U.S. BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
ENTERED
TAWANA C. MARSHALL, CLERK
THE DATE OF ENTRY IS
ON THE COURT'S DOCKET

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

In re:	Chapter 11
MIRANT CORPORATION, et al.	Case No. 03-46590-DML-11 Jointly Administered
Debtors.	

FINAL ORDER PURSUANT TO 11 U.S.C. §§ 327(a) AND 328 AND FED. R. BANKR. P. 2014 AUTHORIZING THE EMPLOYMENT AND RETENTION OF McKINSEY & COMPANY, INC. UNITED STATES AS MANAGEMENT CONSULTANT TO THE DEBTORS AND DEBTORS IN POSSESSION

Upon consideration of the Application dated October 27, 2003 (the "Application"), filed by Mirant Corporation and its affiliated debtors (collectively, the "Debtors"), as debtors in possession, seeking an order authorizing the Debtors' retention of McKinsey & Company, Inc. United States ("McKinsey") as management consultant; and upon the Consulting Services Agreement dated October 24, 2003 between McKinsey and the Debtors (the "CSA"), the Letter of Proposal dated September 29, 2003 and executed on October 24, 2003 (the "LOP") and the Affidavit of Kenneth J. Ostrowski (the "Ostrowski Affidavit"), which were attached to the Application; and upon the Amended Letter of Proposal dated November 17, 2003 and executed on November 25, 2003, a copy of which is attached hereto as Exhibit "A", (the "Amended LOP", and together with the CSA and the LOP, the "Engagement Letter") and capitalized terms used and not otherwise defined herein having the meanings set forth in the Application and the Ostrowski Affidavit; and after due deliberation and sufficient cause appearing therefore,

IT IS HEREBY FOUND THAT:

A. This Court has jurisdiction over these cases and over the Application pursuant to 28 U.S.C. §§ 157 and 1334, and venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409.

B. Notice of the Application has been given in accordance with the statements made in the Application and the associated certificate of service, and no other or further notice is necessary.

C. McKinsey and each of its members, officers, directors and employees represent no interest adverse to the Debtors or to the Debtors' estates such that would disqualify McKinsey from representation of the Debtors in these chapter 11 cases.

D. McKinsey and each of its members, officers, directors and employees is a "disinterested person" as such term is defined in section 101(14) of the Bankruptcy Code, and as required by section 327(a) of the Bankruptcy Code.

E. The retention of McKinsey as the Debtors' management consultant, on the terms set forth in the Engagement Letter (as modified by this Order), is in the best interests of the Debtors and their estates, creditors and interest holders.

E. The monthly fee of $400,000.00 per month for phase one and $970,000.00 per month for phase two (together, the "Monthly Fees") specified on pages 3 and 4 of the Amended LOP constitute a "reasonable term and condition of employment" pursuant to section 328(a) of the Bankruptcy Code.

F. This Court's Order Restricting Pursuit of Certain Persons, dated August 5, 2003 (as the same has subsequently been extended or amended, including by the Court's September 29, 2003 Order Extending Order Restricting Pursuit of Certain Persons, the "Protected Persons

Order"), which is made applicable to McKinsey by the terms of this Order, provides reasonable protections to McKinsey that accomplish the legitimate purposes that otherwise would have been accomplished through indemnification provisions in the Application.

G. In agreeing to act as the Debtors' management consultant on the terms set forth herein, McKinsey is relying on the protections afforded by the Protected Persons Order. In the absence of those protections, McKinsey would have required the approval of indemnification provisions as part of the Application as a condition to McKinsey's agreement to provide services to the Debtors.

IT IS THEREFORE ORDERED THAT:

1. The Debtors' employment and retention of McKinsey as their management consultant to perform the services described in the Application and the Engagement Letter, effective as of September 29, 2003 and on the terms and conditions set forth in the Application and the Engagement Letter, is approved, provided, however:

(a) McKinsey and its affiliates, members, managers, directors, officers and employees hereby are deemed to be "Protected Professionals" who are entitled to the protections set forth in the Protected Persons Order.

(b) If the Protected Persons Order is terminated, violated, expires or otherwise does not provide the protections it is expected to provide, McKinsey has the right to seek indemnification from this Court for any and all work provided to the Debtors pursuant to the Engagement Letter and this Order; and

(c) In the event that the Engagement Letter is terminated by the Debtors without cause, or by McKinsey with cause, McKinsey shall have the right to seek additional compensation, in addition to its Monthly Fees, based on the time spent by

McKinsey in its performance of services for the Debtors and the reasonable value of those services, upon application to and as determined by the Court.

2. The fees payable to McKinsey pursuant to the Engagement Letter shall be subject to review only pursuant to the standards set forth in section 328(a) of the Bankruptcy Code and shall not be subject to the standard of review set forth in section 330 of the Bankruptcy Code.

3. Notwithstanding the foregoing, McKinsey will file applications for allowance of compensation and reimbursement of expenses pursuant to the procedures set forth in §§ 330 and 331 of the Bankruptcy Code, any applicable Bankruptcy Rules, the applicable local bankruptcy rules, any orders of this Court, and any procedures as may be fixed by order of this Court; provided, however, that (a) the approval of McKinsey's fees and expenses will be subject to the review standards set forth above and (b) McKinsey shall not be required to maintain time records for services rendered and shall not be required to provide or conform to any schedule of hourly rates.

4. McKinsey is authorized to proceed and complete Phase I and the initial wave of Phase II (addressing the Mirant Chalk Point, LLC, Mirant Lovett, LLC, and Mirant Canal, LLC plants); provided, however, the engagement shall expire and McKinsey shall not be authorized to proceed with any further services from and after February 28, 2004.

5. After the earlier of (i) the completion of the initial wave of Phase II, or (ii) February 28, 2004, the Debtors shall be required to re-apply (file a new application with the Court to employ McKinsey); provided, however, that any subsequent order, if granted, on a new application to employ McKinsey shall contain the same terms, conditions and protections

contained in this Order, other than the scope and costs for any new services performed by McKinsey.

6. The total fees and expenses incurred by McKinsey pursuant to this Order and paid by the Debtors will be allocated as follows:

(a) Mirant Corporation: $160,000; and

(b) The balance of the fees and expenses shall be shared ratably by Mirant Americas Generation LLC, Mirant Chalk Point, LLC, Mirant Lovett, LLC, and Mirant Canal, LLC.

7. Nothing in this Order shall affect the rights of the official committees to object to the allocations described in paragraph 6 of this Order. All such rights are expressly reserved.

8. McKinsey is required to avoid duplication of efforts with other professionals, and the official committees' right to object to any such duplication is hereby reserved.

Dated: December 3, 2003

HONORABLE D. MICHAEL LYNN
UNITED STATES BANKRUPTCY JUDGE

Confidential

Amended Memorandum to:
Mr. Curt Morgan, Executive Vice President, North American Operations

Capturing Plant Operating Improvement Opportunities

Mirant Corporation

We enjoyed meeting with you and Marce Fuller to further discuss the opportunity to increase plant operating cash flow and EBIT. Your perspectives were very helpful in setting the effort's overall direction. We understand and fully support your commitment to achieve dramatic improvements in near-term cash flow and EBIT while building long-term capabilities for sustainable success. This memorandum and the attached exhibits describe how we propose to assist you in this important effort. Please view this as a preliminary proposal that can be further tailored to fit your needs.

BACKGROUND AND CONTEXT

Mirant has a large, diverse generation portfolio, and each plant offers some unique improvement potential based on its operating conditions and market environment. In addition, and due to Mirant's decentralized operating structure, opportunities may also exist to share best practices and leverage scale economies across the portfolio. Furthermore, the lack of information standardization and coordination adds to the challenge of identifying, prioritizing and quantifying improvement opportunities. As we discussed, McKinsey (and your) experience in addressing this type of program for generation fleets of similar size and composition has yielded improvements ranging between $75 to $125 million annual cash and earnings improvement.

PROPOSED APPROACH

To identify and capture the full improvement potential within Mirant's generation fleet, we propose a dedicated, systematic effort to improve plant-level operations and cross-portfolio processes through a two-phased effort (Exhibit 1). This effort will take between 8 to 12 months to complete and implement. As we discussed, we envision the level of McKinsey support to phase out over time as the largest opportunities are captured and internal capabilities are built.

Prioritizing opportunities and building baseline – Phase I (5 to 6 weeks)

Phase I will focus on identifying and prioritizing opportunities at the plant level and across the portfolio while building a fact-base and project infrastructure. As part of this phase, the team will evaluate the overall set of potential opportunities and develop approaches to capture these opportunities. The team will use this evaluation to develop an initial approximation of improvement potential. In addition, the team will design an overall rollout plan in order to prioritize portfolio-level processes, select the plant deep dive sequence, and adjust work plans and approach as appropriate. Finally, the team will build the project infrastructure, which includes an implementation-tracking tool and comprehensive baseline to measure impact. End products for this team include: an initial improvement estimate, evaluation and prioritization of opportunities, performance baseline, tracking tool, and the rollout design for Phase II. Note that Phase I was completed on November 7, 2003, as scheduled.

Rollout – Phase II (6 months)

A tailored approach will be developed at the end of our opportunity and baseline assessment. Opportunities will be captured in a series of waves to ensure organizational focus and appropriate resource commitment. For each wave, the working group will be split into two primary workstreams, addressing (1) plant specific improvements by conducting 3 plant deep dives onsite per stage, and (2) capturing portfolio-wide opportunities (e.g., capex, purchasing). For Wave 1, the plant-specific improvements will be limited and focused to three plants: Chalk Point, Lovett and Canal. We will also conduct training across the organization as McKinsey support is phased out.

The plant deep dives will consist of assembling a detailed fact base of both spend and activity, developing cash flow and EBIT improvement ideas, evaluating and prioritizing selected ideas, and creating action plans to capture these opportunities. End products include a detailed plant-level fact base, evaluated and prioritized opportunities, and implementation plans (Exhibit 2). Based on our experience with other generators and process industries, the initial set of deep dives will take 3 months to complete.

Cross-portfolio teams will focus on capturing specific opportunities. Workstreams will be scoped to last 3 months to address a defined opportunity set. These teams will be resourced with the appropriate internal resources, consisting of leaders from the plants as well as corporate coordination roles. Formation of these teams around specific opportunities will be phased according to size of opportunity and resource availability.

WORKING ARRANGEMENTS

We understand that you will provide significant leadership and working resources to this effort. In addition, Mark Gouveia will provide day-to-day project management. Other dedicated Mirant resources will include: corporate analysts, cross-functional leaders, plant managers and plant personnel. Appointing the right amount and level of internal leadership will be critical to the success of this effort. Exhibit 3 provides an overall structure for the joint Mirant/McKinsey operations performance improvement team.

From McKinsey, Ken Ostrowski, Luis Troyano, and Bryan Fisher will provide senior leadership. Ken Ostrowski is a leader in McKinsey's North American Power Practice and serves as the overall Director of client service to Mirant. Luis Troyano leads McKinsey's Electric Power/Natural Gas Operations Practice with extensive experience in assisting clients improve generation operations performance. Bryan Fisher has extensive experience in the energy industry, and will provide day-to-day leadership. This leadership team will also leverage our Firm practice experts to provide deep insights and share experiences with your core operations team as we jointly identify, prioritize and capture improvement opportunities. Our practice experts have worked on improvement efforts across several process industries ranging from automotive to chemicals (Exhibit 4).

We propose forming a core working team for Phase I consisting of our leadership team, plus 3 full-time McKinsey resources. Professional fees for the first phase will be $400,000 per month, inclusive of expenses, for a projected five to six week period. We will bear any cost and expense overruns in this phase and subsequent phases.

The Rollout will consist of three working teams, comprised of 9 to 10 full-time McKinsey resources. Two of these teams will be limited and focused on 3 plants in the initial wave (Chalk Point, Lovett, Canal). The third team will address overall cross-portfolio operational opportunities (capital management) in addition to providing project management. We envision supporting the 2 stages of the rollout, lasting 3 months per wave, over a total of 6 months. Based on the team configuration described above, professional fees for the Rollout phase will be $970,000 per month, inclusive of all expenses. McKinsey understands that the scope and timing of this engagement is subject to monitoring of the official committees appointed in Mirant's chapter 11 cases. McKinsey and Mirant representatives will schedule review sessions with the creditor committees at the end of each of our waves to discuss impact achieved and whether additional waves are appropriate. Also, both parties can terminate this agreement given written notice in case of unforeseen events or scope changes.

* * *

We are excited about the potential to serve Mirant on this important and challenging effort. Should you have any questions, please feel free to contact Bryan Fisher at 713-751-4170, Luis Troyano at 216-274-4471, or Ken Ostrowski at 404-335-3990.

November 25, 2003 (Amended)

cc: Ms. Marce Fuller – Mirant Corporation

Accepted by

Curt Morgan – Executive Vice President, North American Operations

11/25/03

Date

Kenneth J. Ostrowski – Director, McKinsey & Company

11/25/03

Date

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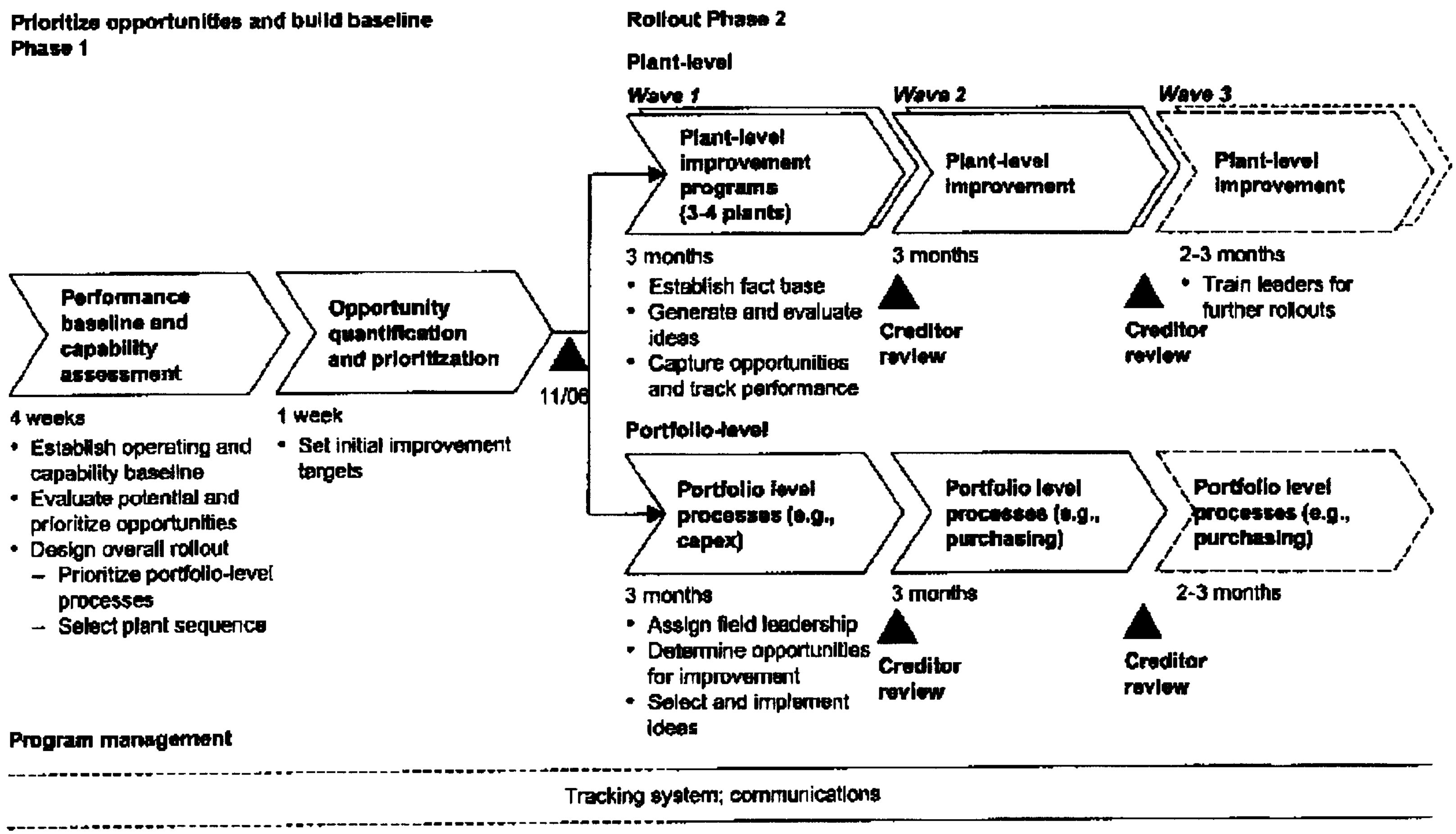
Exhibit 1

RECOMMENDED APPROACH



- **Effort will last from 8-12 months, systematically covering the plant portfolio**
- **In addition, cross-portfolio opportunities will be captured in focused efforts and sequenced**

Exhibit 2

PROCESS FOR PLANT-SPECIFIC IMPROVEMENT OPPORTUNITIES

Operational performance improvement (OPI)	Bottoms-up process to systematically review operation margins and cost elements to identify, evaluate, plan and implement sustainable performance improvement ideas

Plant 2

Plant 1

	Initial diagnostic	Idea generation	Idea evaluation	Implementation planning and KPI development
Activities	• Set cost and performance improvement goals • Collect data to fully understand costs	• Hold multiple brainstorming sessions • Search external resources • Perform more detailed cost analyses	• Evaluate ideas to determine – Implementation time – Payback period – Risk assessment	• Plan execution – Action steps – Roles/responsibilities – Deadlines
End products	• Detailed workflow description • Cost allocation by end products	• Ideas with estimates of potential savings and required investment	• Prioritization of ideas	• Detailed implementation plan complete with timing and responsibility
Timing	• 3 weeks	• 3 weeks	• 3 weeks	• 3 weeks

• Each wave lasts **3 months**

Exhibit 3

TEAM STRUCTURE

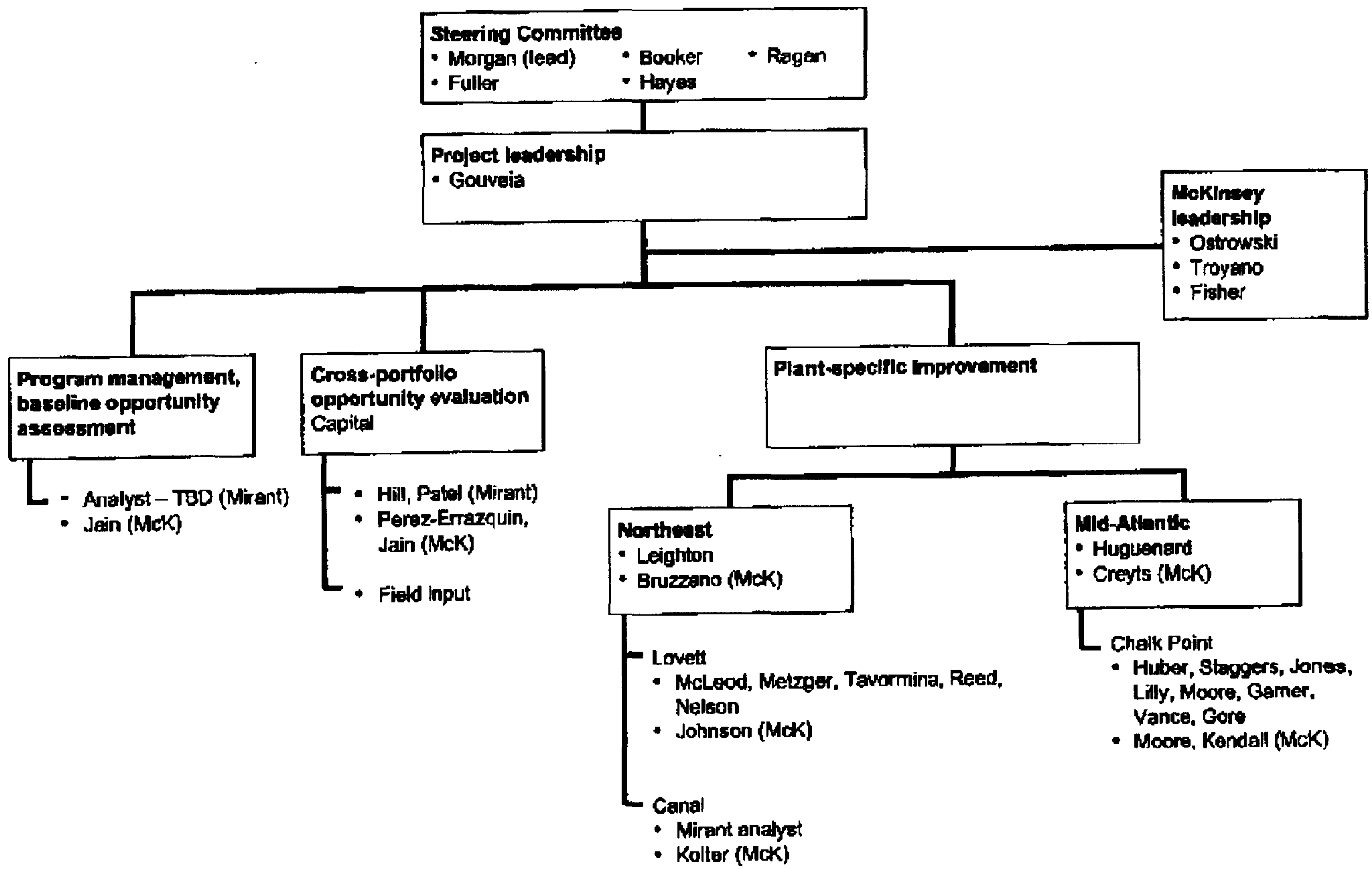


Exhibit 4

McKINSEY HAS A DEEP EXPERIENCE BASE IN OPERATIONS IMPROVEMENT PROGRAMS

Firm-wide engagements by functional areas – past 5 years
100% = 8,092