



Winter 2012 RETAC Meeting

Electric Segment Report

Generation

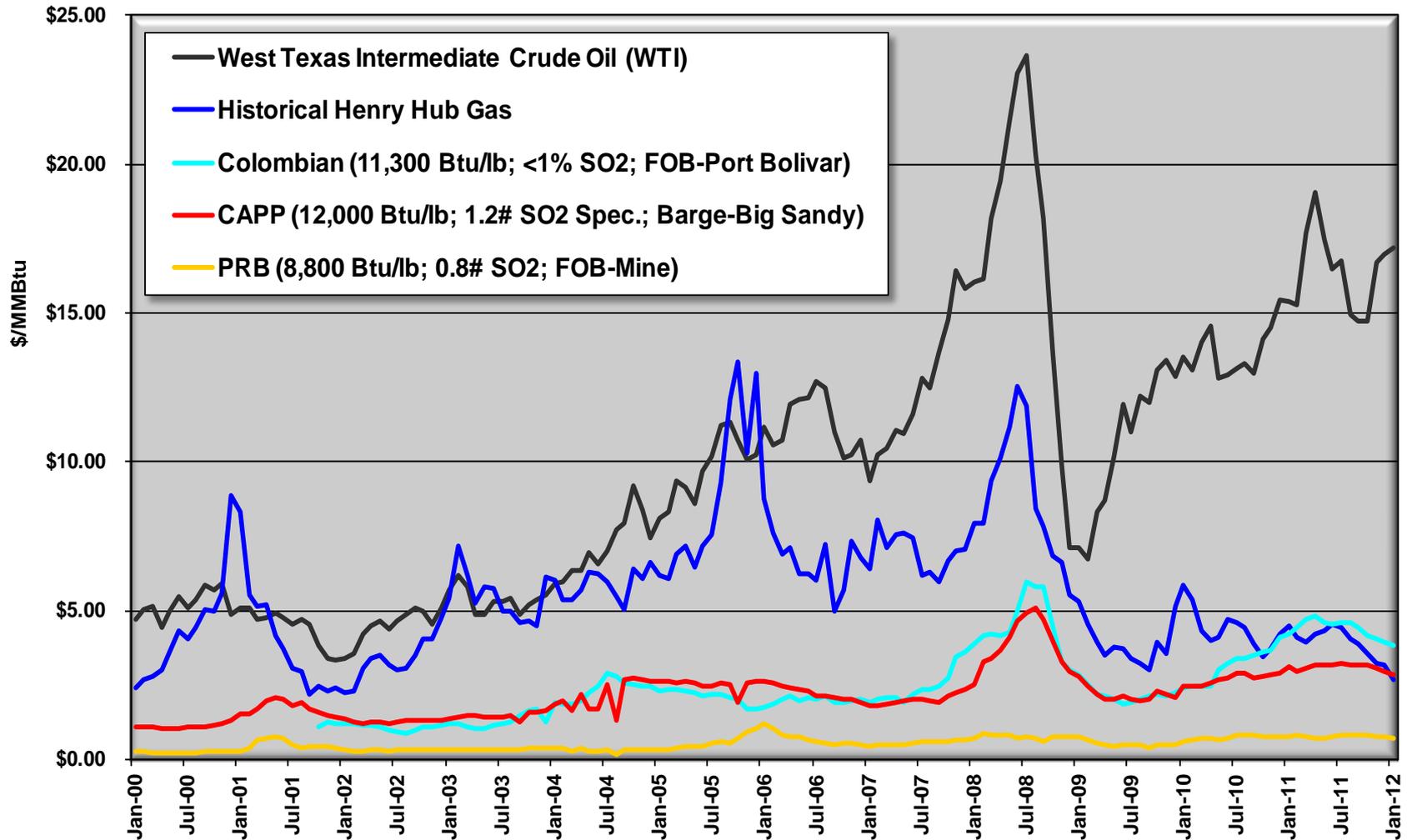
Shifting Fundamentals

Present

- Low natural gas prices
 - Short-term blip or long-term game changer?
 - Some PRB recently forced out of the money
- Low load growth
 - Slow economic recovery = low commercial and industrial growth
- Mild winter
 - Nationwide above average temperatures = low residential demand for electricity and gas
 - Further downward pressure on gas prices

Comparison of Coal, Oil + Gas

Ending January 2012



Electric Utility Response

Present: adapting our business in real time

- Dispatching: coal moved from base-load to intermediate
- Planning: scenario-based, coal volumes extremely unpredictable
- Purchasing: more tons uncommitted in prompt year and plus one
- Negotiating: deferring tons, storing tons, contract buy-outs

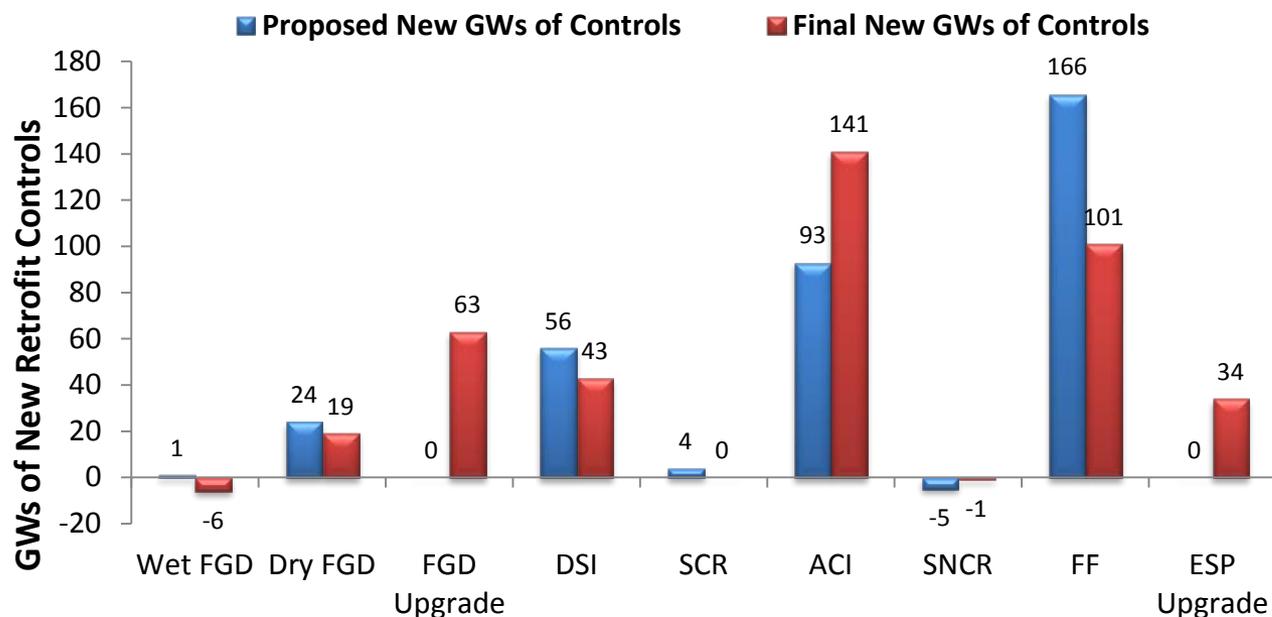
Shifting Fundamentals

Near Future

- CSAPR (Cross State Air Pollution Rule)
 - Court to hear oral arguments in April 2012
- HAPs MACT (Hazardous Air Pollutant Maximum Achievable Control Technology)
 - Effective compliance date of April 2015

Potential Retirements and Controls

- Coal unit retirement estimates have ranged from 5 GW (EPA) to 80 GW (EEI).
- Large capital expenditures will be required to add a suite of controls as indicated below.



Electric Utility Response

Near Future: seeking a “no regrets” strategy

- Retiring: oldest, most inefficient coal units
- Controlling: what suite of controls is absolutely necessary? Are there combinations of coals and controls that achieve results?
- Converting: utilize gas in coal boilers
- Switching: seeking savings from Illinois and Powder River Basin

Questions for Electric Utility Partners

Can railroads and coal producers adapt their business models for fundamental shifts in the fuel dynamic?

Present

- Is it possible to adapt monthly coal nominating process?
- Have railroads shifted resources away from coal?

Near Future

- Are railroads and producers seeing the same future as utilities?
- Is resource and infrastructure planning underway for volume and basin shifts?
- Are there opportunities for more contract flexibility if planning is better coordinated? Utilities would value term and volume optionality.