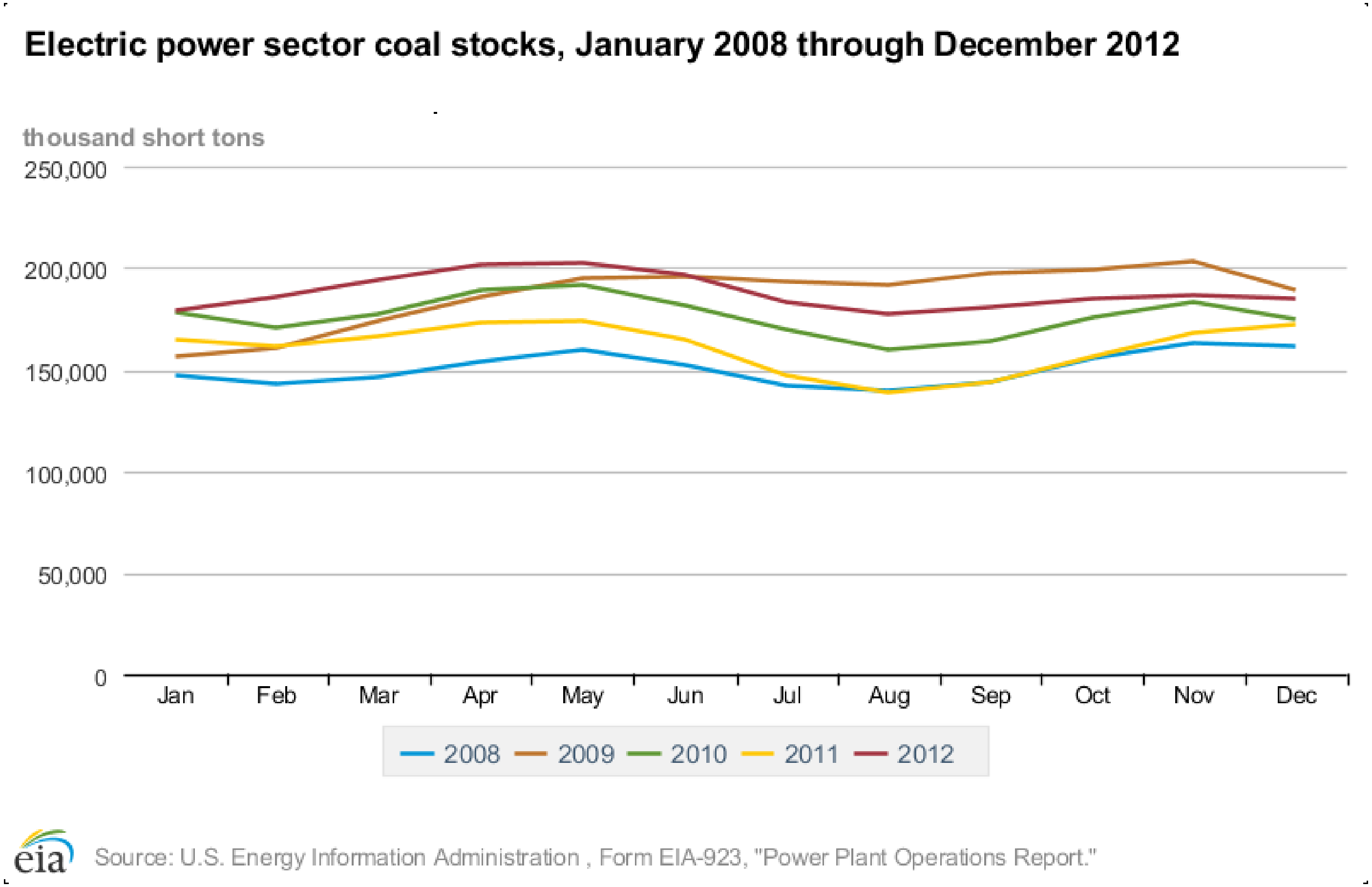
Utility Segment Update

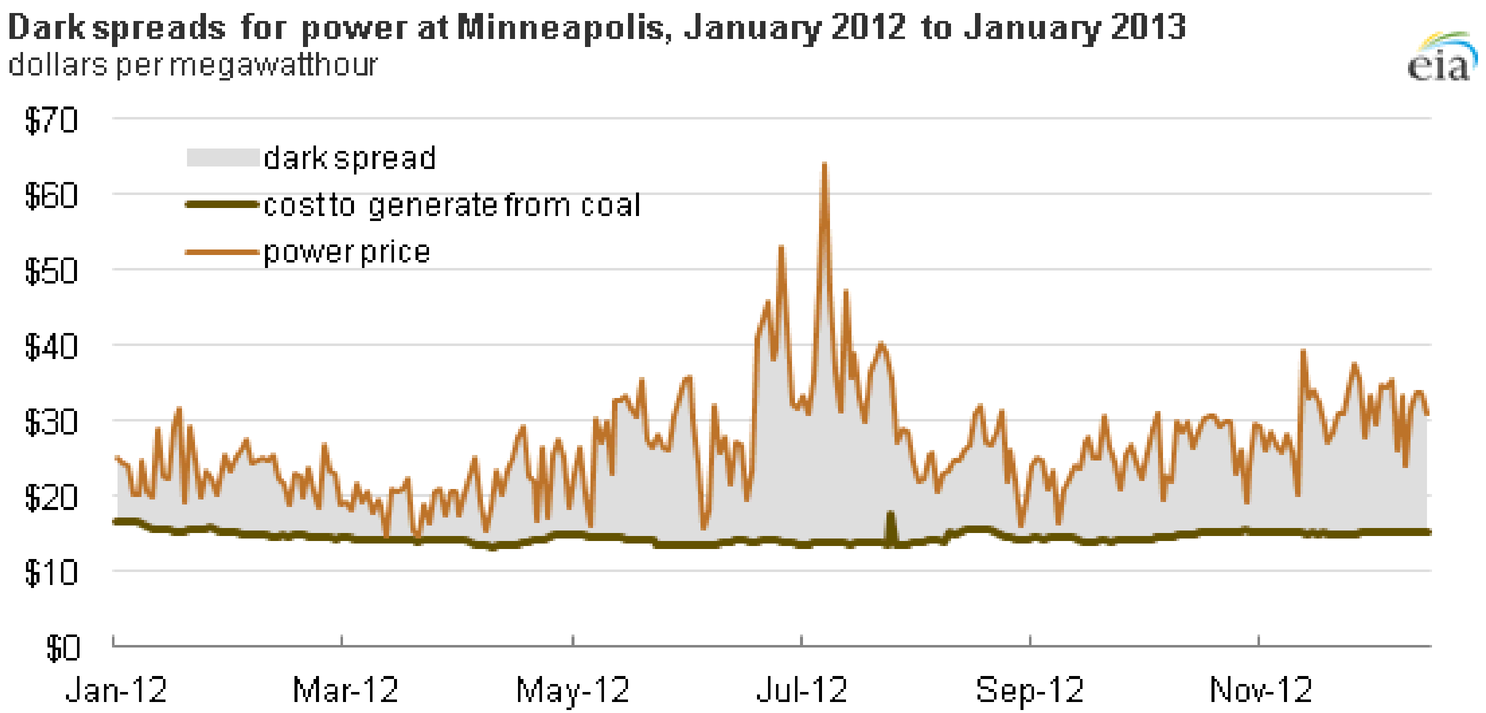
RETAC Meeting

March 14, 2013

Utility Coal Inventory Levels



Returns Over Fuel Cost of Coal Fired Generation



Dark spread calculation:

$$\textbf{dark spread}\ (\$/\text{MWh}) = \overbrace{\text{power price}\ (\$/\text{MWh})}^{\text{power price}} - \overbrace{[\text{coal cost}\ (\$/\text{ton}) + \text{transport cost}\ (\$/\text{ton})] * \frac{\text{heat rate (MMBtu/MWh)}}{\text{heat content (MMBtu/ton)}}}^{\text{fuel costs}}$$

Y/Y Comparison RETAC Utility Members Inventory Levels - Verbatims

- 50% lower, returning to normal
- About the same as last year
- 35% lower now than CYE 2012, returned to target range
- 20% over target, approaching physical limits at some locations

Inventory Reduction Strategies Employed

- Contract buyouts to avoid excess inventory
- Pushed contracted purchases forward
- Left open positions unfilled
- Purchasing strategy modified to create flexibility

Impact of Low Nat Gas Price in 2012

- Coal type and plant location important variables
- “Coal generation down somewhat”
- “70% run rate on coal plants vs. 90-95% 2011”
- “Capacity factors for base load coal decreased 14%”
- “2012 gas gen was 45%, up from 16% 2008”

Railroads and Coal Suppliers

- Some shippers have seen cycle times improved 10-15% due to lower traffic volumes
- Coal prices lower near term, some willing to take lower margins
- Suppliers willing to discuss optionality and fixed/variable pricing structures
- Some evidence of rail flexible pricing short term

Future View

- Coal/gas competition is not temporary
  - The new normal
  - Suppliers and railroads adjusting slowly
- Some are maxed out on fuel switching opportunities
- Coal units will be retired to meet environmental regulations
- Switching off eastern coal through converting plants to PRB or burning IL Basin
- Generators will maintain strategy of starting the year with open positions to maintain flexibility
  - More spot purchasing

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