A horizontal bar with a red segment on the left and a grey segment on the right.

Vermont Renewable Power Supply Acquisition Authority

Project Update

October 2, 2003

Topics for Discussion

- Bankruptcy Status
- Asset Profile
- Valuation Approach
- Market for Output
- Financing
- Risks and Benefits
- Next Steps
- Executive Session

Bankruptcy Process and Status

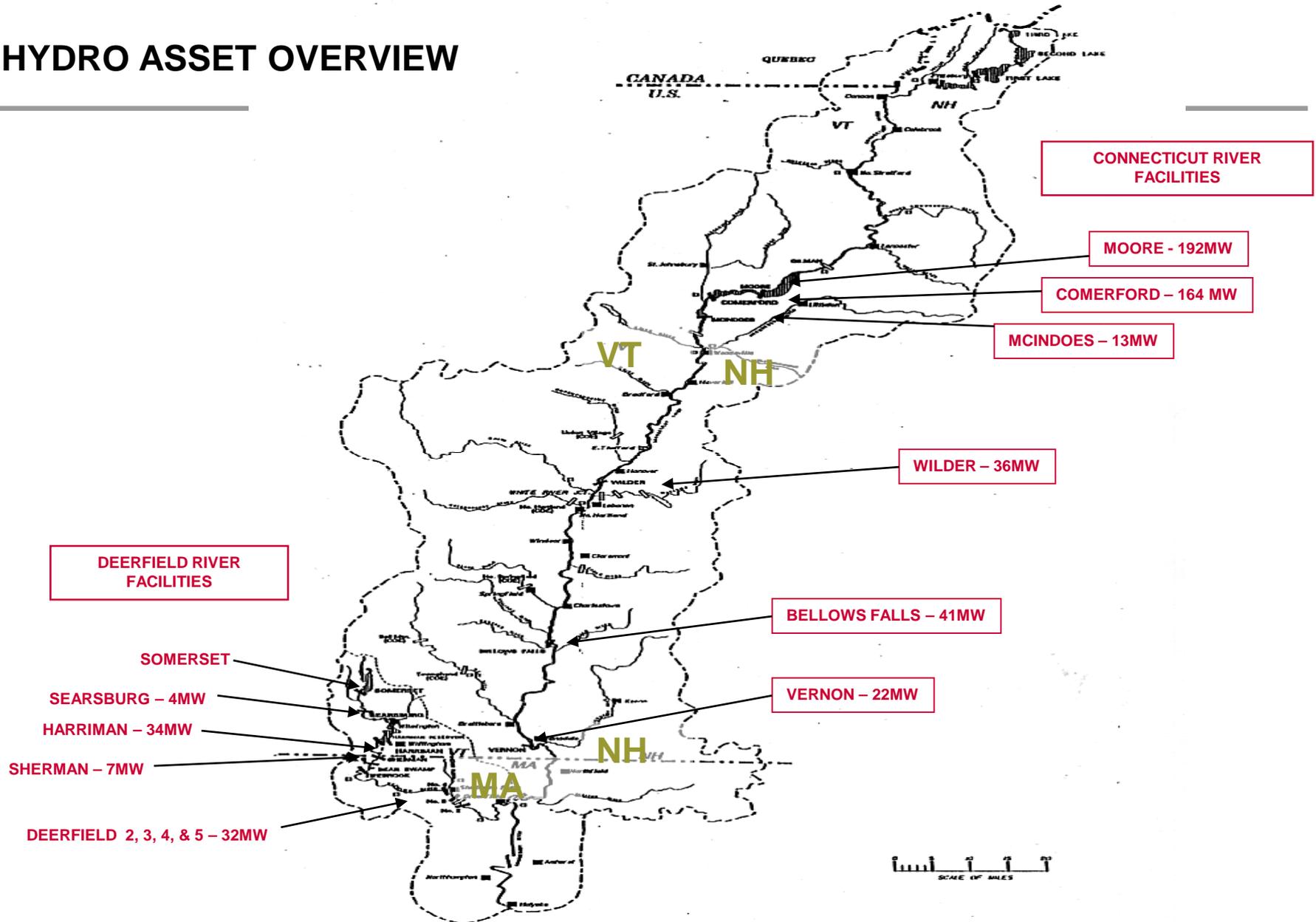
- PG&E and six wholly-owned subsidiaries, including USGen New England, filed for Chapter 11 protection on July 8, 2003.
- USGen NE's petition is separate from the other subsidiaries.
- Some PG&E NEG entities have not filed.
- Based on discussions with PG&E's Chief Executive and Restructuring Officer (Joe Bondi, Alvarez & Marsal) and the Company's financial advisor (Lazard):
 - A restructuring plan, including both ongoing enterprise and M&A alternatives, is under consideration.
 - There is a good deal of uncertainty among creditors regarding their preferred path.
 - Lazard will conduct any asset sales; they hope to solicit interest in some/all assets in 30-45 days.
 - Interest in all and parts of USGen NE's assets is expected (based on unsolicited interest).
 - Disposition of Bear Swamp, Salem Harbor, Brayton Point and Manchester Street will be key issues.
 - Alvarez & Marsal and Lazard are aware of Vermont's interests in the hydros.

USGen NE Assets

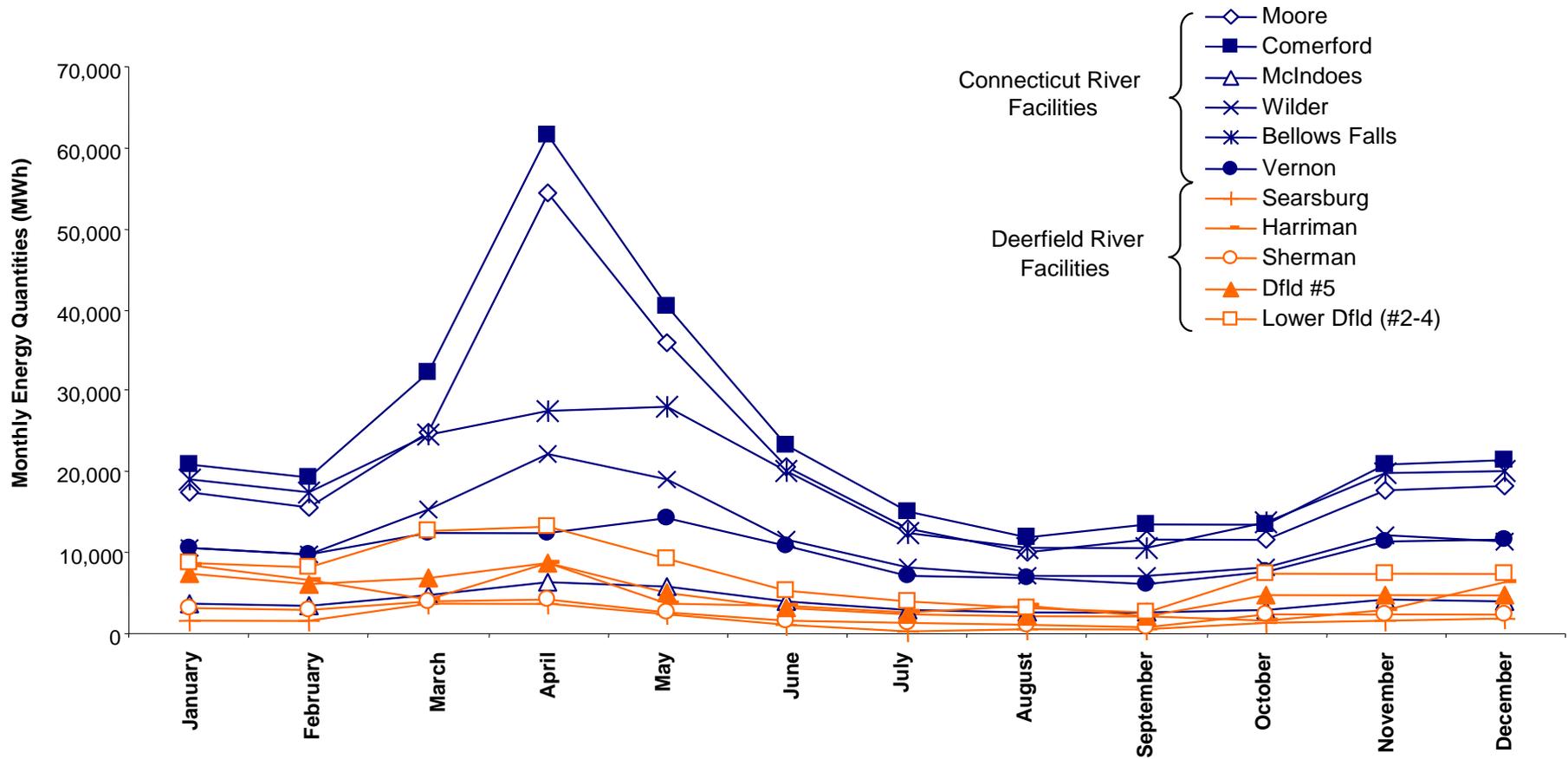
Facility	Capacity	Fuel	Location
Brayton Point	1,599	Coal /Oil	Somerset, MA
Salem Harbor	745	Coal /Oil	Salem, MA
Bear Swamp	573	Hydro-Pumped Storage	Monroe Bridge, MA
CT and Deerfield River Systems	573	Hydro	VT, NH, MA
Manchester Street	495	Natural Gas	Providence, RI
Total	3,985		

Source: PG&E NEG Website.

HYDRO ASSET OVERVIEW

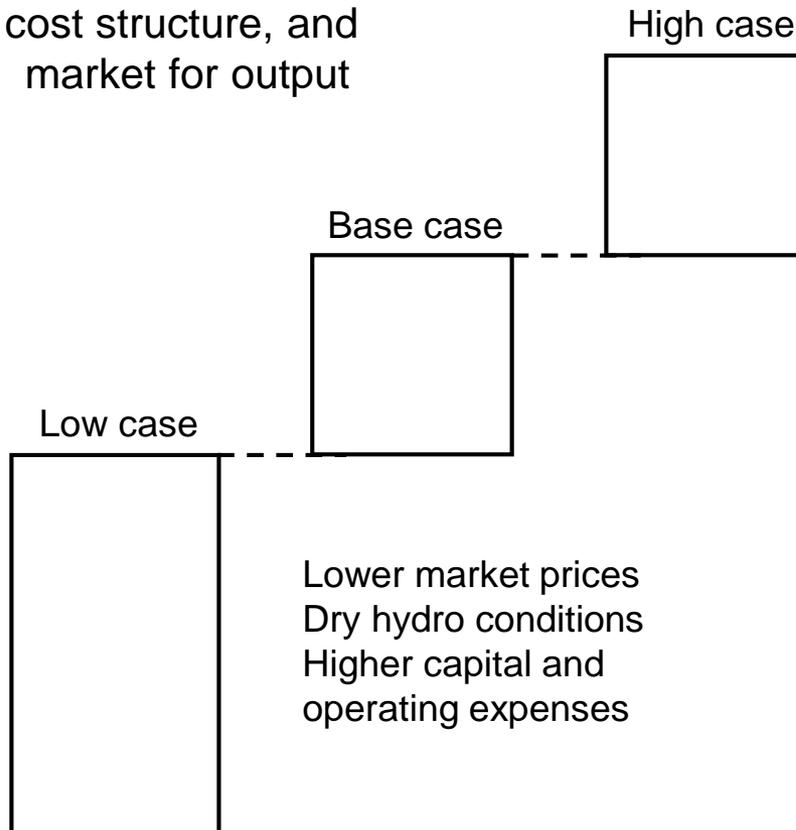


Hydroelectric Generation Profile

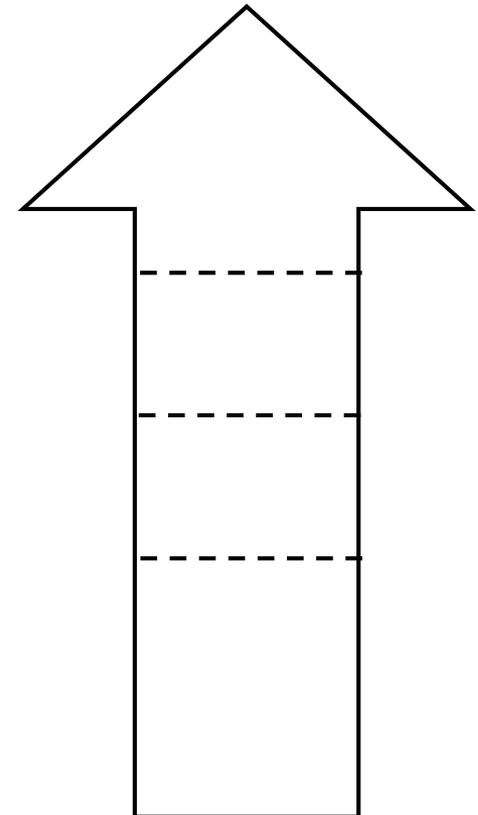


Valuation Approach

Valuation based on Vermont financing, cost structure, and market for output



Valuation based on “typical” industry buyer

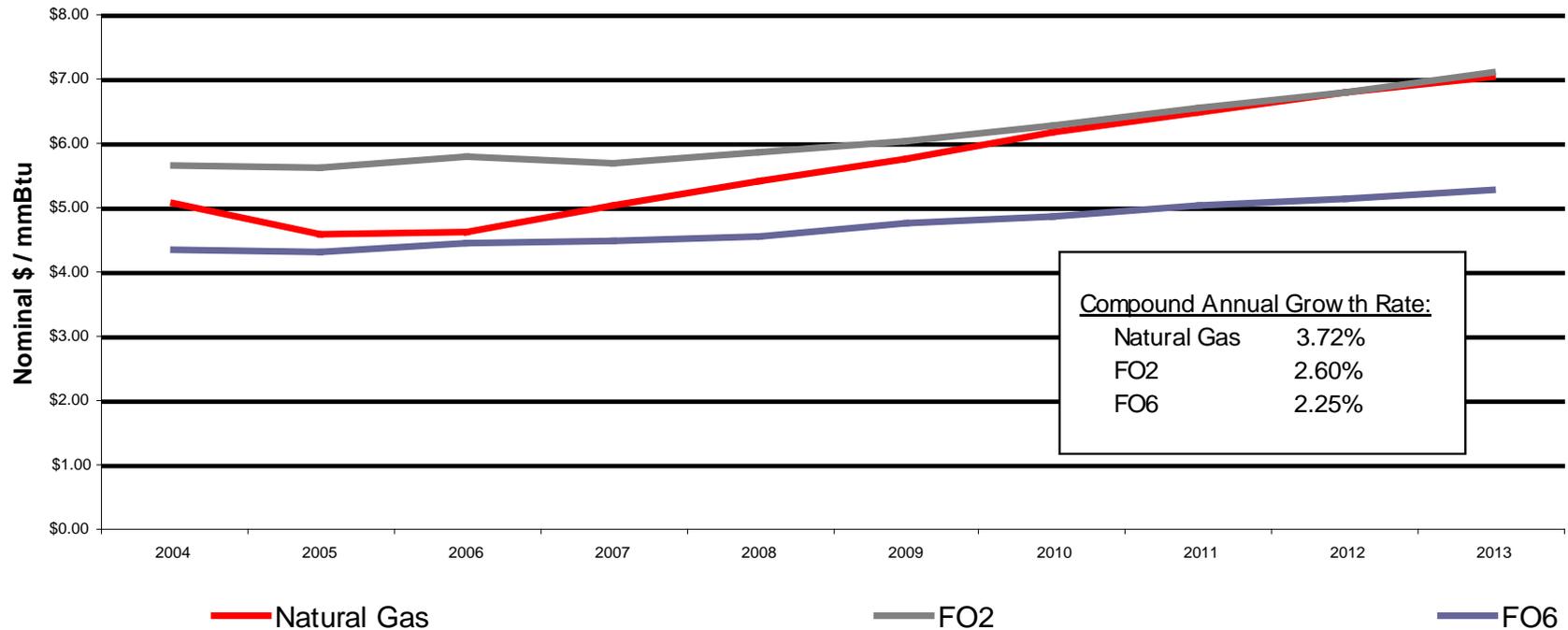


Base Case Modeling Assumptions for Hydroelectric Facilities

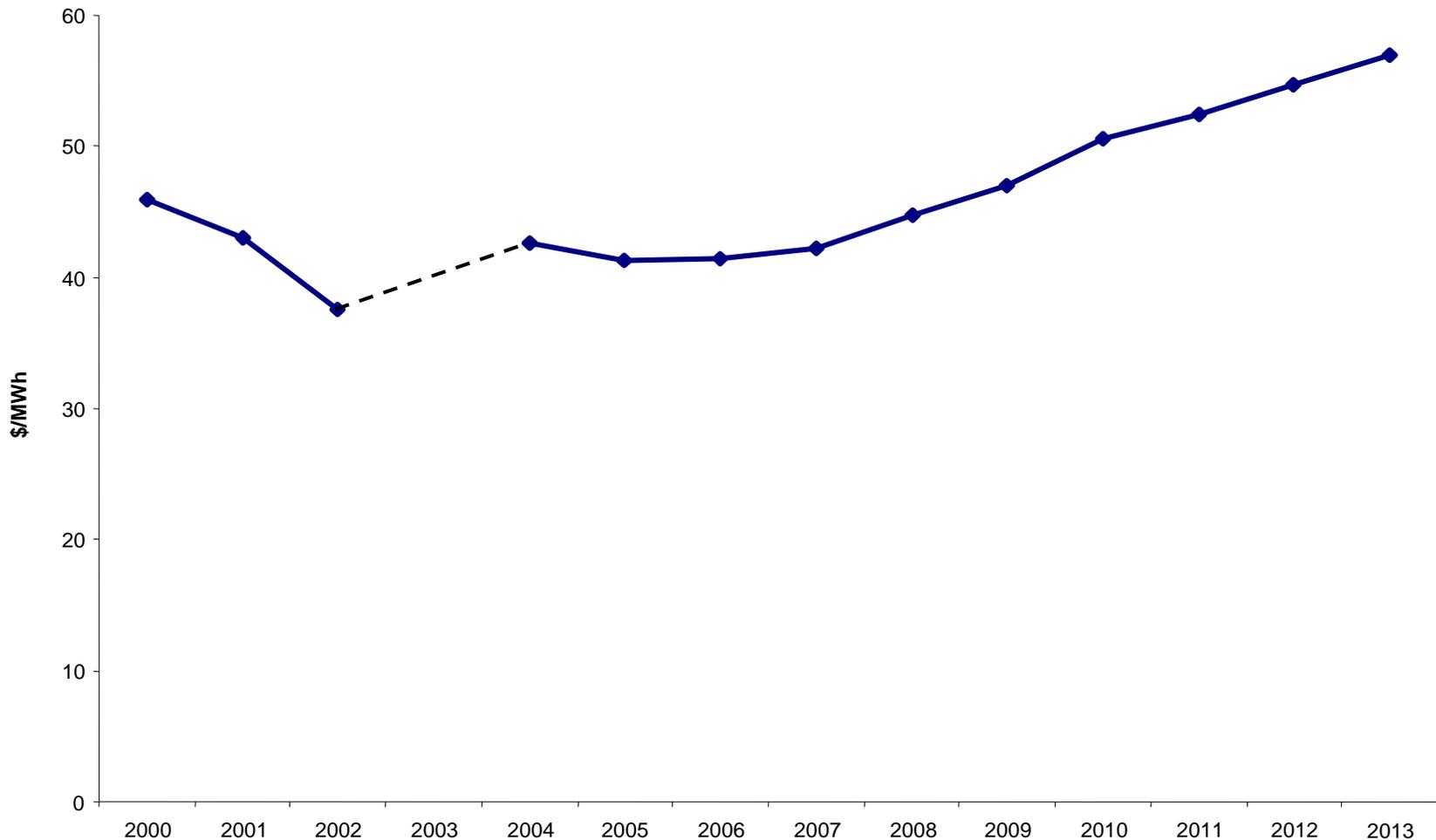
(Modeling Period 2004-2013)

- Facility average water year monthly energy production projections:
 - 50+ years of CT and Drfld river flow gauge data used to define averages;
 - Values for CT river facilities, Harriman and Searsburg based on historical data recorded by facility owners between 1978-1999.
 - Drfld facilities below Harriman based on recently collected flow data adjusted to represent an average water year.
- Facility monthly minimum capacities based on operational constraints defined by re-licensing agreements (monthly minimum river flows).
- Oil and Gas Prices:
 - Starting prices based on ex post market data and FERC Form 423 filings;
 - Gas price forecast based on Nymex futures for first three years and EIA AEO 2003 thereafter. Oil price forecast based on AEO 2003.
- ISO New England inputs based on NEPOOL 2003 CELT Report:
 - 2004 unrestricted peak demand of 26,463 MW, 1.5% per annum growth;
 - 2004 energy consumption of 129,743GWh, 1.4% per annum growth;
 - Reserve margins range from 21-29% for the modeling period.

Fuel Price Assumptions



Average Annual ISO New England Energy

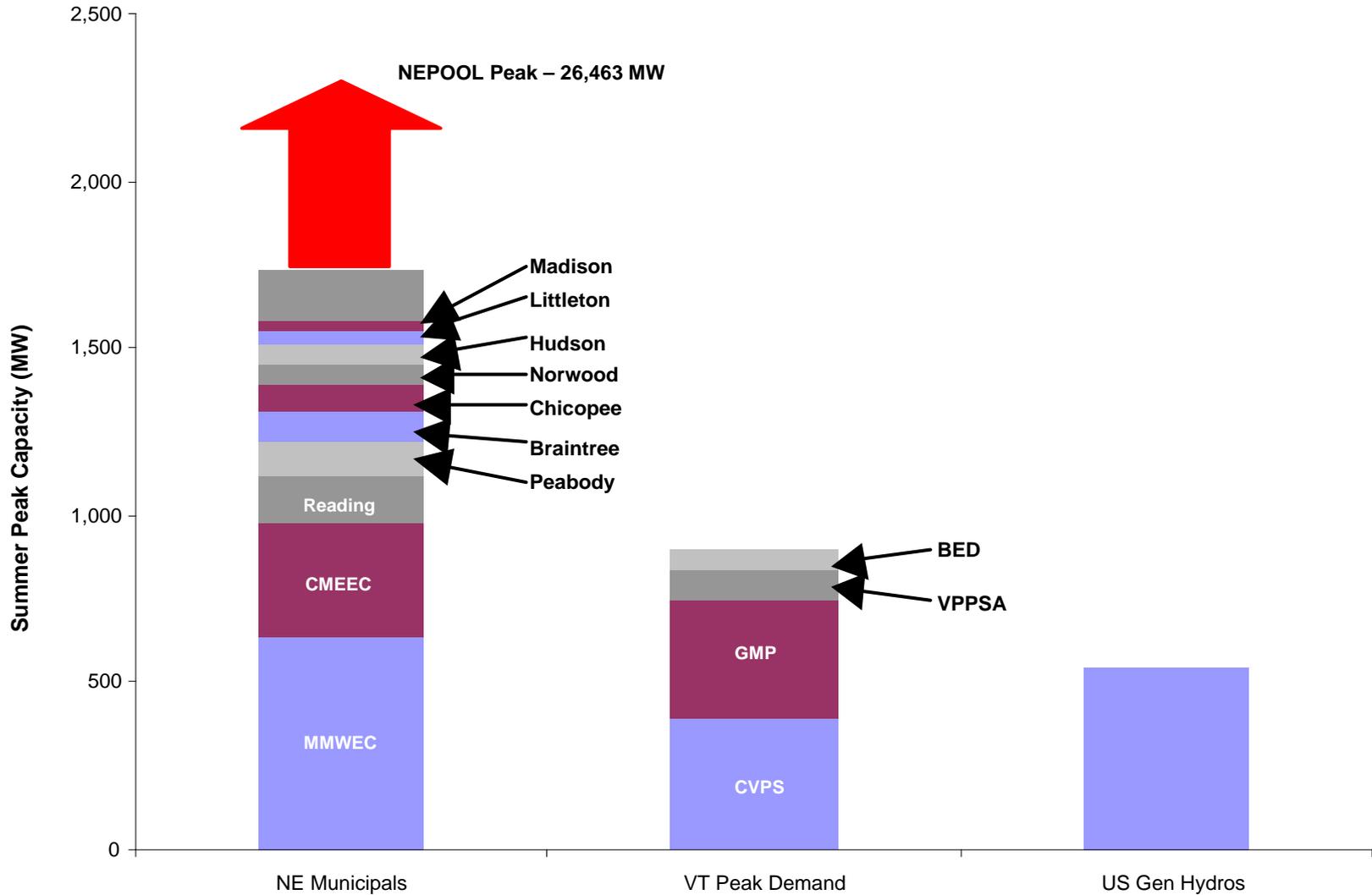


Note: Years 200, 2001, and 2002 represent actual ISO New England spot market energy prices.
Years 2004 – 2013 represent estimated MA Hub spot market energy prices obtained from modeling analysis.

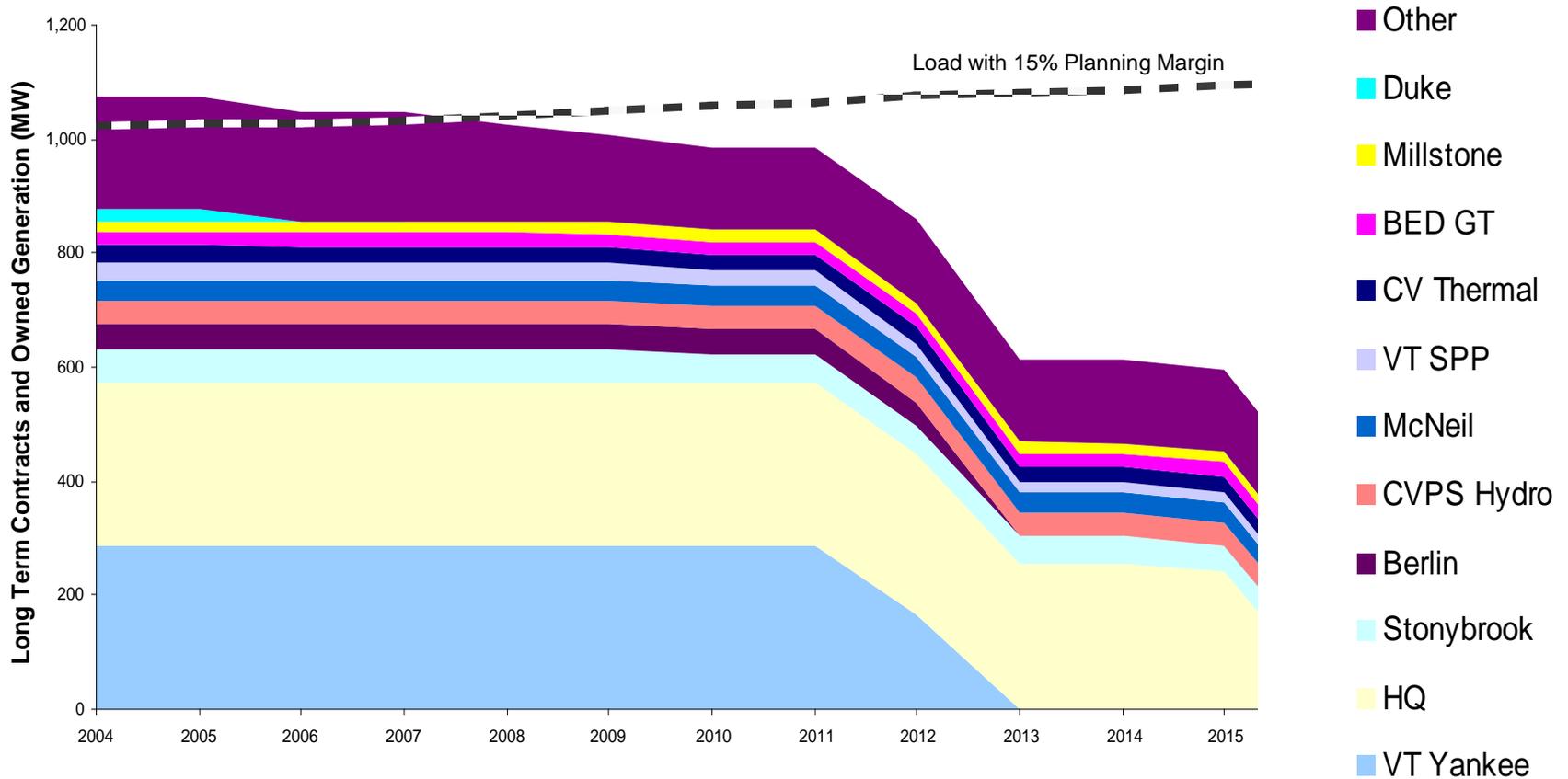
Expense Assumptions

- Operating and Maintenance Expenses
 - CT River: Per USGen, February 2002 study by PA Consulting
 - Deerfield River: 1996 FERC Form 1, inflated
 - 5% added for profit of O&M service vendor in Vermont-as-Buyer case
- A&G Expenses: \$250,000 / year (50% of VPPSA administrative expenses), inflated
- Energy Management Expenses: \$750,000 / year, inflated (midpoint of Calpine indicative bid)
- Property Taxes: Actual payments by USGenNE for most recent fiscal year, inflated, except in the case of Comerford, McIndoes, Vernon and Deerfield 5 which are estimated proportionally using taxes paid by Moore (for the CT River) and Deerfield 2-4 (for the Deerfield River)
- Depreciation: 20-year MACRS
- Income Tax Rate
 - Corporate Buyer: 35% Federal; applicable State rates
 - VT-as-Buyer: State rates only
- Capital Expenditures
 - CT River: Per USGen, February 2002 study by PA Consulting; FMF Enhancement Fund included per FERC relicensing settlement
 - Deerfield River: Assumed same \$/kW as McIndoes; also includes estimated capital expenditures required by FERC relicensing settlement
- Economic life of the plants: Through 2053
- Inflation: 2.5%

Market for the Output



Vermont Supply and Demand Profile



Vermont Utility Perspectives

- Baseload supply needs generally satisfied until 2010
- Some peaking and energy needs prior to then
- Hydro's considered a large resource in relation to VT supply profile
- Open to the potential for replacing HQ or VT Yankee
- Support economic development uses as long as customers not cherry-picked

Options for Financial Structure

1. Tax Exempt Government Entity
2. Taxable Government Entity
3. Public / Private Partnership

Options Considered for Financing

Type of Financing

**Tax Exempt
Revenue
Bond**

**Taxable
Revenue
Bond**

Market for Output

1. Municipals in VT, NE (?)
2. All output allocated to VT utilities
3. Spot, IOU and Municipal Contracts in VT, NE (?) (no volume cap used)
4. Spot, IOU and Municipal Contracts in VT, NE (volume cap used)
5. Spot, IOU and Municipal Contracts in VT, NE
6. Private partner offtake; contracted back to VT utilities as needed

Considerations

- Smaller market
- + No contract term limits
- “Tax” on retail use collected by utility
- Too much power for needs
- + Larger market
- Contracts with IOUs must be < 3 years
- Difficult to finance
- + No market limitations
- Takes volume cap from other VT uses for at least 2 years
- + No market limitations
- Higher financing costs
- Contracts required to finance
- + No market limitations
- Higher financing costs

Financing Costs – Vermont as Buyer

- **Financing Assumption:** 100% tax-exempt; new VT Authority purchases facilities and sells power in the day-ahead ISO-NE market until contracts of 3-year duration or shorter can be obtained.

	Taxable	Tax-Exempt	
Mostly Contracted	8.75%	6.50%	
Mostly Merchant	11.00%	7.25%	← Gross Base Case

\$100 Moral Obligation – Less 0.25%

7.00% ← Net Base Case

Note: Bond insurance may be a source of incremental interest cost savings. The Base Case does not include bond insurance.

Moral Obligation Bonds

- If a pre-established project reserve fund is depleted, the State agrees to approach the legislature for replenishment funds
- Potential for full notch of credit improvement, translating into an approximate 0.5% interest expense savings, or up to a \$2.5 million annual savings on a \$500 million purchase
- VT has over \$500 million in moral obligation programs in place, primarily serving the Bond Bank
- No legal commitment to approve funding, but a disapproval would have negative credit implications for the State
- Should be used as an interest expense savings tool, not a transaction enabler
- Base Case assumes \$100 million of moral obligation, creating a savings of 0.25%.

Financing Costs – Taxable Buyer

- **12.3%** used in Base Case
- Assumptions
 - 50% Debt / Equity (Source: Standard & Poor's ratings criteria)
 - 18% Cost of Equity (Lexecon estimate)
 - 11% Cost of Debt (Lehman estimate)

Primary Risks

- **Market price risk**
 - Risk of price decline in New England power market
 - Scenario analysis will quantify this risk
- **Marketing and Operating Risk**
 - Inability to fulfill contracted power supplies
 - Mechanical failure causes power loss and cost of repair
- **FERC License Renewal Risk**
 - 80% of MW are under license until 2037 and 2042
 - FERC license expires 2018 for the remaining 20% (lower CT)
 - License renewals may contain flow restriction and/or required capital additions
- **State ownership risks**
 - Reduction in State credit rating if MO or GO is used
 - Operational suboptimization

Public Benefits

- Potential for financial benefit
 - Potential for cash generation to fund State programs
 - Economic Development potential to sell power at below-market rates or stable long-term rates
- Environmental / watershed control
- Price hedge for participating utilities and their customers – operating expenses and financing costs are relatively fixed
- Pride of ownership

Considerations

- Not confident of contracts by time of transaction
 - Single resource in VT where load is satisfied
 - Cannot load-follow for a specific load
 - Utility POLR market requires a portfolio of resources
- Vermont's supply needs are met until 2008
 - Real needs are 2012 and beyond
 - Realistic potential to utilize 50% of the resources for VT load
- Greatest potential is realized if assets are blended into a larger supply portfolio
 - Private wholesaler with other resources in the region (Constellation, FPL, Calpine)
 - Combined ownership with other supply agencies (MMWEC, CMEEC, VPSSA)
- Financing will be a challenge
 - Lack of contracts out-of-the-box
 - State reluctant to place taxpayers at risk (GO or MO) or forego other programs (volume cap)
 - Best tax-exempt options have requirements we are not confident can be fulfilled
 - Cannot be financed at fair market value without equity or State credit support

Considerations (continued)

- Assets are encumbered
 - Bankruptcy process does not ensure availability
 - If available, part of larger integrated asset portfolio
 - Auction will be competitive with an uncertain outcome
- Uncertain public benefit
 - Bulk of power exported for at least the next 10 years
 - Economic development contracts are a positive, but require time and flexibility to develop the opportunities
 - Watershed and environmental management are under existing authorities
- Potential economic benefits are substantial
 - At fair market value, significant benefits could be derived
 - But financing limitations constrain the ability to capture benefits
 - Potential for public benefit in a carefully structured transaction with a private partner
- Execution would be complex
 - Bankruptcy
 - Private partner involvement
 - Legal and bond issues
 - Public approval process