

Proposal Regarding Constellation/EDF Deal

CEG Financial Benefits from the Deal

The transaction improves CEG's stock price by about \$10 per share, or \$2 billion (200 million shares x \$10 = \$2 billion), according to equity analysts and risk arbitrageurs. The related cash infusion lowers CEG's enterprise risk and boosts its liquidity. A portion of these benefits is embedded in today's share price.

In addition to imposing conditions on the transaction, the PSC may have the ability to rule that MidAmerican return a portion of its \$1.1 billion termination fee, to ensure that such payment not affect ratepayers, who had no role in CEG's problems. If the number is \$800 million, for example, the PSC adds \$4 per share to CEG's price, for a total benefit to CEG of \$14 per share (\$2.8 billion).

Why Do Ratepayers Need Protection?

The CEG/EDF transaction may result in future adverse consequences, which cannot be predicted today. As a condition of deal approval, to protect BG&E ratepayers, the PSC should require CEG/EDF to sell power generated by their MD plants (nuclear and non nuclear) to BG&E for standard offer service (SOS) customers under long term contract on the basis of regulated returns. Such contracts are common in foreign countries. SOS customers are principally residential and small commercial users.

Likely Outcomes Under the Contract

- PSC determines MD power plants have a rate base value of \$2.6 billion.
- Over the last three years, the plants have supplied two-thirds of BG&E's SOS obligations, according to SEC filings. BG&E could likely use all of the plants' generation (5,270Mw) under the long term contract for SOS customers.
- With regulated rates, the plants should earn \$230 million less than they do as merchant generators. The savings reduce SOS rates by 10% at a minimum.
- EDF must re-negotiate its deal since Calvert Cliffs' earnings fall 40% under the contract. The price might drop from \$4.5 billion to \$3.5 billion.
- The contract and EDF renegotiation affect the stock price by minus \$6 per share (or \$1.2 billion). The credit rating impact is mixed – more regulated income (good) offsets less total income and less EDF cash (bad). Net price effect under the Proposal = \$4 to \$8 per share (i.e., \$10 to \$14 minus \$6).

Benefit Contrasts

CEG has offered ratepayers a \$36 million contribution to a CEG-run charity to induce the PSC to approve the deal. This contribution represents just 2% of the deal's financial benefits. According to SEC filings, between BG&E and its MD-based merchant power plants, CEG derives \$1 billion in operating profits from MD, so the contribution is just 4% of one-year MD profits for the company.