

CALPINE CORP
Form 425
May 28, 2008

Filed by NRG Energy, Inc. pursuant to
Rule 425 of the Securities Act of 1933 and
deemed filed pursuant to Rule 14a-12 of the
Securities Exchange Act of 1934
Subject Company: Calpine Corporation
Commission File No.: 001-12079

On May 28, 2008, David Crane, President and Chief Executive Officer of NRG Energy, Inc. presented at the 2008 Deutsche Bank Energy & Utilities Conference. The slides that were presented and a transcript of the presentation are included below.













Conference Call Transcript

NRG NRG Energy at Deutsche Bank Energy & Utilities Conference

Event Date/Time: May. 28. 2008 / 7:30AM ET

Thomson StreetEvents

www.streetevents.com

[Contact Us](#)

1

© 2008 Thomson Financial. Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Thomson Financial.

May. 28. 2008 / 7:30AM ET, NRG NRG Energy at Deutsche Bank Energy & Utilities Conference

CORPORATE PARTICIPANTS

David Crane

NRG Energy President and CEO

CONFERENCE CALL PARTICIPANTS

John Kiani

Deutsche Bank Analyst

PRESENTATION

John Kiani Deutsche Bank Analyst

Good morning, everyone. I would like to welcome everybody to the 2008 Deutsche Bank Energy and Utilities Conference here in Miami, Florida.

We're pleased to have with us today NRG Energy. With us we have David Crane, President and Chief Executive Officer and also Nahla Azmy, Vice President of Investor Relations. As most of you know, NRG is one of the largest independent power producers in the United States with almost 23,000 megawatts of coal, nuclear, natural gas and now wind-fired generating capacity. NRG currently has one of the few generation development programs in this sector and we expect this program to organically grow the Company's EBITDA by almost 10% over the long-term through investments and lower-risk, higher-return projects. With that, I'll turn it over to David Crane.

David Crane NRG Energy President and CEO

Good morning, everyone. Thank you, John. I want to begin by saying that I apologize that we are only going to be here in town for less than an hour. Now that I'm here in my fourth and a half hour here in Miami, thanks to the air traffic control system last night. So I apologize for all the people that want to have one-on-ones or talk to us about the things that are going on with the Company, but I'm going to try and address some of those things during the speech this morning and leave some time for questions.

I'm also aware that as I look around the room, I see a lot of people that know the Company pretty well and I asked them for their indulgence; because the way the presentation is structured is that I'm going to speak principally about the initiative that was announced last week somewhat unexpectedly from our perspective. And I know that the people in the room know the Company pretty well; but since it is being webcast, I want to go back and lay the foundation for the initiatives we have taken before getting into a little bit more level of detail.

Safe Harbor statement. I understand that there is some new words this time because of what is going on with the company, so I'm sure it will make particularly good reading for everyone. But I will ask you to go back and read it later.

In terms of getting started, what I want to mention to you to begin with is that the presentation that I have today, focusing on the Calpine issue, what I've tried to do is weave into the presentation a lot of things that apply to NRG regardless of whether the Calpine presentation occurs. From the point of view of a general overview, from our perspective, NRG is the premier competitive power generation company in the United States today. We have a plan, actually, a series of initiatives, to enhance our position based on intrinsic growth, which is well in advance and I think increasingly a point of differentiation in our favor between us and other competitive power generation companies.

I'm convinced that we can and will achieve our destiny through organic growth, but when an opportunity arises to accelerate our pace of development, broaden and strengthen our growth platform and turbo-charge our returns, we're going to be very aggressive in seeking to secure the value of that opportunity for our shareholders. That is particularly the case when the value proposition to be unlocked involves following virtually the exact same roadmap that we have pursued in the 4.5 years since NRG itself exited Chapter 11.

Before I start, I want to reflect for a second on the awkwardness, though, of the timing of this presentation. Right now our Company has made a specific combination proposal, to which we have not yet received a substantive response. So

it is obviously not the best time to discuss that proposal or the merits of the contemplated transaction in public, yet, obviously, I can't ignore it.

Thomson StreetEvents

www.streetevents.com

[Contact Us](#)

2

© 2008 Thomson Financial. Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Thomson Financial.

May. 28. 2008 / 7:30AM ET, NRG NRG Energy at Deutsche Bank Energy & Utilities Conference

I hope you will recognize and respect that there are many things that we do not know that we would expect to know once we have an opportunity to do due diligence. There are other things which we think we know but which we choose not to disclose for competitive reasons. In either case, our discussion today will be by necessity incomplete and not totally satisfactory to you.

So to our shareholders, by way of this Slide 4, what I'm in effect saying is that trust us. Over the 4.5 years at NRG we feel we have established an unbroken record of financial discipline and strengthening credit metrics and risk profile. The proposed Calpine transaction is compelling from a strategic point of view and persuasive from a financial point of view. But it is not so compelling or otherwise persuasive that it would cause us to depart from our most cherished bedrock principles of fiscal discipline and prudent balance sheet management.

Now getting into it, slide 5 lays the foundation for our initiative, vis-a-vis Calpine. This is a slide by the way which I first used with the NRG Board of Directors back in 2005, and in my opinion it provides the basic roadmap for a competitive power generation company emerging from bankruptcy. First, you stabilize the Company by creating an organization that can survive and compete outside the oxygen tent of Chapter 11.

Then you establish credibility with the investment community by successfully harvesting the low-hanging fruit that inevitably has been left behind during the Chapter 11 process. And finally, armed with the ready access to capital that this credibility provides, you take advantage of the plentiful opportunities to grow in our industry. This is the roadmap we used to great success in 2004 and 2005 and it is the roadmap that I believe Mirant tried to follow a couple of years later, but they miscalculated by skipping the first two steps.

This, in the simplest case, is what makes an NRG/Calpine combination so attractive to both sets of shareholders.

Mirroring the opportunity that they represent to follow the roadmap to value creation with the management team that will give them the credibility that is required to vastly accelerate the process.

For us, we evaluate the transaction not just as a way of harvesting low-hanging fruit but as a way to take the combined company to a level of evolution that has not yet been seen in the competitive power generation industry. Again, I go back to what I call the five fundamental truths about our industry, and again, these are slides that I used with our Board a few years ago. And in these fundamental truths that have informed every strategic decision that we have made at NRG over the past four years. NRG today scores better against these truths than any other competitive power generation company. But the combined company takes it to the next level.

Having converted the five fundamentals a few years back into the five imperatives, I note that this combination with CPN substantially advances four of the five, and you could argue, advances all five.

Now finally, translating the imperatives into something even more real, slide 8 is a slide that all of you who have followed NRG should recognize, since we used to show this with regularity a few years ago. We've dusted off the diamond, brought it out of retirement to make a point, that all the regional businesses and all the value drivers that we have in each of the regions since the emergence through the Genco acquisition, through the four NRG internal improvement programs, the hedge reset, the financial engineering, the regular return of capital to shareholders; all this are enhanced by the Calpine merger and much less encumbered by the restricted payment baskets. All these opportunities will arise again in this combination.

So with that overview, I would like to get a little bit more specific about the benefits of the proposed combination. If people had a chance to review the letter that we sent to the Calpine Board, they would have recognized that we actually listed 10 reasons why we thought the combination made sense to both sets of shareholders.

Since I want to leave time for a significant number of questions, I'm not going to go through all 10, but we have picked out five of what I think are the more important ones to talk about today. So I'm going to talk about these five benefits and then talk a little bit about the finances of the transaction, and then open the floor to questions.

So first, talking about scale. The first thing I want to say about scale, and again, this applies to NRG without Calpine. And that is that there is no part of NRG's present ambition, whether it be in the nuclear development, the repowering program more generally or with respect to carbon policy, that we feel is in any way hindered by our present size.

Indeed, being mid-sized allowed us to be fast and nimble in an industry that is just beginning to realize that those historically unimportant qualities to the power industry are going to become essential as we enter the new technology-driven, carbon-constrained world.

Thomson StreetEvents

www.streetevents.com

[Contact Us](#)

3

© 2008 Thomson Financial. Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Thomson Financial.

May. 28. 2008 / 7:30AM ET, NRG NRG Energy at Deutsche Bank Energy & Utilities Conference

So the obvious scale that this transaction would provide is in that sense a mixed blessing. I think a very important part of the management integration that we would face and the part that would fall on me personally is to ensure that this transaction goes through, we at NRG don't lose our clear and crystal approach to decision-making and fall victim to management by committee.

On the positive side, as they say, scale has its privileges in terms of procurement, liquidity, indexation, political influence, the combined company would be in a better place than NRG alone and it would be in an altogether better place, almost a different time zone, from where Calpine is right now.

But really what makes the combination a hum is not the scale for scale's sake but the unique and unparalleled combination of regional market diversification coupled with asset concentration. These two companies in their present incarnation perfectly complement each other. They correct our bias towards Texas and towards coal. We fix their absolute lack of solid fuel baseload generation. In each of the four regions, the combined company will be able to dispatch efficiently across the merit order and in most cases around known transmission constraints. The competitive advantage provides us as we seek to follow load and be the bulk generation supplier of choice and field manager for load-serving entities is enormous.

Now turning to asset dispositions. The combined company's regional scale would be so great that we see one of the major upsides to this transaction is the opportunity it will provide us to rationalize the combined asset base. I'm not sure that those of you who follow only public companies are aware of this fact, but right now, there's an absolutely enormous disparity between the trading multiples of competitive power generation companies and the disposition multiples of privately owned power plants. As demonstrated on this slide 12 once again, NRG has the experience and proven track record in the disposition of assets at value. Working with a much weaker and more disparate asset base in a much more negative market environment, we disposed of 24 assets for almost \$2 billion value in our first two and a half years.

As demonstrated on this slide 13, it has been the practice of NRG both to buy and sell more or less simultaneously. The way I always liken this process, for those of you who live up in the Northeast, it is like making a snowball. To make the best snowball, you grab a lot of snow, you pack it in, you sort of dust off the outside of the snow and then you put more in. That is really what we did at NRG in terms of we did basically two and a half acquisitions over the last four years. We sold 24 things. But that was always to strengthen the core. Calpine acquisition provides that same opportunity in abundance. And of course as I mentioned before there is no better time to be selling individual assets.

Now one of the questions that has come up in the past few days as we've talked about this transaction with some of our investors, I have had the opportunity to speak with a few investors; Bob Flexon and Clint Freeland have spoken more; is how can we be sure that the asset values will continue particularly if and this is a topic I'm going to discuss much more directly in a few slides if people feel that heat rates are compressing.

And the reason that is, as demonstrated by this slide, is that we don't believe it is heat rates, the prospect of appreciation in future heat rates or the fact that heat rates are compressing; that is not what is driving asset values in the private asset market. What is driving asset values is replacement costs. And if people saw the article just in yesterday's paper, Wall Street Journal, written by Rebecca Smith, you would have seen, and we would substantiate that; that the price of new build for gas-fired combined cycle plants in this country is going up on a weekly if not a daily basis. As you can see from this slide, we would say, and this is obviously a blended average across the country, it is not it would not be wrong to assume that the cost of building a new combined cycle plant in the United States today ranges somewhere between \$1,000 and \$1200 per kilowatt.

The way we do the math is we calculate the price at which we would be getting Calpine's considerable fleet of modern gas-fired combined cycle; it comes out to in the \$600 to \$700 per kilowatt range. So there's a lot of room for upside in terms of asset optimization.

Now the next topic I really want to focus on has to do with this topic of heat rates. And the point that I want to emphasize here is that this next set of slides is equally important, whether this transaction goes through, whether you think about NRG and Calpine together, or whether you think about NRG alone. Right now, obviously, Texas is our most important region by a significant extent. Should we combine with Calpine, it would still be our most important region, although of course, there would be more portfolio diversification.

The other thing that I think you have to keep in mind that is a fundamental difference between Calpine and us is that NRG is and continues to be a natural gas play, if you look at it from a commodity point of view, while Calpine is a heat rate play.

The point that I want to focus on, and I think when we came out of our first-quarter call, we felt and some people actually were brave enough to suggest this to us, that when we talked about our hedging plan and what was going on in Texas in particular with heat rates, that we had gotten it almost exactly wrong at NRG and that we were hedging out our gas position while staying along heat rate. And that, given that as we said, we re

Thomson StreetEvents

www.streetevents.com

[Contact Us](#)

4

© 2008 Thomson Financial. Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Thomson Financial.

May. 28. 2008 / 7:30AM ET, NRG NRG Energy at Deutsche Bank Energy & Utilities Conference

very bullish on gas and think gas is going up but people are seeing the heat rates compress, that that was almost a diametrically wrong strategy. So what I would like to explain here today is why we think that is the right strategy and so we start here with slide 16.

Obviously, what this shows in terms of top graph, is the relative movement of heat rate versus gas prices. And you see that the gas prices have been far more volatile than heat rates and in an upward direction. What we tried to do is actually calculate, as shown on this slide, on what I call the probability equal basis, just how much more volatile was gas than heat rate. And the last answer over the last 12 months is that the gas in Texas has been almost 4 times more volatile than heat rate.

Which leads to the next slide. This is a graph that we show virtually every quarter, that, in this case, shows our sensitivity to gas prices. Now one of the things that we feel we probably did not help our own case with, is, you have to look at the unit of measurement here. This is the change in gross margin to NRG coming from a \$1 per million BTU change in gas price.

We also showed in the same slide at our [corethy thing] the change that would come from a 1 million BTU per megawatt hour change in heat rate. And I think that people looked at these two slides next to each other and said, well, the Company's exposure to heat rate, which they don't seem to be doing anything about, is far greater than it is to gas prices.

The problem, and the one that I would like to correct with this slide today, is that the probability of a \$1 per million BTU or 1 million BTU per megawatt hour move in heat rate is far less probably than a \$1 per million in BTU gas. In fact, it is 4 times less probable. So if we adjust to make it on an equal probability state, you see that this is actually where NRG stands in terms of relative sensitivity to gas prices versus relative sensitivity to heat rate.

If you focus on just 2012 as an illustration, and this is one of the reasons why we are hedging, a \$1 per million BTU move, \$322 million of sensitivity to gas price, while on the same probability, \$127 million sensitivity to 0.25 million BTU per megawatt hour move in heat rate.

And so what this means, and we feel quite frankly of course it is always hard for us to figure out why the market is pressuring the stock or otherwise. But you know we have felt that this compression in heat rate question, and this sort of concern about our hedging strategy, has been one of the main drivers over the last three months. So to take it to its conclusion, over the last three months, while people have been concerned about our exposure to compressing heat rates in Texas, with gas prices rising, what we have shown in this bottom right-hand slide is if you look at the value in our portfolio overall, the blue bars show that the increase in value in each year of our portfolio from rising gas prices over the last three months relative to the reduction in value in our portfolio as a result of heat rates. As you could tell, obviously, and again, reinforcing the notion that NRG is a gas play, you can see that it's actually been a positive movement for us.

Now that there is the question of so what do we expect? Do we expect heat rates to continue to compress? And this is the next part and the more substantive aspect of this question, and the answer is, I understand from the reports that I read from John and other sell-slide analysts that this notion that we have espoused and other companies have espoused that the compression in heat rates is not borne by the fundamentals; it is something that is sort of common industry knowledge now.

What I would like to do is explain what I think is going on in the heat rate market, and again, focusing on slide 15. What you see on the upper left-hand slide over the last year, again, using the Houston all-hours rate, is the movement in heat rate over the last year versus the movement of gas prices. And as you can tell, they are almost inversely correlated. What we have plotted on there, because some people thought that this is the driver to the compression in heat rates, is the official ERCOT announcements of changes in the reserve margin.

But now if you compare the graph on the upper left with the one on the bottom right, which shows how ERCOT has changed the reserve margin slide, if you can see the bottom slide, the red one, which shows a very bullish case for a tightening in the market. When they announced that case in May of 2007, the heat rate continued to decline over that

period until they raised the rate, which is the green line on the bottom right. What that is indicating is if you look at this slide carefully, the conclusion is that the reserve margin announcement out of ERCOT are not a leading indicator of where heat rates are going. They are very much a lagging indicator.

What really has happened, what we believe are the really two factors that have caused significant heat rate compression in Texas are number one, when gas prices rise, you have to take into account the fact that the natural long-term buyers, that there is a fundamental imbalance in power markets. There are more natural long-term sellers than there are long-term buyers. Such long-term buyers that exist tend to be load-serving entities, not particularly sophisticated from a trading perspective, co-ops and the like, who tend to look at their historic costs. And they are not actually looking to trade heat rates at all. They are just worried about the absolute cost of power of their wholesale power. So when gas prices rise, driving up electricity prices, suddenly, the natural buyers, the people who serve loads leave the market.

Thomson StreetEvents

www.streetevents.com

[Contact Us](#)

5

© 2008 Thomson Financial. Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Thomson Financial.

May. 28. 2008 / 7:30AM ET, NRG NRG Energy at Deutsche Bank Energy & Utilities Conference

And then as we show here, if you look at the trajectory of the heat rate curve after the point that is called Bear collapse, the other thing that happened in coincidence with this is once Bear Stearns collapsed, the financial players, who at sometimes provided the counterparty for heat rates trades, left the market in droves as well. So you see the precipitous drop in heat rate that occurred.

So the simultaneous combination of gas prices rising driving out the natural buyers plus the collapse of Bear Stearns drying up the activity of the financial buyers; to us, those are the two factors that have caused heat rates to be under pressure in Texas.

Now the proof – the ultimate proof of this is the graph you see on the upper right-hand corner. This is one that I find particularly ironic because while our investors seem to be concerned about how forward heat rates are going to impact us, what we're struggling with in Texas right now is power prices and heat rates that are out of control. The price of electricity in Texas over the last couple of weeks in the South zone and in the Houston zone has been in triple digits most days and in 4 digits. So you see the downward movement in the forward heat rate curve, while the 2000 heat rate curve has blown out. And that is a sign when the natural buyers have to fill their position; they have to serve their load.

So again, this is what we're dealing with now. You are concerned about – our investors are concerned about compressing heat rates. We're concerned about power prices in Texas that are so high that it may invite a negative regulatory response. So just as an example, keeping in mind that we're still in May, all NRG power plants in the Houston zone ran last week and we produced more power, close to 800,000 megawatt hours in one week, last week than we did on any given average week in Texas last July and August. Keep in mind that last summer was an astonishingly wet summer in Texas and that what we may be seeing is an unleashing of demand that is unexpected this summer. And that is what we're gearing up for at NRG.

Now, having focused on that topic, I just want to talk a little bit about operational synergies. I think everyone knows that there will be synergies and a merger between two complementary companies. The question is, once again, who has the proven track record on capturing those synergies? What we try to show here is our FORNRG program, as it was affected by our Texas Genco acquisition. What you see with the crosshatched bars in blue is what the original program was designed to achieve. Then when we bought Texas Genco and brought them into the fold, the yellow crosshatched shows what we were able to add. And then the blue lines are what we actually ended up – the blue bars are what we actually achieved for those years.

So how much operational synergies can we get if we combined with Calpine? It is too early, having not had the opportunity for due diligence for us to give a proper number on this. But I think it is fair to say, I would only point out that Calpine, much more spread out, twice as large as Texas Genco. Texas Genco was an exceedingly well-run portfolio of assets when we bought them. So we think there is enormous potential for operational synergies, which is one of the things that we would be looking to firm up.

Looking at operating synergies from another point of view, again, for people who read the letter, they would have said, and I think this may be one of the great understatements that ever come from NRG management, that we should be able to achieve greater than \$100 million in savings.

What this shows is the combined purchasing power of the two companies. As you can see if you just look on the right-hand side, the two companies will spend over \$10 billion a year on fuel and O&M and G&A. What we have assumed so far, again, prior to due diligence, is that what we worked into our model, is we capture only \$100 million of that, which is less than 1% of the total. So we think there's substantial room to do more here as well.

The carbon question came up several times in terms of conversations I had with people. Sorry, I'm also, in addition to being sleep deprived, trying to work through a cold as well. But the point I would make about carbon is that carbon is not a driver to this transaction but an upside. We have a carbon plan of our own. What I have tried to show here is how we see that. Right now we fall in the category of what I would call a carbon heavy company. Based on the repowering program both the Phase I, which is what we're pursuing, that would get us to this, in terms of carbon

intensity, at 0.75 tons of carbon per megawatt hour. If we sort of build on that with sort of a blue-sky approach, we get to the point where 2025, our goal would be down in what I call the carbon moderate or the carbon neutral territory. You see where Calpine sits in terms of their present portfolio. Obviously, combined with Calpine allows us to average down and get to a point, just based on immediately smashing together the portfolios, where I think that we would move from being in the carbon heavy category to carbon moderate. Again, I think the main impact of this for you right now, because I'll go on and talk about the EBITDA impact of this, which in either case, is 10 to 20 years in the future, because I think there is a little bit of a stigma, to be frank, that deals with being a carbon-heavy company right now. I don't know if it is a I think it is something that weighs a little bit on the stock price. But I think what it also weighs on is the prospect of NRG alone or NRG with Calpine as an acquisition candidate in its own right, that there are people who would not pursue NRG because of the carbon heavy aspect.

Thomson StreetEvents

www.streetevents.com

[Contact Us](#)

6

© 2008 Thomson Financial. Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Thomson Financial.

May. 28. 2008 / 7:30AM ET, NRG NRG Energy at Deutsche Bank Energy & Utilities Conference

So to the extent that NRG and Calpine come together, I think the most important point is almost an image question, it puts the Company together as what I would call a carbon moderate company.

Looking at the carbon from the point of view of what impact on EBITDA and, again, this slide which we've used several times before, only deals with the EBITDA impact of a carbon tax or a cost on carbon itself. It does not show the positive impact of the new generation that we would bring on to reduce the carbon footprint. Again, what this shows and we have done our best to calculate what it would mean with Calpine onboard. But essentially, it shifts forward or it shifts outward the time from which carbon would have a negative impact on our EBITDA from the 2018 to 2020 range into much later in that decade. So it goes from a 10 to 12 years out problem with Calpine to like an 18 to 20-year out problem. And, again, that is assuming that we do not do anything.

Another key aspect of this transaction which I will mention only in passing, keeping in mind for everyone that the management of NRG has always said that first and foremost, we manage this business for cash. We know there is a, for the most part, people in your shoes are analyzing our companies on an E.B. to EBITDA basis; and EBITDA obviously is often a proxy for cash, but not when there's a huge tax benefit. An enormous part of this transaction is the ability of NRG who becomes close to a full taxpayer in 2009, or transitions to a full taxpayer over 2009/2010, it's the fact that we can utilize Calpine's considerable NOLs almost immediately and far more optimally than they can. Even if you look at Calpine's 2007 10-K filing, they have a valuation allowance of \$2.4 billion against their \$5.1 billion net operating loss carryforward, recognizing that they may never be able to use their tax loss carryforward. So this has a major impact on the free cash flow accretion.

Beyond that, again, trying to push through to conclusion here, I think that our Company has gotten a well-deserved reputation for creative and value creating financial engineering in the 4.5 years that we have been at it. I think if you look at the Calpine situation, you see there is a lot of opportunity for things that we have done before.

So some of the things that we pioneered, the first lean to support trading; the maintenance of a strong; cost effective liquidity position; hedge resets; all these things are things that we can look at doing, again, if we combine with Calpine. And of course, the big point is that we have managed to do what we have done over the last four years, laboring under a very restricted payment basket. Effectively combining with Calpine would shift the amount of money that we had available in the restricted payment basket from \$100 million right now to over \$1 billion. And so it would make the return of capital to shareholders something even more substantial than what we have done in the past.

So again, this is the area where we have to be a little bit coy, in part because we have not done due diligence; in part because of the competitive situation. But when we stack all of the positives, the value drivers of this transaction; the potential upsides; the move on the restricted payment baskets, what we come to is the fact that from a free cash flow accretion point of view, we expect that this would be a very positive transaction in the first year.

And so with that, given that I am almost running out of time and I can feel John Kiani fidgeting on my right, I will just say that, to paraphrase other comments that have been made in the past, we are convinced that this is the right transaction at the right time between the right partners. Thank you.

QUESTION AND ANSWER

John Kiani - Deutsche Bank Analyst

Thanks, David, for your time, and we will now open it up to questions.

Unidentified Audience Member

I was just wondering if you could talk about your balance sheet today and your credit metrics today; how your balance sheet and your credit metrics would look going forward for the transaction? And how that free cash flow accretion of this transaction would look if you would leverage up yourself to see where you would end up being leveraged up [on for] Calpine? Is it really free cash flow accretive excluding the financial engineering and the leverage implicit in assuming a more leveraged debt to EBITDA and a more leveraged balance sheet?

© 2008 Thomson Financial. Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Thomson Financial.

May. 28. 2008 / 7:30AM ET, NRG NRG Energy at Deutsche Bank Energy & Utilities Conference

David Crane *NRG Energy President and CEO*

I'm not sure if I'm following you. I mean generally on a pro forma basis when we put the two companies together because of the acquisition currency being the stock, on a net debt to total capital basis, we actually think the balance sheet strengthens. The debt to EBITDA goes up a bit but we think that that quickly comes back in line with where we are now based on asset sales.

But the next part of your question about us leveraging ourselves up, the only thing I would say I'm not sure I follow the question. But in the current capital markets, there is nothing no aspect of this transaction that we're contemplating that depends on access right now to the debt capital markets for more gearing or cheaper debt.

Unidentified Audience Member

Just putting it frankly, you are taking on two turns of debt to EBITDA. So it ought to be free cash flow accretive because you're creating a pro forma credit metric profile that is much more leveraged. So I'm saying if you were to put on two turns of debt to EBITDA on a NRG stand-alone, how free cash flow accretive per share would it be? And is the free cash flow accretion from this transaction greater than the free cash flow accretion from putting on two turns of debt to EBITDA on NRG stand-alone? And then risk adjusting the cash flows for a spark spread recovery three or four or five years from now versus the risk inherent being low on gas?

David Crane *NRG Energy President and CEO*

Well, I don't know that I can answer that question because the idea of putting two turns of debt to EBITDA or on NRG, we have not contemplated.

Unidentified Audience Member

And so you ought to contemplate it, because that ought to be the bogey against which you state this is free cash flow accretive, because that is exactly what you are doing. You ought to risk adjust the cash flows that you have today and see how they can tolerate leverage versus the cash flows that you are assuming. That would make it a completely or a much more intellectually honest comparison, versus saying, this is free cash flow accretive.

David Crane *NRG Energy President and CEO*

Okay, well you have your sense of intellectual honesty; I have my own. So what is the next question?

Unidentified Audience Member

I just wanted you to clarify on the NOL you are positive that gets transferred and preserved and transacted? And then secondly, when we think about the RFT basket, what is the calculation; it shows all a stock deal; how much would it increase by again? You said \$1 billion?

David Crane *NRG Energy President and CEO*

Well, remind me, the first question the restricted payment basket. What happens with the restricted payment basket under the bond deal is the restricted payment basket because of the issuance of equity goes to \$10 billion plus. But what happens then is that the pacing item for us in terms of return of capital to shareholders actually becomes the restricted covenants under the bank deal. And of course that is a free cash flow metric which and that is why we talk about it going from the \$100 million range to the \$1 billion range. And of course, should we ever want to modify that, it is a lot cheaper to modify the bank transaction than the bond deal. I'm sorry, and tell me the

Unidentified Audience Member

That is fine. The NOLs?

May. 28. 2008 / 7:30AM ET, NRG NRG Energy at Deutsche Bank Energy & Utilities Conference

David Crane *NRG Energy President and CEO*

Oh, the NOLs, yes.

Unidentified Audience Member

The preservation of that in a transaction.

David Crane *NRG Energy President and CEO*

You know, before we went down this path, we did as much work as we could based on the public information. We were pretty confident that that would be fully available to us based on public information. Obviously, it is item number one on the due diligence front, you know, should we have that opportunity. But we would not have gone through this if we did not have a pretty good certainty that that would all be available.

Unidentified Audience Member

I guess with regard to the asset sale or the potential asset sales in the contemplated deal, given the fact that the deal looks dilutive on near-term metrics it seems like the asset sales are necessary to make the deal neutral at least in the near-term. How would you guarantee, aside from what precedent transactions might say that you're able to sell the assets for a valuation that would make the deal neutral or positive in the near-term?

David Crane *NRG Energy President and CEO*

How would I guarantee?

Unidentified Audience Member

Or would you make sure that if you were going to do the deal you could guarantee it, to put it another way.

David Crane *NRG Energy President and CEO*

Well, I mean, my view of this is that there are really two types of assets. There are non-core assets and there are assets that we would have to sell in Texas. I think the number has been out there just to be below the 20% rule, we would have to sell 4,000 megawatts. I want to emphasize that those would not necessarily be 4,000 Calpine megawatts. They could be a combination of the two.

But in terms of pre-selling, pre-selling I mean everything is a risk/reward balance, as you know. I think when you pre-sell, you leave money on the table like there is no tomorrow. I think that we look around at the industry and the fundamentals of the industry and the people who are buying, this now well-worn path of people who still have generation and rate base, where as long as they pay \$1 less than replacement cost, they are confident that they can justify buying modern assets and getting it into rate base.

I would be reluctant to do too much pre-selling. I think the place where pre-selling might make sense depending on what the regulatory dynamic is, would be in Texas. But I see the ability to sell 4,000 megawatts in Texas is a very high-quality situation. And if pre-selling involved giving to someone some optimal thing, I would certainly take that risk.

But I would say that if you look at a sort of normal timing scenario, we would sort of expect that if this transaction one good thing about this transaction. It is either going to happen or it is not going to happen in a very short period of time I would say by the end of the second quarter.

And then roughly based on the approvals we think we would have to get, our operating scenario, the approvals would come over the second half of the year. It depends, under Hart-Scott-Rodino how much you can be prepared to do a sales effort for a transaction that has not been approved yet. But I do not think it is going to take it would take a long time, into 2009, to make very significant progress on a sell-down.

May. 28. 2008 / 7:30AM ET, NRG NRG Energy at Deutsche Bank Energy & Utilities Conference

I mean the slide I showed you on how long we took to selling our 24 assets would show at about 2.5 years. Keep in mind that the environment was very different when you were looking to sell assets at the end of 2003, than it looks right now.

John Kiani *Deutsche Bank Analyst*

We will take one or two more questions and then we will wrap it up.

Unidentified Audience Member

I'm sorry, these are just more follow-ups on both the NOL and the asset sale. Just regarding the NOLs, I think there's a very basic rule that if there is a change of control of a company just coming out of bankruptcy within two years then those NOLs get disallowed. I would just like to hear a little more whether you guys have heard that rule and just already had come up with a way to come around it?

And then just regarding the asset sales, would those 4,000 megawatts have to be baseload, or do you have a choice in terms of saying we can sell the peaking capacity as opposed to 4,000 megawatts of baseload?

David Crane *NRG Energy President and CEO*

There's no rule in Texas about baseload. It is a very simple rule. It says 20% of generation. And certainly at one point I think the pioneer in this area was TXU, was that they were going to sell all their old gas plants and keep all their baseload plants. And so at that time all the other things that TXU had pushback, but they never received any pushback on that. So we expect that we would be able to sell whatever we want to.

And, again, depending on what we see is the asset values is that we have 2,000 megawatts of plant in the Houston area that are mothballed. And in the 20% rule, mothballed plants that are not retired also count as part of the calculation.

So if we wanted to, we could include those 2,000 megawatts.

As to your first question about tax, you're getting me a little bit out of my depth. I certainly am aware of that rule, and I know that all of our tax people are aware of that rule. And certainly, we do not think that that rule is not an obstacle, but I cannot tell you exactly why we think it is not an obstacle. But I certainly have been in the room when that specific question was asked. And so we don't think that is a concern.

Unidentified Audience Member

I have three hopefully quick questions. One, just wondering what impact does having contracts on assets impact whether or not you have to actually sell them in the ERCOT market? Second, you guys footnoted a \$2.5 billion value for the geysers in getting to an implied gas plant value. Can you just talk about what rationale went into getting to the \$2.5 billion for the geysers? And finally I guess when you look at the transaction what do you -- which way do you look at it in terms of accretion, dilution, benefit to shareholders? There is mention of kind of people look at it is not near-term accretive. They think it is dilutive. But what do you think the right way to actually look at the deal is from an investor point of view?

David Crane *NRG Energy President and CEO*

Well, I mean the last point, I think it will be free cash flow accretive. My view is that again a lot of it depends on asset sales. But I start with the fact it would be free cash flow accretive. And at the end of the day, I think the most important financial metric for the Company is free cash flow yield. I think that if we start with a transaction that is free cash flow accretive in 2009 I think it becomes evermore free cash flow accretive. It becomes, I think -- it goes from financially being a good deal to a great deal as the years -- as we go ahead.

I think in terms of the EBITDA accretive, again, that depends on the asset sales. I'm confident we can get there. I think that that is -- that will take a few months more.

But I think the other way that I would look at it as a shareholder in terms of more control of our balance sheet in terms of the de facto lifting of the restricted payment basket.

© 2008 Thomson Financial. Republished with permission. No part of this publication may be reproduced or transmitted in any form or by any means without the prior written consent of Thomson Financial.

May. 28. 2008 / 7:30AM ET, NRG NRG Energy at Deutsche Bank Energy & Utilities Conference

On the geysers, the \$2.5 billion, I mean, again, I would say firming up the geysers and the CapEx and the remaining resource, I think that is point number two on our due diligence list. But the price that I have commonly heard talked about for the geysers is actually north of 2,500 per kilowatt, more in the 3,000 to 4,000 range. So I think that would be positive.

And I know John is looking at me. He's putting the hook on me. I see my friends from consolidated Edison in the back of the room. What was the first question quickly?

Unidentified Audience Member

(inaudible question microphone inaccessible)

David Crane NRG Energy President and CEO

My understanding, contracting on ERCOT assets, we can try and make that argument, but I don't think that ERCOT has ever recognized that if you control the [spats], you are allowed to own over 20%. Our operating assumption is that it is a pretty straightforward rule. So John, thank you very much.

John Kiani Deutsche Bank Analyst

Thank you very much, David.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2005, Thomson StreetEvents All Rights Reserved.