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ATTORNEYS FOR THE DEBTORS AND DEBTORS-IN-POSSESSION

THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

In re	)	Chapter 11 Case
MIRANT CORPORATION, et al.,	)	Case No. 03-46590-DML Jointly Administered
Debtors.	)	Hearing Date and Time: March 3, 2004; 10:30 a.m.

SUPPLEMENTAL APPLICATION TO EXTEND ENGAGEMENT OF MCKINSEY & COMPANY, INC. UNITED STATES AS MANAGEMENT CONSULTANT

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

On January 30, 2004, Mirant Corporation ("Mirant") and its affiliated debtors (collectively, the "Debtors"), as debtors-in-possession, filed an Application To Extend the Engagement of McKinsey & Company, Inc. United States ("McKinsey") as Management

Consultant to the Debtors (the "Extension Application").[1] The Debtors hereby submit this supplement to the Extension Application,[2] and in support, respectfully represent as follows:

BACKGROUND

1. The Debtors filed an application to employ McKinsey (the "Initial Application") during the beginning stages of these cases. The Debtors retained McKinsey to provide expertise in connection with improving efficiencies within certain of the Debtors' plants. McKinsey proposed to complete this process in two "Phases." During Phase I, McKinsey would focus on identifying and prioritizing opportunities at the plant level while building a fact-base and project infrastructure. As part of Phase I, for example, McKinsey would evaluate opportunities to improve efficiencies and develop approaches to capture those opportunities. Also during Phase I, McKinsey would develop a "rollout plan" to implement changes at the plant level.

2. During Phase II, commonly referred to as the "rollout," McKinsey would focus on conducting "deep dives" at each plant in a series of waves to implement the proposed improved efficiencies. In addition, McKinsey would focus on addressing a cross-portfolio opportunity (e.g., capital, procurement) in conjunction with each wave. During a deep dive at the plant, McKinsey would assemble data with respect to spending activity, develop cash flow and EBIT improvement proposals, evaluate and prioritize selected ideas and create action plans

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[1] Capitalized terms that are not defined herein have the meaning ascribed to them in the Extension Application.

[2] For convenience of the Court and other parties in interest, portions of the Extension Application have been incorporated into this Supplemental Application.

to capture identified opportunities. McKinsey informed the Debtors that its participation in Phase II would last approximately six months, representing participation in 2 waves for 3 months each. During Wave I of Phase II, McKinsey would focus on implementing improvements to three plants: Mirant Chalk Point, LLC, Mirant Lovett, LLC, and Mirant Canal, LLC (the "Wave I Plants"). The team would also focus on improving the effectiveness of the capital budgeting and management process.

3. In Wave II of Phase II, McKinsey would conduct "deep dives" on three additional plants. Those plants include Morgantown, Dickerson and Potomac River. In addition, the team would address two to three high potential procurement spend categories across the portfolio. In addition, the procurement team would focus on improving and refining the procurement process and infrastructure to ensure long-term success.

Progress to Date

4. McKinsey completed Phase I on or about November 7, 2003. Shortly thereafter, the Court approved McKinsey's employment retroactive to September 29, 2003, pursuant to an order entered on December 3, 2003 (the "Employment Order"). Pursuant to the Employment Order, McKinsey was authorized to complete only Phase I and Wave I of Phase II, and the Debtors were required to obtain further Court approval to extend McKinsey's engagement beyond (1) February 28, 2004 or (2) the initial wave of Phase II.[3]

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[3] According to the Employment Order, an order extending McKinsey's engagement would contain the same terms, conditions and protections contained in the Employment Order, except for the request for compensation as requested herein. Parties should refer to the Employment Order for the specific terms of McKinsey's proposed continued employment.

5. McKinsey completed Wave I of Phase II on or about February 20, 2004. On February 22, 2004, McKinsey and the Debtors presented the Committees with a preliminary report of the results of Wave I of Phase II. On February 24, 2004, McKinsey and the company formally presented those materials via conference call to certain representatives of the Committees and their counsel. The Debtors are informed that all three Committees and the Office of the United States Trustee support the Debtors' request to extend McKinsey's engagement through the completion of Wave II of Phase II.

Brief Overview of Phase II Accomplishments

6. During the Wave I of Phase II, McKinsey generated over 2,000 improvement ideas at the Wave I Plants. The Debtors will likely implement over 500 ideas at these 3 plants, resulting in an annual full run-rate EBIT improvement of between $35 and $50 million, excluding capital reduction. That savings nearly doubles the original estimate of $20 to $30 million. In addition, McKinsey and the company conducted capital reviews across the portfolio designed to re-scope, eliminate or delay projects that are not economically viable. This capital review process will result in an approximate $416 million reduction (or 32%) of the capital budget from 2004 - 2008. Of this amount, $160 million represented project eliminations or re-scoping.

7. McKinsey has completed its deep dives at Chalk Point, Canal and Lovett. The Wave I deep dives involved a high degree of plant participation and involvement. Over 10 persons at each plant were either fully or partially dedicated to this effort, which includes the plant managers and their supervisors. In addition, over 85% of plant personnel participated in the process. The deep dives were highly structured and involved four steps. First, capability

assessments were performed to establish a baseline for plant performance and focus idea generation sessions. The second phase, idea generation, involved over 75 brainstorming sessions across the Wave I Plants. These sessions leveraged best practices from inside and outside of the industry based on McKinsey experiences as well as Mirant experts from across the portfolio to share internal best practices. The third step was to analyze the functional and financial feasibility of the thousands of ideas that were generated during the brainstorming sessions. These ideas were then segmented and prioritized for implementation. Finally, during the fourth step, the team developed a fully automated and detailed implementation plans for each idea that includes defined milestones and tracking devices to ensure that the plants could ultimately capture each opportunity. The ideas that are being implemented are "owned" and being implemented by plant personnel, not the experts or McKinsey representatives. The Debtors have obtained an explicit commitment from key individuals at the plant level to implement and execute the ideas. For example, the Debtors have identified persons at the plant level who are dedicated to tracking the implementation of each of the ideas. The Debtors intend to begin implementing most of the ideas as soon as possible, subject to certain timing and resource constraints, and expect to have implemented approximately 70% of the ideas before the end of 2004.

8. Examples of some of the ideas that the Debtors will implement include: (1) modify operating procedures to increase rated capacity at the Chalk Point plant and reduce minimum loads at the Canal plant, (2) install new equipment to reduce heat rate within the Chalk Point plant, (3) transport fuel to Chalk Point plant via pipeline (as opposed to by vehicle) (4) install new equipment at the Canal plant that will improve blending capabilities and avoid double handling fees, (5) reduce cold start times by 3 hours on units 3 & 4 at Chalk Point through cross-

tie rotor warming, and (6) invest in preventative maintenance measures at each of the Wave I Plants designed to enable and improve performance.

Compensation for Wave II of Phase II

9. Wave II of Phase II is expected to last three months – from March to May, 2004. McKinsey's requested flat fee for Wave II, inclusive of expenses, is $2.925 million. Fees incurred to date for Phase I and Wave I of Phase II total $3.425 million, inclusive of expenses.

Disinterestedness of McKinsey

10. In connection with the Initial Application, McKinsey represented to the Debtors that it is a "disinterested person" within the meaning of Bankruptcy Code section 101(14). To the best of the Debtors' knowledge, information and belief, McKinsey still represents no interest adverse to the Debtors or to their estates in the matters for which McKinsey is retained and McKinsey is a disinterested person, except as otherwise set forth in the Ostrowski Affidavit in support of the Initial Application.

WHEREFORE, the Debtors respectfully request that the Court enter an order on the same terms and conditions as the Employment Order (1) extending McKinsey's engagement from March 1, 2004 through May 31, 2004; (2) authorizing the Debtors to direct McKinsey to complete the rollout; (3) approving the fee request of McKinsey for Wave II and related services described above, subject to the same requirements set forth in the Employment Order, and (4) granting the Debtors such other and further relief as is just and proper.

RESPECTFULLY SUBMITTED this 1st day of March, 2004.

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CERTIFICATE OF SERVICE

The undersigned hereby certifies she has authorized BSI as service agent to cause to serve a true and correct copy of the foregoing document upon all parties on the Limited Service List via first class mail, postage prepaid, the 1st day of March 2004 in accordance with the Federal Rules of Bankruptcy Procedure.

/s/ Michelle C. Campbell