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Reliant Energy, Inc. Q1 2008 Earnings Call Transcript

Question-and-Answer Session

[Operator Instructions]. Our first question will come from the line of Dan Eggers with Credit Suisse.

Daniel Eggers - Credit Suisse

Hi. Brian, I was wondering if you could just give us a little more color or a little more precision around what the EBITDA or the opening EBITDA numbers will look like if you had to mark everything to today's market. I think you guys unfortunately could try one of the low points in the gas curve one you guys using March 21 days?

Mark M. Jacobs - President and Chief Executive Officer

Yes Dan, it's Mark. Let me make a couple of points here and then I'll have Brian fill in some of the details. As I think about the outlook, there is a couple of key points, the first is that the 2008 to 2010 big years are significant higher than where we've been and when you dissect those numbers what you see is the bulk of that increase is the affect of tightening supply and demand fundamentals and that shows up this capacity revenue largely from the PJM RPM capacity auctions. The second point that you hit on is that we do use the forward commodity prices at one point in time, is been our practice. We used the last Friday for which was the forth traded contract for the next month. And, so in this case it was March 21st. And as I commented in prepared remarks, commodity prices are going to move around. They are going to impact what that outlook looks like in the near term and that's what you see going on with this quarter. Ironically, and Brian is going to fill in some of the numbers for you here but ahead, we would have gotten a very different answer had we used a curve at the end of April rather than at the end of March which is a forward curve now that has come and gone.

I think the most important point though is that the commodity prices moves that we are seeing don't have anything to do with where we are in the cycle. And that's really the key factor when I think about what will drive our earnings and cash flow levels if this company over the next several years. We believe that we are coming out of the profit cycle and we've got several years in front of us with tightening supply demand fundamentals. And then you add into that the 2010 is still well below new entrant levels. Last point, I'd make here too is that when we look at some of the assumptions imply that came out of that March 21 forward curve, there are some things to us that didn't make a whole lot of sense or line-up with our fundamental view, namely that we've seen a decline in heat rates here than just as not consistent with what our fundamentals expect.

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