Divestiture of Generation Assets

May 1996: Competitive Opportunities Opinion

- Price Reductions are a Priority
- Emphasis on Market Based Solutions to Public Policy Issues
  - Competition, though not perfect, may in some situations be better than regulation.
  - Risks of investment decisions should be borne by investors not the public.
  - Customers should be able to choose their energy provider.
- Safety and Reliability Remain As Paramount Objectives

Specific Commission Actions

- Transmission and Distribution of Electricity Continue as Regulated Businesses
- A Competitive Wholesale Generation Market is Envisioned
  - Independent System Operator Coordinates Market
- Retail Competition After Wholesale Market is Established

Divestiture of Generation Is "Encouraged"

- Market Power Concerns
  - Horizontal
  - Vertical
- Incentive of Utilities to Include Competitive Generation Costs in the T&D Revenue Requirement
- Market Based Determination of the Value of Generation Assets and Any Associated Stranded Costs or Benefits
- Utilities that Divest May Earn an Incentive: Usually as a Percent of the Sale Proceeds.
- Commission Legal Authority to Order Divestiture?

Two Stage Process

- Nuclear Plants Remain Regulated Pending Closer Review of Their Circumstances and Unique Issues
  - Nuclear Plants subsequently divested through auctions in 2001-2003.

- All Other Generation:
  - Divestiture becomes a topic for negotiation in the rate case proceedings which the Commission started in the Competitive Opportunities Case.
  - All regulated utilities eventually agree to divest their non-nuclear capacity through an auction process and incentives for the completion of the sale are established.

- 20 Large Central Station Generating Plants and Over 100 Smaller Hydros and Gas Turbines Divested (see last page of presentation).

- Many Smaller Plants and One Larger Rochester Gas & Electric Plant Were Not Divested.

Divestiture Process

- Precise Auction Process Followed by Each Seller Varied.
- All Parties Provided Input to the Seller in the Preparation of Auction Documents and Development of General Process.
- Review of Actual Bids By Parties Other Than Seller and Its Representatives Was Limited to 3-4 Members of DPS Staff.

Typical Auction Process

- Preparation of Materials and Initial Contacts
  - Development and Review of Offering Memorandum and Supporting Schedules.
    - Plant Description and Data
    - Sellers Background
    - Process Description
    - Minimum Financial Qualifications for Bidder
    - Form of Bid
      - Cash, Staggered Payments and/or Power Contract
      - Multiple Bids
    - Draft Legal Documents
  - Identification of Prospective Bidders and Initial Contact Seeking Interest

Typical Auction Process

- Release of Offering Memorandum Package
- Informational Meetings With Individual Bidders to Answer Questions
  - Staff attendance in many cases
  - Data Room created and rules established for use by prospective bidders
- Amended Offering Documents May Be Provided at Any Time
- On-site Visits and Other Due Diligence

Typical Auction Process

- Final Bid Package Sent to Interested Parties
  - Bid Deadline Established
  - Specific Instructions For Submittals
  - Description of Process to Follow
- Review of Bids and Identification of Bidders for Follow-up Discussions
  - Staff involvement in the development of the methodology to review bids and the actual review of the bids themselves varied substantially from company to company. At the very least, we knew how a company was going to analyze a bid. At the very most, we were present when bids were opened and directly participated in all analyses.

Typical Auction Process

- Follow-up Discussions
  - Bidder Negotiations
    - Value Issues Typically Resolved First
    - Real time negotiations to create competition between bidders to produce a higher auction price.
  - Exclusivity Agreement
    - Only if one bidder is clearly superior
    - Typically means that money issues are decided but that the precise legal language is not final.

Typical Auction Process

- Sales Announcement
- Regulatory Review
  - New York State
    - PSC
    - Environmental Review
  - United States
    - FERC
    - Environmental Review
    - NRC if nuclear

NYS PSC Review

- Validity of Auction Process
- Reasonableness of Compensation
- Operational and Financial Qualifications of Buyer
- Employee Treatment
- Environmental Impacts
- Market Power Concerns
- Other Terms and Conditions

Seller	Package	Buyer	Capacity (mW)	Price ($mill)	$/mW (000)	Book Value ($mill)	Multiple of Book	Section 70 Approved	Closed
Con Edison	Arthur Kill, GTs	NRG Energy	1,456	505	347	201	2.5	6/8/99	6/25/99
Con Edison	Ravenswood, GTs	KeySpan Energy	2,168	597	275	319	1.9	6/8/99	6/18/99
Con Edison	Indian Point 2 (Indian Point 1 retired)	Entergy	1,008	502	498	569	0.9	8/31/01	9/6/01
Con Edison	Astoria, GTs	Orion Power	1,855	550	296	332	1.7	7/14/99	8/20/99
NYSEG	NY coal plants	AES	1,424	950	667	881	1.1	12/3/98	5/14/99
NYSEG	Homer City	Edison Mission	942	900	955	279	3.2	12/3/98	3/18/99
NiMo	71 hydros	Orion Power	661	425	643	269	1.6	5/27/99	7/30/99
NiMo	Huntley/Dunkirk coal plants	NRG Energy	1,360	355	261	379	0.9	6/7/99	6/11/99
NiMo/NYSEG/ RG&E/CHG&E	Nine Mile 1&2	Constellation (LIPA continues to own 18% of NM 2)	1,550	735	474	2,467	0.3	10/26/01	11/7/01
NiMo	Albany Steam Station	PSEG Power	400	48	119	36	1.3	4/18/00	5/12/00
NiMo/RG&E	Oswego	NRG Energy	1,700	91	54	406	0.2	10/21/99	10/25/99
O&R (Con Ed partial owner of Bowline)	Bowline, Lovett, hydros, GTs	Southern Energy	1,776	476	270	413	1.2	6/24/99	6/30/99
CHG&E (Con Ed partial owner of Roseton)	Danskammer, Roseton	Dynegy	1,699	903	531	252	3.6	12/20/00	1/30/01
RG&E	Ginna	Constellation	**490**	**423**	**860**	**188**		5/19/04	2004
		TOTALS:	**18489**	**$7,460**	**$403**	**$6,991**	**1.1**		

Rev: 6/23/06
Note: The book values are from pre-closing data and may not be the final result.