long-term debt	3,095	3,275	2,582	38	43
Liabilities subject to compromise		18	18	9,164	9,036
Stockholders' equity (deficit)	\$ 5,310	\$ 4,443	\$ 3,856	\$ (1,318)	\$ (823)

The debt of Mirant Americas Generation that was reinstated in 2005 is included in liabilities subject to compromise for 2003 and 2004. In 2005, we recorded the effects of the Plan. As a result, liabilities subject to compromise at December 31, 2005 and 2006 only reflect the liabilities of our New York entities that remained in bankruptcy at that time.

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Item 7. *Management's Discussion and Analysis of Results of Operations and Financial Condition*

This section is intended to provide the reader with information that will assist in understanding our financial statements, the changes in those financial statements from year to year and the primary factors contributing to those changes. The following discussion should be read in conjunction with our consolidated financial statements and the notes accompanying those financial statements.

Overview

We are a competitive energy company that produces and sells electricity in the United States. We own or lease 10,280 MW of electric generating capacity located in markets in the Mid-Atlantic and Northeast regions and in California. We also operate an integrated asset management and energy marketing organization based in Atlanta, Georgia.

Dispositions

In the third quarter of 2006, we commenced separate auction processes to sell our Philippine (2,203 MW) and Caribbean (1,050 MW) businesses and six U.S. natural gas-fired facilities totaling 3,619 MW, consisting of the Zeeland (903 MW), West Georgia (613 MW), Shady Hills (469 MW), Sugar Creek (561 MW), Bosque (546 MW) and Apex (527 MW) facilities. On May 1, 2007, we completed the sale of the six U.S. natural gas-fired facilities. On June 22, 2007, we completed the sale of our Philippine business. On August 8, 2007, we completed the sale of our Caribbean business. In addition, on May 7, 2007, we completed the sale of Mirant NY-Gen (121 MW). After transaction costs and repayment of debt, the net proceeds to us from dispositions completed for the year ended December 31, 2007, were approximately \$5.071 billion. See Note 11 to our consolidated financial statements contained elsewhere in this report for additional information regarding the accounting for these businesses and facilities as discontinued operations.

Exploration of Strategic Alternatives and Share Repurchases

On April 9, 2007, we announced that our Board of Directors had decided to explore strategic alternatives to enhance stockholder value. In the exploration process, the Board of Directors considered whether the interests of stockholders would be best served by returning excess cash from the sale proceeds to stockholders, with us continuing to operate our retained businesses or, alternatively, whether greater stockholder value would be achieved by entering into a transaction with another company, including a sale of the Company in its entirety. On November 9, 2007, we announced the conclusion of the strategic review process. We plan to return a total of \$4.6 billion of excess cash to our stockholders. The first stage of the cash distribution is being accomplished through an accelerated share repurchase program for \$1 billion, plus open market purchases for up to an additional \$1 billion. In the fourth quarter of 2007, in conjunction with the accelerated share repurchases, we repurchased approximately 26.66 million shares of our common stock for \$1 billion. See Note 13 to our consolidated financial statements contained elsewhere in this report for further discussion. In addition, we purchased approximately 8.27 million shares of our common stock for approximately \$316 million through open market purchases. Between January 1, 2008 and February 25, 2008, we purchased an additional 7.9 million shares in open market purchases for approximately \$286 million. On February 29, 2008, we announced that we had decided to return the remaining \$2.6 billion of cash through open market purchases of common stock but that we would continue to evaluate the most efficient method to return the cash to stockholders.

Hedging Activities

We economically hedge a substantial portion of our Mid-Atlantic coal-fired baseload generation and certain of our Northeast coal, gas and oil-fired generation through OTC transactions. A significant portion of our hedges are financial swap transactions that are senior unsecured obligations of Mirant Mid-Atlantic and do not require

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the posting of cash collateral either for initial margin or for securing exposure as a result of changes in power prices. However, we generally do not hedge our intermediate and peaking units for tenors greater than 12 months. At February 25, 2008, we were economically hedged as follows:

	Aggregate Hedge Levels Based on Expected Generation				
	2008	2009	2010	2011	2012
Power	98%	53%	38%	21%	20%
Fuel	95%	79%	31%	29%	5%
SO2/NOx	100%	100%	100%	100%	100%

Capital Expenditures and Capital Resources

For the year ended December 31, 2007, we paid \$560 million of capital expenditures, primarily related to the Maryland Healthy Air Act. The following table details our estimated capital expenditures, excluding capitalized interest, for 2008 through 2010 (in millions)

	2008	2009	2010
Maryland Healthy Air Act	\$ 689	\$ 286	\$ 125
Other environmental	63	35	28
Maintenance	130	142	99
Construction	74	52	18
Other	19	12	14
Total	\$ 975	\$ 527	\$ 284

Through December 31, 2007, we paid approximately \$500 million for capital expenditures related to the Maryland Healthy Air Act. We will have extended planned outages during the installation of equipment and, during those outages, we will perform other routine maintenance activities. We expect that available cash and future cash flows from operations will be sufficient to fund these capital expenditures.

Settlement Agreement with Pepco

On August 10, 2007, the Settlement Agreement and Release (the Settlement Agreement) with Pepco and the various affiliates of Pepco (collectively the Pepco Settling Parties) dated May 30, 2006, became fully effective, and we recognized a gain of \$379 million comprised of (1) \$341 million representing the fair value of the price risk management liability that was reversed as a result of the rejection of a long-term PPA with Pepco (the Back-to-Back Agreement); (2) \$36 million refunded by Pepco for payments made under the Back-to-Back Agreement for periods after May 31, 2006; and (3) \$2 million for the excess payment Pepco received from liquidation of the Mirant shares distributed to it. In addition, Pepco repaid Mirant \$70 million for an advance payment made in the third quarter of 2006 under the Settlement Agreement.

Table of Contents**Consolidated Financial Performance**

We reported net income of \$1.995 billion and \$1.864 billion for the years ended December 31, 2007 and 2006, respectively, and a net loss of \$1.307 billion for the year ended December 31, 2005. The change in net income (loss) is detailed as follows (in millions):

	Years Ended December 31,					
	2007	2006	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
Realized gross margin	\$ 1,643	\$ 1,281	\$ 362	\$ 1,281	\$ 852	\$ 429
Unrealized gross margin	(536)	655	(1,191)	655	(16)	671
Total gross margin	1,107	1,936	(829)	1,936	836	1,100
Operating expenses:						
Operations and maintenance	707	592	115	592	683	(91)
Depreciation and amortization	129	137	(8)	137	135	2
Impairment losses	175	119	56	119	9	110
Loss (gain) on sales of assets, net	(45)	(49)	4	(49)	17	(66)
Total operating expenses	966	799	167	799	844	(45)
Operating income (loss)	141	1,137	(996)	1,137	(8)	1,145
Total other expense (income), net	(299)	99	(398)	99	1,413	(1,314)
Income (loss) from continuing operations before reorganization items, net and income taxes	440	1,038	(598)	1,038	(1,421)	2,459
Reorganization items, net	(2)	(164)	162	(164)	(18)	(146)
Provision (benefit) for income taxes	9	(550)	559	(550)	(18)	(532)
Income (loss) from continuing operations	433	1,752	(1,319)	1,752	(1,385)	3,137
Income from discontinued operations	1,562	112	1,450	112	93	19
Income (loss) before cumulative effect of changes in accounting principles	1,995	1,864	131	1,864	(1,292)	3,156
Cumulative effect of changes in accounting principles					(15)	15
Net income (loss)	\$ 1,995	\$ 1,864	\$ 131	\$ 1,864	\$ (1,307)	\$ 3,171

Results of Operations

The following discussion of our performance is organized by reportable operating segment, which is consistent with the way we manage our business. In 2007, we completed the sales of six U.S. natural gas-fired facilities, our Philippine business, our Caribbean business and Mirant NY-Gen. The sales have resulted in the reclassification of the revenues and expenses of these businesses and facilities to discontinued operations and the reclassification of the related assets and liabilities to assets held for sale for all periods presented through their respective dates of sale.

In the tables below, the Mid-Atlantic region includes our Chalk Point, Morgantown, Dickerson and Potomac River facilities. The Northeast region includes our Bowline, Canal, Lovett, Kendall and Martha's Vineyard facilities. The California region includes our Pittsburg, Contra Costa and Potrero facilities. Other Operations includes proprietary trading, fuel oil management and gains and losses related to a long-term PPA with Pepco, the Back-to-Back Agreement, which was terminated pursuant to a settlement agreement that became effective in the third quarter of 2007. See Note 19 to our consolidated financial statements contained elsewhere in this report for further discussion of the Back-to-Back Agreement. Other Operations also includes unallocated corporate overhead, interest on debt at Mirant Americas Generation and Mirant North

America and interest on our invested cash balances.

Table of Contents**Operating Statistics**

The following table summarizes net capacity factor by region for the years ended December 31, 2007, 2006 and 2005:

	Years Ended December 31,					
	2007	2006	Increase/ (Decrease)	2006	2005	Decrease
Mid-Atlantic	37%	36%	1%	36%	39%	(3)%
Northeast	22%	18%	4%	18%	35%	(17)%
California	4%	6%	(2)%	6%	7%	(1)%
Total	25%	24%	1%	24%	31%	(7)%

The following table summarizes power generation volumes by region for the years ended December 31, 2007, 2006 and 2005 (in gigawatt hours):

	Years Ended December 31,					
	2007	2006	Increase/ (Decrease)	2006	2005	Decrease
Mid-Atlantic	16,832	16,608	224	16,608	18,201	(1,593)
Northeast	5,510	4,668	842	4,668	9,041	(4,373)
California	822	1,136	(314)	1,136	1,414	(278)
Total	23,164	22,412	752	22,412	28,656	(6,244)

2007 versus 2006**Gross Margin Overview**

The following table details realized and unrealized gross margin by operating segment (in millions):

	Years Ended December 31,					
	2007			2006		
	Realized	Unrealized	Total	Realized	Unrealized	Total
Mid-Atlantic	\$ 1,084	\$ (479)	\$ 605	\$ 834	\$ 484	\$ 1,318
Northeast	280	(43)	237	286	61	347
California	135		135	112	3	115
Other Operations	126	(14)	112	11	107	118
Eliminations	18		18	38		38
Total	\$ 1,643	\$ (536)	\$ 1,107	\$ 1,281	\$ 655	\$ 1,936

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Gross margin for the years ended December 31, 2007 and 2006, is further detailed as follows (in millions):

	Year Ended December 31, 2007					
	Mid-Atlantic	Northeast	California	Other Operations	Eliminations	Total
Energy	\$ 686	\$ 128	\$ 3	\$ 109	\$ 18	\$ 944
Contracted and capacity	196	87	132	17		432
Incremental realized value of hedges	202	65				267
Total realized gross margin	1,084	280	135	126	18	1,643
Unrealized gross margin	(479)	(43)		(14)		(536)
Total Gross Margin	\$ 605	\$ 237	\$ 135	\$ 112	\$ 18	\$ 1,107

	Year Ended December 31, 2006					
	Mid-Atlantic	Northeast	California	Other Operations	Eliminations	Total
Energy	\$ 532	\$ 117	\$ 14	\$ 71	\$ 38	\$ 772
Contracted and capacity	39	44	101	(60)		124
Incremental realized value of hedges	263	125	(3)			385
Total realized gross margin	834	286	112	11	38	1,281
Unrealized gross margin	484	61	3	107		655
Total Gross Margin	\$ 1,318	\$ 347	\$ 115	\$ 118	\$ 38	\$ 1,936

Energy represents gross margin from the generation of electricity, sales and purchases of emissions allowances, fuel sales, purchases and handling of fuel, steam sales and our proprietary trading and fuel oil management activities.

Contracted and capacity represents gross margin received from capacity sold in ISO administered capacity markets, through RMR contracts, ancillary services and from the Back-to-Back Agreement, which was terminated on August 10, 2007.

Incremental realized value of hedges represents the actual margin upon the settlement of our power and fuel hedging contracts.

Unrealized gross margin represents the net unrealized gain or loss on our derivative contracts.

Our gross margin for the year ended December 31, 2007, was \$1.107 billion as compared to \$1.936 billion for the same period in 2006. The decrease in gross margin, which includes net unrealized gains and losses from our hedging activities, was principally a result of the following:

A decrease of \$1.191 billion in unrealized gross margin was comprised of the following:

unrealized losses of \$536 million in 2007, which include \$438 million from the settlement of power and fuel contracts during the period for which net unrealized gains had been recorded in prior periods and a \$98 million net decrease in the value of hedge contracts for future periods primarily related to increases in forward power prices in 2007; and

unrealized gains of \$655 million in 2006, which include a \$433 million net increase in the value of hedge contracts for future periods primarily related to decreases in forward power prices in 2006 and \$222 million from the settlement of power and fuel contracts

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during the period for which net unrealized losses had been recorded in prior periods.

An increase of \$362 million in realized gross margin primarily attributable to: (1) an increase in contracted and capacity of \$308 million, which includes the refund by Pepco of \$36 million of payments made to it under

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the Back-to-Back Agreement for periods after May 31, 2006, as a result of the Settlement Agreement with Pepco becoming fully effective in August 2007; (2) an increase in energy of \$172 million as a result of an increase in power prices, a decrease in emissions prices, slightly higher generation volumes and the settlement of favorable fuel oil management positions; partially offset by (3) a decrease of \$118 million in incremental realized value of hedges.

Mid-Atlantic

Our Mid-Atlantic segment, which accounts for approximately half of our net generating capacity, includes four generating facilities with total net generating capacity of 5,244 MW. The following tables summarize our Mid-Atlantic segment (in millions):

	Years Ended December 31,		Increase/ (Decrease)
	2007	2006	
Realized gross margin	\$ 1,084	\$ 834	\$ 250
Unrealized gross margin	(479)	484	(963)
Total gross margin	605	1,318	(713)
Operating expenses:			
Operations and maintenance	360	333	27
Depreciation and amortization	81	74	7
Gain on sales of assets, net		(7)	7
Total operating expenses	441	400	41
Operating income	164	918	(754)
Total other expense (income), net	(5)	(4)	(1)
Income from continuing operations before reorganization items and income taxes	\$ 169	\$ 922	\$ (753)

Gross Margin

	Years Ended December 31,		Increase/ (Decrease)
	2007	2006	
Energy	\$ 686	\$ 532	\$ 154
Contracted and capacity	196	39	157
Incremental realized value of hedges	202	263	(61)
Total realized gross margin	1,084	834	250
Unrealized gross margin	(479)	484	(963)
Total gross margin	\$ 605	\$ 1,318	\$ (713)

The increase of \$250 million in realized gross margin was principally a result of the following:

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an increase of \$154 million in energy, primarily because of an increase in power prices, a decrease in emissions prices and slightly higher generation volumes;

an increase of \$157 million in contracted and capacity related to higher capacity revenues from the PJM RPM, which became effective in June 2007. See Item 1. **Regulatory Environment** for further discussion of RPM; and

a decrease of \$61 million in incremental realized value of hedges of our generation output primarily as a result of a decrease in the amount by which the settlement value of power contracts exceeded market prices.

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The decrease of \$963 million in unrealized gross margin was comprised of the following:

unrealized losses of \$479 million in 2007, which include \$270 million from the settlement of power and fuel contracts during the period for which net unrealized gains had been recorded in prior periods and a \$209 million net decrease in the value of hedge contracts for future periods primarily related to increases in forward power prices in 2007; and

unrealized gains of \$484 million in 2006, which include a \$312 million net increase in the value of hedge contracts for future periods primarily as a result of decreases in forward power prices in 2006 and \$172 million from the settlement of power and fuel contracts during the year for which net unrealized losses had been recorded in prior periods, particularly during the high energy prices of late 2005.

Operating Expenses

Operating expenses increased \$41 million primarily as a result of the following:

an increase of \$27 million in operations and maintenance expense, of which \$18 million was related to higher maintenance performed in conjunction with planned outages for the installation of pollution control equipment and \$8 million related to increased corporate overhead allocations as a result of the dispositions in 2007;

an increase of \$7 million in depreciation and amortization expense primarily related to expenditures on equipment to improve environmental performance; and

a decrease of \$7 million in gain on sales of assets, net primarily related to a gain of \$6 million on the sale of a building in 2006.

Northeast

Our Northeast segment is comprised of our facilities located in New York and New England with total net generating capacity of 2,689 MW. The following tables summarize the operations of our Northeast segment (in millions):

	Years Ended December 31,		Increase/ (Decrease)
	2007	2006	
Realized gross margin	\$ 280	\$ 286	\$ (6)
Unrealized gross margin	(43)	61	(104)
Total gross margin	237	347	(110)
Operating expenses:			
Operations and maintenance	179	116	63
Depreciation and amortization	25	25	
Impairment losses	175	118	57
Gain on sales of assets, net	(49)	(46)	(3)
Total operating expenses	330	213	117
Operating income (loss)	(93)	134	(227)

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Total other expense (income), net	(7)	9	(16)
Income (loss) from continuing operations before reorganization items and income taxes	\$ (86)	\$ 125	\$ (211)

Table of Contents*Gross Margin*

	Years Ended December 31,		Increase/ (Decrease)
	2007	2006	
Energy	\$ 128	\$ 117	\$ 11
Contracted and capacity	87	44	43
Incremental realized value of hedges	65	125	(60)
Total realized gross margin	280	286	(6)
Unrealized gross margin	(43)	61	(104)
Total gross margin	\$ 237	\$ 347	\$ (110)

The decrease of \$6 million in realized gross margin was principally a result of the following:

a decrease of \$60 million in incremental realized value of hedges of our generation output, primarily as a result of a decrease in the amount by which the settlement value of power contracts exceeded market prices;

an increase of \$43 million in contracted and capacity from the implementation of the new FCM in New England. See Item 1. Regulatory Environment for further information on the implementation of the new FCM; and

an increase of \$11 million in energy, primarily because of an increase in power prices and higher generation volumes.

The decrease of \$104 million in unrealized gross margin was comprised of the following:

unrealized losses of \$43 million in 2007, which include \$57 million from the settlement of power and fuel contracts during the period for which unrealized gains had been recorded in prior periods, partially offset by a \$14 million net increase in the value of hedge contracts for future periods primarily related to decreases in forward power prices in 2007; and

unrealized gains of \$61 million in 2006, which include a \$50 million net increase in the value of hedge contracts for future periods primarily related to decreases in forward power prices in 2006 and \$11 million from the settlement of power and fuel contracts during the year for which unrealized losses had been recorded in prior periods, particularly during the high energy prices of late 2005.

Operating Expenses

Operating expenses increased \$117 million primarily as a result of the following:

an increase of \$63 million in operations and maintenance which included:

an increase of \$71 million in 2007, which represents that portion of the 2006 New York property tax settlement that reduced operating expenses for 2006, but which related to prior periods. See Note 19 to our consolidated financial statements contained elsewhere in this report for further discussion; and

a decrease of \$6 million related to a decrease in maintenance costs primarily as a result of the shutdown of Lovett units 3 and 4 in 2007 and repairs on Lovett unit 5 in 2006.

an increase of \$57 million in impairment losses. In 2007, we recorded an impairment loss of \$175 million on our Lovett facility. In 2006, we recorded an impairment loss of \$118 million on the Bowline unit 3 suspended construction project. See Note 5 to our consolidated financial statements contained elsewhere in this report for additional information related to these impairments.

Table of Contents*California*

Our California segment consists of the Pittsburg, Contra Costa and Potrero facilities with total net generating capacity of 2,347 MW. The following tables summarize our California segment (in millions):

	Years Ended December 31,		Increase/ (Decrease)
	2007	2006	
Realized gross margin	\$ 135	\$ 112	\$ 23
Unrealized gross margin		3	(3)
Total gross margin	135	115	20
Operating expenses:			
Operations and maintenance	74	63	11
Depreciation and amortization	13	13	
Gain on sales of assets, net	(2)		(2)
Total operating expenses	85	76	9
Operating income	50	39	11
Total other expense (income), net	(5)	(34)	29
Income from continuing operations before reorganization items and income taxes	\$ 55	\$ 73	\$ (18)

Gross Margin

	Years Ended December 31,		Increase/ (Decrease)
	2007	2006	
Energy	\$ 3	\$ 14	\$ (11)
Contracted and capacity	132	101	31
Incremental realized value of hedges		(3)	3
Total realized gross margin	135	112	23
Unrealized gross margin		3	(3)
Total gross margin	\$ 135	\$ 115	\$ 20

The increase in our contracted and capacity gross margin and decrease in our energy gross margin were primarily a result of the commencement of a new tolling agreement in the first quarter of 2007 at our Contra Costa and Pittsburg facilities. See Item 1. *Business Segments* for additional information regarding the tolling agreement.

Operating Expenses

The increase of \$9 million in operating expenses includes an increase of \$11 million in operations and maintenance expense in 2007, resulting from higher maintenance costs related to outages and a \$5 million property tax settlement in 2006.

Other Expense (Income), Net

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The decrease of \$29 million in other expense (income), net is primarily a result of a gain of \$26 million in 2006 related to the transfer of Contra Costa unit 8 to PG&E. See California Settlement in Note 19 to our consolidated financial statements contained elsewhere in this report for further discussion.

Table of Contents**Other Operations**

Other Operations includes proprietary trading, fuel oil management and gains and losses related to the Back-to-Back Agreement, which was terminated pursuant to a settlement that became effective in the third quarter of 2007. See *Pepco Litigation* in Note 19 to our consolidated financial statements contained elsewhere in this report for further discussion of the Back-to-Back Agreement. Other Operations also includes unallocated corporate overhead, interest on debt at Mirant Americas Generation and Mirant North America and interest income on our invested cash balances. The following tables summarize our Other Operations segment (in millions):

	Years Ended December 31,		Increase/ (Decrease)
	2007	2006	
Realized gross margin	\$ 126	\$ 11	\$ 115
Unrealized gross margin	(14)	107	(121)
Total gross margin	112	118	(6)
Operating expenses:			
Operations and maintenance	94	80	14
Depreciation and amortization	10	25	(15)
Impairment losses		1	(1)
Gain on sales of assets, net	(5)	(40)	35
Total operating expenses	99	66	33
Operating income	13	52	(39)
Total other expense (income), net	(282)	128	(410)
Income (loss) from continuing operations before reorganization items and income taxes	\$ 295	\$ (76)	\$ 371

Gross Margin

	Years Ended December 31,		Increase/ (Decrease)
	2007	2006	
Energy	\$ 109	\$ 71	\$ 38
Contracted and capacity	17	(60)	77
Total realized gross margin	126	11	115
Unrealized gross margin	(14)	107	(121)
Total gross margin	\$ 112	\$ 118	\$ (6)

The increase of \$115 million in realized gross margin was principally a result of the following:

an increase of \$77 million in contracted and capacity related to a decrease in realized losses on the Back-to-Back Agreement and the related hedges of this contract and, as a result of the Settlement Agreement with Pepco becoming fully effective in August 2007, the refund by Pepco of \$36 million of payments made to it under the Back-to-Back Agreement for periods after May 31, 2006; and

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an increase of \$38 million in energy related to our proprietary trading and fuel oil management activities as favorable positions entered into prior to 2007 were settled in the current period.

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The decrease of \$121 million in unrealized gross margin was comprised of the following:

unrealized losses in 2007 of \$14 million, including:

unrealized losses on proprietary trading and fuel oil management activities of \$102 million, which include \$115 million from the settlement of power and fuel contracts during the period for which unrealized gains had been recorded in prior periods and a \$13 million net increase in value associated with contracts for future periods; partially offset by

unrealized gains on the Back-to-Back Agreement and related hedges of \$88 million primarily as a result of an increase in forward value related to the prices for forward capacity in PJM and the resulting decrease in the fair value of the liability of that agreement.

unrealized gains in 2006 of \$107 million, which include unrealized gains on proprietary trading and fuel oil management activities of \$61 million and unrealized gains on the Back-to-Back Agreement of \$46 million.

Operating Expenses

Operating expenses increased \$33 million primarily as a result of the following:

a decrease of \$35 million in gain on sales of assets, net primarily as a result of the 2006 gain on the sale of our remaining claims in the Enron bankruptcy;

an increase of \$14 million in operations and maintenance expense primarily as a result of the following:

an increase of \$35 million related to the accrual for costs of MC Asset Recovery that we are required to pay under the terms of the Plan. See Note 18 to our consolidated financial statements contained elsewhere in this report for further discussion;

an increase of \$27 million related to an increase in incentive compensation, including the dispositions bonus plan;

an increase of \$9 million in litigation contingency accruals; partially offset by

a decrease related to a curtailment gain of \$32 million resulting from an amendment to our postretirement benefits plan;

a decrease of \$19 million in bankruptcy related charges and prepetition disputes; and

a decrease of \$15 million in depreciation expense as a result of fully depreciated computer equipment.

Other Expense (Income), Net

Other expense (income), net decreased \$410 million primarily as a result of the following:

a gain of \$341 million resulting from the termination of the Back-to-Back Agreement;

an increase of \$126 million in interest income related to increased cash balances as a result of the proceeds from dispositions completed in 2007; partially offset by

a decrease in gain on sales of investments, which included a gain of \$54 million in 2006 from the sale of a portion of our investment in InterContinental Exchange and \$19 million on the sale of our two New York Mercantile Exchange seats and shares.

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Other Significant Consolidated Statements of Operations Comparison

Provision (Benefit) for Income Taxes

The provision for income taxes increased by \$559 million for the year ended December 31, 2007, compared to 2006, primarily as a result of the \$552 million benefit in 2006 related to the release of the valuation allowance pertaining to deferred tax assets previously recorded including the estimated value of the NOLs that were used to offset the 2007 taxable gain resulting from the sale of the Philippine business.

Discontinued Operations

For the year ended December 31, 2007, we reported net income from discontinued operations of \$1.562 billion, which includes the reclassification of the results of operations related to the dispositions. Income from discontinued operations increased \$1.450 billion for the year ended December 31, 2007, as compared to 2006 primarily as a result of the following:

an increase of \$2.479 billion in gain on sales of assets, which included:

an increase of \$2.003 billion as a result of the sale of the Philippine business in 2007;

an increase of \$63 million as a result of the gain on the sale of the Caribbean business in 2007;

an increase of \$405 million as a result of the impairments recorded on six U.S. natural gas-fired facilities. For the year ended December 31, 2006, we recorded total impairments of \$375 million. For the year ended December 31, 2007, we recorded a reduction to the impairment of \$30 million; and

an increase of \$8 million as a result of the sale of NY-Gen in 2007.

a 2007 gain of \$24 million related to the agreement for Wrightsville transmission credits;

an increase in the provision for income taxes of \$793 million, primarily related to the sale of the Philippine business; and

a decrease of \$260 million in income from discontinued operations because of the completion of the dispositions, which occurred in the second and third quarters of 2007.

See Note 11 to our consolidated financial statements contained elsewhere in this report for additional information related to discontinued operations.

Reorganization Items, net

Reorganization items, net for the years ended December 31, 2007 and 2006, are comprised of the following (in millions):

Years Ended December 31,		
2007	2006	Increase/ (Decrease)

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Gain on the New York property tax settlement	\$	\$ (163)	\$ 163
Professional fees and administrative expense	3	2	1
Interest income, net	(5)	(3)	(2)
Total	\$ (2)	\$ (164)	\$ 162

Under the terms of the New York property tax settlement, in February 2007 we received refunds totaling approximately \$163 million for 1995 through 2003 and paid unpaid but accrued taxes of approximately \$115 million for 2003 through 2006. See Note 19 to our consolidated financial statements contained elsewhere in this report for additional information.

Table of Contents**2006 versus 2005***Gross Margin*

The following table details gross margin by realized and unrealized margin for the year ended December 31, 2006 and 2005 (in millions):

	Years Ended December 31,					
	2006			2005		
	Realized	Unrealized	Total	Realized	Unrealized	Total
Mid-Atlantic	\$ 834	\$ 484	\$ 1,318	\$ 552	\$ (97)	\$ 455
Northeast	286	61	347	206	(11)	195
California	112	3	115	113		113
Other Operations	11	107	118	(34)	92	58
Eliminations	38		38	15		15
Total	\$ 1,281	\$ 655	\$ 1,936	\$ 852	\$ (16)	\$ 836

Mid-Atlantic

The following table summarizes the operations of our Mid-Atlantic segment for the years ended December 31, 2006 and 2005 (in millions):

	Years Ended December 31,		Increase/ (Decrease)
	2006	2005	
Realized Gross Margin	\$ 834	\$ 552	\$ 282
Unrealized Gross Margin	484	(97)	581
Total Gross Margin	1,318	455	863
Operating expenses:			
Operations and maintenance	333	341	(8)
Depreciation and amortization	74	64	10
Gain on sales of assets, net	(7)		(7)
Total operating expenses	400	405	(5)
Operating income	918	50	868
Total other expense (income), net	(4)	18	(22)
Income from continuing operations before reorganization items and income taxes	\$ 922	\$ 32	\$ 890

Gross Margin

Gross margin increased by \$863 million for the year ended December 31, 2006, compared to the same period for 2005 and is detailed as follows (in millions):

Years Ended December 31,

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	2006	2005	Increase/ (Decrease)
Energy	\$ 532	\$ 770	\$ (238)
Contracted and capacity	39	64	(25)
Incremental realized value of hedges	263	(282)	545
Total realized gross margin	834	552	282
Unrealized gross margin	484	(97)	581
Total gross margin	\$ 1,318	\$ 455	\$ 863

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Energy represents gross margin from the generation of electricity, sales and purchases of emissions allowances, fuel sales, purchases and handling of fuel, steam sales and our proprietary trading and fuel oil management activities.

Contracted and capacity represents gross margin received from capacity sold in ISO administered capacity markets, through RMR contracts, ancillary services and from the Back-to-Back Agreement, which was terminated on August 10, 2007.

Incremental realized value of hedges represents the actual margin upon the settlement of our power and fuel hedging contracts.

Unrealized gross margin represents the unrealized gain or loss on our derivative contracts.

The significant increase in the gross margin for our Mid-Atlantic operations is primarily due to the following:

an increase of \$581 million related to unrealized gross margin from hedging activities. In 2006, unrealized gains of \$484 million are primarily due to \$312 million from increased value associated with forward power contracts for future periods as a result of decreases in forward power prices in 2006 and \$172 million due to the settlement of power and fuel contracts during the year for which net unrealized losses had been recorded in prior periods, particularly during the high energy prices of late 2005. In 2005, unrealized losses of \$97 million were primarily due to increases in power prices as a result of increases in gas prices;

an increase of \$545 million in incremental realized value of hedges of our generation output. In 2006, the incremental realized value of our hedges contributed \$263 million to our gross margin as our power contracts settled at prices higher than market prices for the year. In 2005, our opportunity cost of hedging was \$282 million primarily due to the impact of rising energy prices in the latter part of 2005 that resulted in the settlement of power contracts at prices lower than market prices for that year; and

a decrease of \$238 million in energy primarily related to lower power prices and lower generation volumes on our oil-fired units. Power prices were lower due to significantly lower gas prices in 2006 compared to 2005. Our baseload coal units generation decreased slightly and our 9% total decrease in generation volumes was driven by significantly lower volumes generated by our oil-fired units. A sharp decrease in power prices combined with average oil prices that were somewhat higher than in 2005 resulted in our oil-fired units not being able to dispatch economically for much of the year.

Northeast

The following table summarizes the operations of our Northeast segment for the years ended December 31, 2006 and 2005 (in millions):

	Years Ended December 31,		Increase/ (Decrease)
	2006	2005	
Realized Gross Margin	\$ 286	\$ 206	\$ 80
Unrealized Gross Margin	61	(11)	72
Total Gross Margin	347	195	152
Operating expenses:			
Operations and maintenance	116	210	(94)
Depreciation and amortization	25	33	(8)
Impairment losses	118		118
Gain on sales of assets, net	(46)	(10)	(36)
Total operating expenses	213	233	(20)
Operating income (loss)	134	(38)	172

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Total other expense, net	9	6	3
Income (loss) from continuing operations before reorganization items and income taxes	\$ 125	\$ (44)	\$ 169

Table of Contents*Gross Margin*

Gross margin increased by \$152 million for the year ended December 31, 2006, compared to the same period for 2005 and is detailed as follows (in millions):

	Years Ended December 31,		Increase/ (Decrease)
	2006	2005	
Energy	\$ 117	\$ 214	\$ (97)
Contracted and capacity	44	35	9
Incremental realized value of hedges	125	(43)	168
Total realized gross margin	286	206	80
Unrealized gross margin	61	(11)	72
Total gross margin	\$ 347	\$ 195	\$ 152

The increase in gross margin is primarily due to the following:

an increase of \$72 million related to unrealized gross margin from hedging activities. In 2006, unrealized gains of \$61 million are primarily due to \$50 million from increased value associated with forward power and fuel contracts for future periods mainly as a result of decreases in forward power prices in 2006 and \$11 million due to the settlement of power and fuel contracts during the year for which unrealized losses had been recorded in prior periods, particularly during the high energy prices of late 2005. In 2005, unrealized losses of \$11 million were primarily due to increases in power prices as a result of increased gas prices and the settlement of contracts during the year for which unrealized losses had been recorded in prior periods, partially offset by an increase in the value of fuel hedges due to higher fuel prices;

an increase of \$168 million in incremental realized value of hedges of our generation output. In 2006, the incremental realized value of our hedges contributed \$125 million to our gross margin as our power contracts settled at prices higher than market prices for the year, partially offset by hedged fuel costs that were higher than the market. In 2005, our opportunity cost of hedging was \$43 million primarily due to the impact of rising energy prices in the latter part of 2005 that resulted in the settlement of power contracts at prices lower than market prices for that year, partially offset by the favorable impact of hedged fuel costs that were generally lower than the market as fuel prices increased in 2005; and

a decrease of \$97 million in energy primarily related to lower generation volumes. Our decrease in generation volumes was driven by significantly lower volumes generated by our oil-fired units. A decrease in power prices combined with average oil prices that were higher than in 2005 resulted in our oil-fired units not being able to dispatch economically for most of the period.

Operating Expenses

The decrease of \$20 million in operating expenses is primarily due to a decrease of \$94 million in operations and maintenance, which relates to the New York property tax settlement. Of this amount, \$71 million relates to periods prior to 2006. The remaining decrease in property tax expense represents the difference in the 2006 expense under the settlement compared to the 2005 expense that was accrued based on the property tax assessments. Gains on sales of assets increased \$36 million due to an increase of \$37 million in gains on sales of emissions allowances to affiliates that are eliminated in the consolidated statement of operations. Impairment losses in 2006 represent the impairment of the Bowline unit 3 suspended construction project.

Table of Contents*California*

The following table summarizes the operations of our California segment for the years ended December 31, 2006 and 2005 (in millions):

	Years Ended December 31,		Increase/ (Decrease)
	2006	2005	
Realized Gross Margin	\$ 112	\$ 113	\$ (1)
Unrealized Gross Margin	3		3
Total Gross Margin	115	113	2
Operating expenses:			
Operations and maintenance	63	69	(6)
Depreciation and amortization	13	5	8
Total operating expenses	76	74	2
Operating income	39	39	
Total other expense (income), net	(34)	1	(35)
Income from continuing operations before reorganization items and income taxes	\$ 73	\$ 38	\$ 35

Gross Margin

Gross margin increased by \$2 million for the year ended December 31, 2006, compared to the same period for 2005 and is detailed as follows (in millions):

	Years Ended December 31,		Increase/ (Decrease)
	2006	2005	
Energy	\$ 14	\$	\$ 14
Contracted and capacity	101	114	(13)
Incremental realized value of hedges	(3)	(1)	(2)
Total realized gross margin	112	113	(1)
Unrealized gross margin	3		3
Total gross margin	\$ 115	\$ 113	\$ 2

The increase in our energy gross margin is primarily due to several days of extreme heat in July 2006, which allowed us to earn incremental gross margin on units that were under a tolling agreement for the same period in 2005. The expiration of this tolling agreement is the primary reason for the decrease in our contracted and capacity margin.

Other Expense (Income), net

The decrease of \$35 million in other expense, net is primarily due to a gain of \$26 million in 2006 related to the transfer of Contra Costa unit 8 to PG&E and an increase of \$6 million in interest income. See California Settlement in Note 19 to our consolidated financial statements for further discussion.

Table of Contents**Other Operations**

Other Operations includes proprietary trading, fuel oil management, and gains and losses related to the Back-to-Back Agreement and the transition power agreement with Pepco that expired in January 2005. See *Pepco Litigation* in Note 19 to our consolidated financial statements for further discussion of the Back-to-Back Agreement. The following table summarizes the operations of our Other Operations segment for the years ended December 31, 2006 and 2005 (in millions):

	Years Ended December 31,		Increase/ (Decrease)
	2006	2005	
Realized Gross Margin	\$ 11	\$ (34)	\$ 45
Unrealized Gross Margin	107	92	15
Total Gross Margin	118	58	60
Operating expenses:			
Operations and maintenance	80	64	16
Depreciation and amortization	25	33	(8)
Impairment losses	1	9	(8)
Loss (gain) on sales of assets, net	(40)	19	(59)
Total operating expenses	66	125	(59)
Operating income (loss)	52	(67)	119
Total other expense, net	128	1,414	(1,286)
Loss from continuing operations before reorganization items and income taxes	\$ (76)	\$ (1,481)	\$ 1,405

Gross Margin

Gross margin increased by \$60 million for the year ended December 31, 2006, compared to the same period for 2005 and is detailed as follows (in millions):

	Years Ended December 31,		Increase
	2006	2005	
Energy	\$ 71	\$ 44	\$ 27
Contracted and capacity	(60)	(78)	18
Total realized gross margin	11	(34)	45
Unrealized gross margin	107	92	15
Total gross margin	\$ 118	\$ 58	\$ 60

The increase in gross margin is primarily due to the following:

an increase of \$27 million in energy, primarily related to our proprietary trading and fuel oil management activities net of cost or market adjustments on our oil inventory during the third and fourth quarters of 2006;

an increase of \$18 million in contracted and capacity due to a decrease in realized losses on the Back-to-Back Agreement and the hedges related to this contract, primarily due to the expiration of one of Pepco's PPAs covered by that agreement; and

an increase of \$15 million in unrealized gross margin, which includes an increase of \$73 million in unrealized gains on our proprietary trading and fuel oil management activities, partially offset by a decrease of \$58 million in unrealized gains on the Back-to-Back Agreement and the related hedges.

Table of Contents*Operating Expenses*

The decrease of \$59 million in operating expenses is primarily due to an increase in gain on sales of assets. In 2006, we recognized a \$40 million gain from the sale of our remaining claims in the Enron bankruptcy. In 2005, we recognized a \$19 million loss on sale of equipment from our Wyandotte suspended construction project.

Other Expense, net

Other expense, net in 2006 includes the interest expense on the debt of Mirant Americas Generation and Mirant North America. The decrease in other expense, net of \$1.286 billion is primarily due to the following:

in 2005, we recognized \$1.2 billion of interest on liabilities subject to compromise for the period from the 2003 petition date through December 2005; and

gains on sales of investments increased \$31 million. In 2006, we recognized a gain of \$54 million related to sales of our investment in InterContinental Exchange and a gain of \$19 million on the sale of our two New York Mercantile Exchange seats and shares. In 2005, we recognized a gain of \$44 million related to the sale of a portion of our investment in InterContinental Exchange.

Other Significant Consolidated Statements of Operations Comparison*Reorganization Items, net*

Reorganization items, net for the years ended December 31, 2006 and 2005, are comprised of the following (in millions):

	Years Ended December, 31,		
	2006	2005	Increase/ (Decrease)
Gain on the implementation of the Plan	\$	\$ (285)	\$ 285
Gain on the New York property tax settlement	(163)		(163)
Estimated claims and losses on rejected and amended contracts		72	(72)
Professional fees and administrative expense	2	226	(224)
Interest income, net	(3)	(31)	28
Total	\$ (164)	\$ (18)	\$ (146)

Reorganization items, net decreased by \$146 million for the year ended December 31, 2006, compared to 2005, primarily related to the settlement of the New York State property tax disputes. Under the terms of the settlement, in February 2007 we received refunds totaling approximately \$163 million for 1995 through 2003 and paid unpaid but accrued taxes of approximately \$115 million for 2003 through 2006. For the year ended December 31, 2005, reorganization items, net represent amounts that were recorded in the financial statements as a result of the bankruptcy proceedings.

Estimated claims and losses on rejected and amended contracts relate primarily to rejected energy contracts, such as tolling agreements, gas transportation contracts and electric transmission contracts.

Provision (Benefit) for Income Taxes

The \$550 million net benefit for income taxes for the year ended December 31, 2006, is primarily due to the \$552 million benefit related to the release of the valuation allowance pertaining to deferred tax assets previously recorded including the estimated value of the NOLs that was used to offset the 2007 taxable gain that resulted

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from the sale of the Philippine business in 2007. See Note 7 to the consolidated financial statements for further discussion.

Discontinued Operations

During the third quarter of 2006, we commenced separate auction processes to sell our Philippine and Caribbean businesses and six natural gas-fired facilities in the United States. Accordingly, the results of operations related to the planned sales were reclassified to income (loss) from discontinued operations in our consolidated statements of operations for all periods presented.

For the year ended December 31, 2006, we reported net income from discontinued operations of \$112 million, which includes the reclassification of the results of operations related to the planned dispositions and income related to the Wichita Falls facility. Included in income from discontinued operations are the following:

an impairment loss of \$375 million to write-down the U.S. natural gas-fired assets to estimated fair value;

an income tax benefit of \$141 million related to the disposition of the Philippine business; and

a net tax benefit of \$124 million related to the reversal of previously accrued foreign withholding taxes as a result of the decision, based on the pending sale of the Philippine business, to no longer distribute any accumulated earnings in the form of a dividend prior to the closing of the sale.

For the year ended December 31, 2005, we reported net income from discontinued operations of \$93 million, which includes the reclassification of the results of operations related to the planned dispositions and income related to the Wichita Falls facility and the Wrightsville generating facility.

At December 31, 2005, we had deferred tax assets of \$84 million related to the anticipated future tax benefits of unrealized foreign exchange losses arising from the U.S. dollar denominated borrowings of our Philippine entities. Accordingly, in 2006, we recognized an additional income tax provision of \$84 million. We also experienced an increase in the income tax provision of \$23 million for the year ended December 31, 2006, related to the effects of the expiration of the Sual tax holiday in 2005, offset by the reversal of a \$12 million tax contingency related to prior tax years.

See Note 11 to our consolidated financial statements contained elsewhere in this report for additional information related to discontinued operations.

Table of Contents**Liquidity and Capital Resources***Sources of Funds and Capital Structure*

The principal sources of liquidity for our future operations and capital expenditures are expected to be: (1) existing cash on hand and cash flows from the operations of our subsidiaries; (2) letters of credit issued or borrowings made under Mirant North America's \$800 million senior secured revolving credit facility; and (3) \$200 million of letter of credit capacity available under the Mirant North America senior secured term loan.

The table below sets forth total cash, cash equivalents and availability of credit facilities of Mirant Corporation and its subsidiaries at December 31, 2007 and 2006 (in millions):

	At December 31,	
	2007	2006
Cash and Cash Equivalents:		
Mirant Corporation	\$ 4,232	\$ 367
Mirant Americas Generation	1	
Mirant North America	455	675
Mirant Mid-Atlantic	242	75
Other	31	22
Total cash and cash equivalents	4,961	1,139
Less: Cash restricted and reserved for other purposes	15	112
Total available cash and cash equivalents	4,946	1,027
Available under credit facilities	710	796
Total cash, cash equivalents and credit facilities availability	\$ 5,656	\$ 1,823
Cash and cash equivalents of discontinued operations	\$	\$ 246

We consider all short-term investments with an original maturity of three months or less to be cash equivalents. At December 31, 2007, except for amounts held in bank accounts to cover upcoming payables, all of our cash and cash equivalents were invested in AAA-rated U.S. Treasury money market funds.

Except for existing cash on hand, Mirant Corporation, Mirant Americas Generation and Mirant North America are dependent on the distributions and dividends of their subsidiaries, or in the case of Mirant Americas Generation and Mirant North America, capital contributions, or in the case of Mirant North America, capacity available under its revolving credit and letter of credit facilities for liquidity. The ability of Mirant North America and its subsidiary Mirant Mid-Atlantic to make distributions and pay dividends is restricted under the terms of their debt agreements and leverage lease documentation, respectively. At December 31, 2007, Mirant North America had distributed to its parent, Mirant Americas Generation, all available cash that was permitted to be distributed under the terms of its debt agreements, leaving \$697 million at Mirant North America and its subsidiaries. Of this amount, \$242 million was held by Mirant Mid-Atlantic which, as of December 31, 2007, met the ratio tests under the leveraged lease documents for distribution of the entire amount to Mirant North America. After taking into account the financial results of Mirant North America for the year ended December 31, 2007, we expect Mirant North America will be able to distribute approximately \$65 million to its parent in March 2008.

We and certain of our subsidiaries, including Mirant Americas Generation and Mirant North America, are holding companies. The chart below is a summary representation of our capital structure and is not a complete corporate organizational chart.

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A significant portion of cash from our operations is generated by the power generation facilities of Mirant Mid-Atlantic. Under the Mirant Mid-Atlantic leveraged leases, Mirant Mid-Atlantic is subject to a covenant that restricts its right to make distributions to Mirant North America. Mirant Mid-Atlantic's ability to satisfy the criteria set by that covenant in the future could be impaired by factors which negatively affect the performance of its power generation facilities, including interruptions in operation or curtailment of operations to comply with environmental restrictions.

Mirant North America is an intermediate holding company that is a subsidiary of Mirant Americas Generation and the parent of its indirect subsidiaries, including Mirant Mid-Atlantic. Mirant North America incurred certain indebtedness pursuant to its senior notes and senior secured credit facilities secured by the assets of Mirant North America and its subsidiaries (other than Mirant Mid-Atlantic and Mirant Energy Trading). The indebtedness of Mirant North America includes certain covenants typical in such notes and credit facilities, including restrictions on dividends, distributions and other restricted payments. Further, the notes and senior secured credit facilities include financial covenants that will exclude from the calculation the financial results of any subsidiary that is unable to make distributions or dividends at the time of such calculation. Thus, the ability of Mirant Mid-Atlantic to make distributions to Mirant North America under the leveraged lease transaction could have a material effect on the calculation of the financial covenants under the senior notes and senior secured credit facilities of Mirant North America and on its ability to make distributions to Mirant Americas Generation.

The ability of Mirant Americas Generation to pay its obligations is dependent on the receipt of dividends from Mirant North America, capital contributions from Mirant Corporation and its ability to refinance all or a portion of those obligations as they become due.

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Maintaining sufficient liquidity in our business is crucial in order to mitigate the risk of future financial distress to us. Accordingly, we plan on a prospective basis for the expected liquidity requirements of our business considering the factors listed below:

expected expenditures with respect to maintenance activities and capital improvements, and related outages;

expected collateral posted in support of our business;

effects of market price volatility on the amount of collateral posted for economic hedge transactions and risk management transactions;

effects of market price volatility on fuel pre-payment requirements;

seasonal and intra-month working capital requirements; and

debt service obligations.

Our operating cash flows may be affected by, among other things: (1) demand for electricity; (2) the difference between the cost of fuel used to generate electricity and the market value of the electricity generated; (3) commodity prices (including prices for electricity, emissions allowances, natural gas, coal and oil); (4) the cost of ordinary course operations and maintenance expenses; (5) planned and unplanned outages; (6) terms with trade creditors; and (7) cash requirements for capital expenditures relating to certain facilities (including those necessary to comply with environmental regulations).

Uses of Funds

Our requirements for liquidity and capital resources, other than for the day-to-day operation of our generating facilities, are significantly influenced by the following activities: (1) the return of cash to stockholders; (2) capital expenditures required to keep our power generating facilities in operation; (3) debt service; (4) our asset management and proprietary trading activities; and (5) the Mirant Mid-Atlantic operating leases.

Return of Cash to Stockholders. We plan to return a total of \$4.6 billion of excess cash to our stockholders. The first stage of the cash distribution is being accomplished through an accelerated share repurchase program for \$1 billion, plus open market purchases for up to an additional \$1 billion. In the fourth quarter of 2007, in conjunction with the accelerated share repurchase program, we repurchased approximately 26.66 million shares of our common stock for \$1 billion. See Note 13 to our consolidated financial statements contained elsewhere in this report for further discussion. In addition, we purchased approximately 8.27 million shares of our common stock for approximately \$316 million through open market purchases. Between January 1, 2008 and February 25, 2008, we purchased an additional 7.9 million shares in open market purchases for approximately \$286 million. On February 29, 2008, we announced that we had decided to return the remaining \$2.6 billion of cash through open market purchases of common stock but that we would continue to evaluate the most efficient method to return the cash to stockholders.

Capital Expenditures. Capital expenditures excluding capitalized interest for our continuing operations were \$560 million, \$133 million and \$101 million for the years ended December 31, 2007, 2006 and 2005, respectively. Our capital expenditures for 2008, 2009 and 2010 are expected to be approximately \$975 million, \$527 million and \$284 million, respectively. This forecast does not assume any construction of new generating units during the forecast period. Instead, the current capital expenditure program, which is expected to be funded by cash on hand and operating cash flow, focuses on efficiency, safety, reliability and compliance with existing environmental laws and obligations under consent decrees to which the Company is a party, including capital expenditures made to comply with the limitations for SO₂ and NO_x emissions under the Maryland Healthy Air Act. For a more detailed discussion of environmental expenditures we expect to incur in the future, see Item 1. Business.

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Debt Service. At December 31, 2007, we had \$3.095 billion of long-term debt with expected interest expense of approximately \$237 million for 2008. In the fourth quarter of 2007, we purchased and retired \$39 million of Mirant Americas Generation senior notes due in 2011.

Under the terms of its senior secured term facility, Mirant North America is required to use 50% of its free cash flow for each fiscal year (less amounts paid to Mirant Americas Generation for the purpose of paying interest on the Mirant Americas Generation senior notes) to pay down its senior secured term loan, in addition to its scheduled amortization of \$7 million per year. The percentage of free cash flow that Mirant North America is required to use to pay down its senior secured term loan may be reduced to 25% upon the achievement by it of a net debt to EBITDA ratio of less than 2:1. At December 31, 2007, Mirant North America's net debt to EBITDA was less than 2:1. As such, it was required to use 25% of its free cash flow to pay down its senior secured term loan. We estimate this prepayment, which will be made during the first quarter of 2008, to be \$132 million.

Mirant Mid-Atlantic Operating Leases. Mirant Mid-Atlantic leases the Morgantown and Dickerson baseload units and associated property through 2034 and 2029, respectively. Mirant Mid-Atlantic has an option to extend the leases. Any extensions of the respective leases would be limited to 75% of the economic useful life of the facility, as measured from the beginning of the original lease term through the end of the proposed remaining lease term. We are accounting for these leases as operating leases. While there is variability in the scheduled payment amounts over the lease term, we recognize rent expense for these leases on a straight-line basis in accordance with the applicable accounting literature. As of December 31, 2007, the total notional minimum lease payments for the remaining term of the leases aggregated approximately \$2.1 billion and the aggregate termination value for the leases was approximately \$1.4 billion and generally decreases over time. Rent expense under the Mirant Mid-Atlantic leases was \$96 million for the years ended December 31, 2007 and 2006 and \$99 million for the year ended December 31, 2005. In addition, Mirant Mid-Atlantic is required to post rent reserves in an aggregate amount equal to the greater of the next six months' rent, fifty percent of the next 12 months' rent or \$75 million.

Cash Collateral and Letters of Credit. In order to sell power and purchase fuel in the forward markets and perform other energy trading and marketing activities, we are often required to provide trade credit support to our counterparties or make deposits with brokers. In addition, we are often required to provide cash collateral or letters of credit for access to the transmission grid, to participate in power pools, to fund debt service reserves and for other operating activities. Trade credit support includes cash collateral, letters of credit and financial guarantees. In the event that we default, the counterparty can draw on a letter of credit or apply cash collateral held to satisfy the existing amounts outstanding under an open contract. As of December 31, 2007, we had approximately \$110 million of posted cash collateral and \$290 million of letters of credit outstanding primarily to support our asset management activities, debt service and rent reserve requirements and other commercial arrangements. Of the letters of credit outstanding at December 31, 2007, \$199 million was posted by Mirant North America under its senior secured term loan and the remainder was issued under Mirant North America's \$800 million senior secured revolving credit facility. Our liquidity requirements are highly dependent on the level of our hedging activity, forward prices for energy, emissions allowances and fuel, commodity market volatility and credit terms with third parties. See Note 10 to our consolidated financial statements contained elsewhere in this report for additional information.

The following table summarizes at December 31, 2007 and 2006, for our continuing operations, cash collateral posted with counterparties and brokers and letters of credit issued (in millions):

	At December 31,	
	2007	2006
Cash collateral posted energy trading and marketing	\$ 96	\$ 27
Cash collateral posted other operating activities	14	13
Letters of credit energy trading and marketing	100	100
Letters of credit debt service and rent reserves	78	84
Letters of credit other operating activities	112	15
Total	\$ 400	\$ 239

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Debt Obligations, Off-Balance Sheet Arrangements and Contractual Obligations

Our debt obligations, off-balance sheet arrangements and contractual obligations as of December 31, 2007, are as follows (in millions):

	Debt Obligations, Off-Balance Sheet Arrangements and Contractual Obligations by Year						
	Total	2008	2009	2010	2011	2012	>5 Years
Operating:							
Mirant Mid-Atlantic operating leases	\$ 2,133	\$ 121	\$ 142	\$ 140	\$ 134	\$ 132	\$ 1,464
Other operating leases	70	10	10	10	9	8	23
Fuel commitments	506	314	192				
Long-term service agreements	31	2	2	2	2	5	18
Other	153	153					
Investing :							
Maryland Healthy Air Act	713	689	24				
Financing:							