

NRG ENERGY, INC.
Form 10-Q
May 02, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 2007

**Commission File Number:
001-15891**

NRG Energy, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

41-1724239

(I.R.S. Employer
Identification No.)

**211 Carnegie Center
Princeton, New Jersey**

(Address of principal executive offices)

08540

(Zip Code)

(609) 524-4500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12 b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

As of April 27, 2007, there were 121,158,437 shares of common stock outstanding, par value \$0.01 per share.

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The words believes, projects, anticipates, plans, expects, intends, estimates and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause NRG's actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors, risks and uncertainties include the factors described under Risks Related to NRG in Part II, Item 1A, of the Company's Annual Report on Form 10-K and the following:

- General economic conditions, changes in the wholesale power markets and fluctuations in the cost of fuel;
- Hazards customary to the power production industry and power generation operations such as fuel and electricity price volatility, unusual weather conditions, catastrophic weather-related or other damage to facilities, unscheduled generation outages, maintenance or repairs, unanticipated changes to fuel supply costs or availability due to higher demand, shortages, transportation problems or other developments, environmental incidents, or electric transmission or gas pipeline system constraints and the possibility that NRG may not have adequate insurance to cover losses as a result of such hazards;
- The effectiveness of NRG's risk management policies and procedures, and the ability of NRG's counterparties to satisfy their financial commitments;
- Counterparties' collateral demands and other factors affecting NRG's liquidity position and financial condition;
- NRG's ability to operate its businesses efficiently, manage capital expenditures and costs tightly (including general and administrative expenses), and generate earnings and cash flows from its asset-based businesses in relation to its debt and other obligations;
- NRG's potential inability to enter into contracts to sell power and procure fuel on acceptable terms and prices;
- The liquidity and competitiveness of wholesale markets for energy commodities;
- Government regulation, including compliance with regulatory requirements and changes in market rules, rates, tariffs and environmental laws;
- Price mitigation strategies and other market structures employed by independent system operators, or ISOs, or regional transmission organizations, or RTOs, that result in a failure to adequately compensate NRG's generation units for all of its costs;
- NRG's ability to borrow additional funds and access capital markets, as well as NRG's substantial indebtedness and the possibility that NRG may incur additional indebtedness going forward;
- Operating and financial restrictions placed on NRG contained in the indentures governing NRG's outstanding notes in NRG's senior credit facility and in debt and other agreements of certain of NRG subsidiaries and project affiliates generally; and
- NRG's ability to implement its *Repowering* NRG strategy of developing and building new power generation facilities, including new nuclear units and IGCC units.
- NRG's ability to consummate or achieve the expected benefits of the Comprehensive Capital Allocation Plan as described in this quarterly report.

Forward-looking statements speak only as of the date they were made, and NRG Energy, Inc. undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The foregoing review of factors that could cause NRG's actual results to differ materially from those contemplated in any forward-looking statements included in this Quarterly Report on Form 10-Q should not be construed as exhaustive.

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GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below:

Acquisition	February 2, 2006 acquisition of Texas Genco LLC, now referred to as the Company's Texas region
ARO	Asset Retirement Obligation
BACT	Best Available Control Technology
Baseload capacity	Electric power generation capacity normally expected to serve loads on an around-the-clock basis throughout the calendar year
BTA	Best Technology Available
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAISO	California Independent System Operator
CAMR	Clean Air Mercury Rule
Capital Allocation Program	Share repurchase program entered into in August 2006
Capacity factor	The ratio of the actual net electricity generated to the energy that could have been generated at continuous full-power operation during the year
Comprehensive Capital Allocation Plan	A comprehensive plan to support and facilitate the Company's capital allocation strategy that includes a holding company structure to enable the distribution of cash dividend on the Company's common stock, the pay down of debt, a stock split, and the Capital Allocation Program
CDWR	California Department of Water Resources
CL&P	Connecticut Light & Power
CO ₂	Carbon dioxide
CPUC	California Public Utilities Commission
DNREC	Delaware Department of Natural Resources and Environmental Control
EFOR	Equivalent Forced Outage Rates considers the equivalent impact that forced de-ratings have in addition to full forced outages
EITF	Emerging Issues Task Force
EITF 02-3	EITF Issue No. 02-3, <i>Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities</i>
EPC	Engineering, Procurement and Construction
ERCOT	Electric Reliability Council of Texas, the Independent System Operator and the regional reliability coordinator of the various electricity systems within Texas
FASB	Financial Accounting Standards Board, the designated organization for establishing standards for financial accounting and reporting
FCM	Forward Capacity Market
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation
GHG	Greenhouse Gases
Hedge Reset	Net settlement of long-term power contracts and gas swaps by negotiating prices to current market completed in November 2006
IGCC	Integrated Gasification Combined Cycle
ISO	Independent System Operator, also referred to as Regional Transmission Organization, or RTO

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ISO-NE	ISO New England, Inc.
ITISA	Itiquira Energetica S.A.
kW	Kilowatts
KWh	Kilowatt-hours
Letter of Credit Facility	NRG's \$1.5 billion senior secured synthetic letter of credit facility which matures on February 1, 2013
LFRM	Locational Forward Reserve Market
LIBOR	London Inter-Bank Offered Rate
Merit Order	A term used for the ranking of power stations in terms of increasing order of fuel costs.
MMBtu	Million British Thermal Units
MW	Megawatts
MWh	Saleable megawatt hours net of internal/parasitic load megawatt-hours
NEPOOL	New England Power Pool
New York Rest of State	New York State excluding New York City

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GLOSSARY OF TERMS cont d

NiMo	Niagara Mohawk Power Corporation
NO _x	Nitrogen oxide
NOL	Net Operating Loss
NOV	Notice of Violation
NPNS	Normal Purchase Normal Sale
NSR	New Source Review
NYISO	New York Independent System Operator
OCI	Other Comprehensive Income
Phase II 316(b) Rule	A section of the Clean Water Act regulating cooling water intake structures
PJM	PJM Interconnection, LLC
PJM Market	The wholesale and retail electric market operated by PJM primarily in all or parts of Delaware, the District of Columbia, Illinois, Maryland, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia
PMI	NRG Power Marketing, Inc., a wholly-owned subsidiary of NRG which procures transportation and fuel for the Company's generation facilities, sells the power from these facilities, and manages all commodity trading and hedging for NRG
Powder River Basin, or PRB, Coal	Coal produced in the northeastern Wyoming and southeastern Montana, which has low sulfur content
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUSH	Peaking Unit Safe Harbor
<i>RepoweringNRG</i>	Technologies utilized to replace, rebuild, or redevelop major portions of an existing electrical generating facility, not only to achieve a substantial emissions reduction, but also to increase facility capacity, and improve system efficiency.
Revolving Credit Facility	NRG's \$1 billion senior secured credit facility which matures on February 2, 2011
RMR	Reliability Must-Run
RTO	Regional Transmission Organization, also referred to as an ISO
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002
SEC	United States Securities and Exchange Commission
Senior Credit Facility	NRG's senior secured facility, which is comprised of a \$3.1 billion Term B loan facility which matures on February 1, 2013, its \$1.5 billion Letter of Credit Facility, and its \$1 billion Revolving Credit Facility
SERC	Southeastern Electric Reliability Council/ Entergy
SFAS	Statement of Financial Accounting Standards issued by the FASB
SFAS 71	SFAS No. 71 <i>Accounting for the Effects of Certain Types of Regulation</i>
SFAS 109	SFAS No. 109, <i>Accounting for Income Taxes</i>
SFAS 123	SFAS No. 123, <i>Accounting for Stock-Based Compensation</i>
SFAS 123R	SFAS No. 123 (revised 2004), <i>Share-Based Payment</i>
SFAS 133	SFAS No. 133, <i>Accounting for Derivative Instruments and Hedging Activities</i>
SFAS 142	SFAS No. 142, <i>Goodwill and Other Intangible Assets</i>
SFAS 144	SFAS No. 144, <i>Accounting for the Impairment or Disposal of Long-Lived Assets</i>
SFAS 158	

	SFAS No. 158, <i>Employers Accounting for Defined Benefit Pension and Other Postretirement Plans</i> an amendment of FASB Statements No. 87, 88, 106 and 132(R)
SO ₂	Sulfur dioxide
SOP	Statement of Position issued by the American Institute of Certified Public Accountants
SOP 90-7	Statement of Position 90-7 <i>Financial Reporting by Entities in Reorganization Under the Bankruptcy Code</i>
STP	South Texas Project Nuclear generating facility located near Bay City, Texas in which NRG owns a 44% interest
Texas Genco	Texas Genco LLC, now referred to as the Company's Texas region
Uprate	A sustainable increase in the electrical rating of a generating facility
US	United States of America
USEPA	United States Environmental Protection Agency
U.S. GAAP	Accounting principles generally accepted in the United States
VAR	Value at Risk
WCP	West Coast Power (Generation) Holdings, LLC

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PART I FINANCIAL INFORMATION
ITEM 1 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES
NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In millions except per share amounts)

Three months ended March 31,	2007	2006
Operating Revenues		
Total operating revenues	\$ 1,310	\$ 1,043
Operating Costs and Expenses		
Cost of operations	784	659
Depreciation and amortization	161	118
General and administrative	86	57
Development costs	23	
Total operating costs and expenses	1,054	834
Gain on sale of assets	17	
Operating Income	273	209
Other Income/(Expense)		
Equity in earnings of unconsolidated affiliates	13	21
Write down of equity method investments		(3)
Other income, net	16	80
Refinancing expenses		(178)
Interest expense	(181)	(115)
Total other expenses	(152)	(195)
Income From Continuing Operations Before Income Taxes	121	14
Income tax expense/(benefit)	56	(1)
Income From Continuing Operations	65	15
Income on Discontinued Operations, net of Income Taxes		11
Net Income	\$ 65	\$ 26
Preference stock dividends	14	10
Income Available for Common Stockholders	\$ 51	\$ 16
Weighted Average Number of Common Shares Outstanding Basic	122	117
Income From Continuing Operations per Weighted Average Common Share Basic	\$ 0.42	\$ 0.04
Income From Discontinued Operations per Weighted Average Common Share Basic		0.09
Net Income per Weighted Average Common Share Basic	\$ 0.42	\$ 0.13
Weighted Average Number of Common Shares Outstanding Diluted	135	119
Income From Continuing Operations per Weighted Average Common Share Diluted	\$ 0.41	\$ 0.04

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Income From Discontinued Operations per Weighted Average Common Share	Diluted		0.09
Net Income per Weighted Average Common Share	Diluted	\$ 0.41	\$ 0.13

See notes to condensed consolidated financial statements.

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except shares and par value)	March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 655	\$ 795
Restricted cash	49	44
Accounts receivable, less allowance for doubtful accounts of \$1 and \$1	409	372
Inventory	400	421
Derivative instruments valuation	854	1,230
Deferred income taxes	43	
Prepayments and other current assets	259	221
Total current assets	2,669	3,083
Property, plant and equipment, net of accumulated depreciation of \$1,159 and \$984	11,521	11,600
Other Assets		
Equity investments in affiliates	361	344
Notes receivable and capital lease, less current portion	476	479
Goodwill	1,787	1,789
Intangible assets, net of accumulated amortization of \$292 and \$259	958	981
Nuclear decommissioning trust fund	357	352
Derivative instruments valuation	187	439
Deferred income taxes	27	27
Other non-current assets	256	262
Intangible assets held-for-sale	112	79
Total other assets	4,521	4,752
Total Assets	\$ 18,711	\$ 19,435
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Current portion of long-term debt and capital leases	\$ 129	\$ 130
Accounts payable	295	332
Derivative instruments valuation	824	964
Deferred income taxes		164
Accrued expenses and other current liabilities	320	442
Total current liabilities	1,568	2,032
Other Liabilities		
Long-term debt and capital leases	8,637	8,647

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Nuclear decommissioning reserve	280	289
Nuclear decommissioning trust liability	335	324
Deferred income taxes	623	554
Derivative instruments valuation	418	351
Out-of-market contracts	839	897
Other non-current liabilities	437	435
Total non-current liabilities	11,569	11,497
Total Liabilities	13,137	13,529
Minority Interest	1	1
3.625% Convertible perpetual preferred stock (at liquidation value, net of issuance costs)	247	247
Commitments and Contingencies		
Stockholders Equity		
Preferred stock (at liquidation value, net of issuance costs)	892	892
Common Stock	1	1
Additional paid-in capital	4,469	4,476
Retained earnings	790	739
Less treasury stock, at cost 16,300,581 and 14,800,581 shares	(835)	(732)
Accumulated other comprehensive income	9	282
Total Stockholders Equity	5,326	5,658
Total Liabilities and Stockholders Equity	\$ 18,711	\$ 19,435

See notes to condensed consolidated financial statements.

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)

Three months ended March 31,	2007	2006
Cash Flows from Operating Activities		
Net income	\$ 65	\$ 26
Adjustments to reconcile net income to net cash provided by operating activities		
Distributions less than equity in earnings of unconsolidated affiliates	(10)	(12)
Depreciation and amortization of nuclear fuel	174	125
Amortization and write-off of financing costs and debt discount/premiums	9	57
Amortization of intangibles and out-of-market contracts	(29)	9
Changes in deferred income taxes	47	46
Changes in nuclear decommissioning trust liability	9	(3)
Changes in derivatives	90	(21)
Changes in collateral deposits supporting energy risk management activities	(120)	230
Gain on sale of assets	(17)	
Gain on legal settlement		(67)
Gain on sale of discontinued operations		(10)
Gain on sale of emission allowances	(5)	(59)
Amortization of unearned equity compensation	7	3
Write down of equity method investments		3
Cash provided/(used) by changes in other working capital, net of acquisition and disposition affects	(114)	15
Net Cash Provided by Operating Activities	106	342
Cash Flows from Investing Activities		
Acquisition of Texas Genco LLC, net of cash acquired		(4,263)
Acquisition of WCP, net of cash acquired		(25)
Capital expenditures	(107)	(35)
Increase in restricted cash, net	(5)	(3)
Decrease in notes receivable	9	8
Purchases of emission allowances	(61)	(15)
Proceeds from sale of emission allowances	32	68
Investments in nuclear decommissioning trust fund securities	(68)	(42)
Proceeds from sales of nuclear decommissioning trust fund securities	59	45
Proceeds from sale of assets	29	
Proceeds from sale of investments		45
Proceeds from sale of discontinued operations		15
Net Cash Used by Investing Activities	(112)	(4,202)
Cash Flows from Financing Activities		
Payment of dividends to preferred stockholders	(14)	(10)
Payment of financing element of acquired derivatives		(29)
Payment for treasury stock	(103)	

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Funded letter of credit		350
Proceeds from issuance of common stock, net of issuance costs		986
Proceeds from issuance of preferred shares, net of issuance costs		486
Proceeds from issuance of long-term debt		7,175
Payment of deferred debt issuance costs		(164)
Payments for short and long-term debt	(19)	(4,623)
Net Cash Provided/(Used) by Financing Activities	(136)	4,171
Change in Cash from Discontinued Operations		(17)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	2	1
Net Increase/(Decrease) in Cash and Cash Equivalents	(140)	295
Cash and Cash Equivalents at Beginning of Period	795	493
Cash and Cash Equivalents at End of Period	\$ 655	\$ 788

See notes to condensed consolidated financial statements.

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NRG ENERGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

NRG Energy, Inc., or NRG or the Company, is a wholesale power generation company with a significant presence in major competitive power markets in the United States. NRG is primarily engaged in the ownership, development, construction and operation of power generation facilities, the transacting in and trading of fuel and transportation services, and the trading of energy, capacity and related products in the United States and internationally.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the Securities and Exchange Commission's regulations for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. The accounting policies NRG follows are set forth in Note 2 to the Company's financial statements in its Annual Report on Form 10-K for the year ended December 31, 2006. The following notes should be read in conjunction with such policies and other disclosures in the Form 10-K. Interim results are not necessarily indicative of results for a full year.

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all material adjustments consisting of normal and recurring accruals necessary to present fairly the Company's consolidated financial position as of March 31, 2007, and the results of operations and cash flows for the three months ended March 31, 2007 and 2006. Certain prior-year amounts have been reclassified for comparative purposes.

Use of Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during the reporting period. Actual results could be different from these estimates.

Recent Accounting Developments

In July 2006, the FASB issued FASB Interpretation Number 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, or FIN 48, which applies to all tax positions related to income taxes subject to SFAS 109. FIN 48 requires a new evaluation process for all tax positions taken, recognizing tax benefits when it is more-likely-than-not that a tax position will be sustained upon examination by the authorities. The benefit from a position that has surpassed the more-likely-than-not threshold is the largest amount of benefit that is more than 50% likely to be realized upon settlement. Differences between the amounts recognized in the statement of financial position prior to the adoption of FIN 48 and the amounts reported after adoption are to be accounted for as an adjustment to the beginning balance of retained earnings. Subsequently, any such differences will be recorded as a charge to income tax expense. The Company recognizes interest and penalties accrued related to unrecognized tax benefits as a component of income tax expense. As of March 31, 2007, the Company had completed its evaluation of the impact of the January 1, 2007, adoption of FIN 48 and has determined that such adoption will not have a material impact on the Company's financial position, results of operations and cash flows.

Note 2 Comprehensive Income

The following table summarizes the components of the Company's comprehensive income for the three months ended March 31, 2007 and 2006.

(In millions)

Three months ended March 31,	2007	2006
Net income	\$ 65	\$ 26
Changes in derivative activity, net of tax	(283)	247
Foreign currency translation adjustment	10	3

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Other comprehensive income, net of tax	(273)	250
Comprehensive income/(loss)	\$ (208)	\$ 276

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The following table summarizes the changes in the Company's accumulated other comprehensive income for the three months ended March 31, 2007:

(In millions)	
As of March 31,	2007
Accumulated other comprehensive income as of December 31, 2006	\$ 282
Changes in derivative activity, net of tax	(283)
Foreign currency translation adjustments	10
Accumulated other comprehensive income as of March 31, 2007	\$ 9

Note 3 Business Acquisitions and Dispositions***Acquisition of Remaining 50% interest in WCP***

On March 31, 2006, NRG completed purchase and sale agreements for projects co-owned with Dynegy, Inc. Under the agreements, NRG acquired Dynegy's 50% ownership interest in WCP (Generation) Holdings, LLC, or WCP, for \$205 million in cash and the assumption of a \$1 million liability, with NRG becoming the sole owner of WCP's 1,825 MW of generation capacity in Southern California. In addition, NRG sold to Dynegy the Company's 50% ownership interest in Rocky Road Power LLC, or Rocky Road, a 330 MW gas-fueled, simple cycle peaking plant located in Dundee, Illinois. NRG sold Rocky Road for a fair value sale price of \$45 million, paying Dynegy a net purchase price of \$160 million at closing. Prior to the purchase, NRG had an existing investment in WCP accounted for as an equity method investment, or Original Investment.

The acquisition of the remaining 50% interest in WCP, or New Investment, was accounted for as a step acquisition since the Original Investment was transacted in a prior period. As a result, the value of the Original Investment and the purchase price of the New Investment were determined and allocated separately. The value of the Original Investment was based on the book value of approximately \$159 million as of the date of the acquisition of the New Investment.

The value of the New Investment was allocated based on the fair value of assets acquired and liabilities assumed as of March 31, 2006. The purchase price allocation reflected an excess of fair value of the net assets acquired over the purchase price of the New Investment, resulting in negative goodwill of approximately \$48 million. The negative goodwill was subsequently allocated as a reduction to the fair value of WCP's fixed assets.

The following summarizes the purchase price and allocation impact of the WCP acquisition as of March 31, 2006:

(in millions)	Original Investment	New Investment		Purchase Price Allocation
		Fair Value before Negative Goodwill Allocation	Fair Value after Negative Goodwill Allocation	
Current assets	\$ 149	\$153	\$ 153	\$ 302
Property, plant and equipment	24	103	(38)	89
Intangible assets	2	26	(10)	18
Other non-current assets		9	9	9
Current liabilities	(13)	(18)	(18)	(31)
Non-current liabilities	(3)	(19)	(19)	(22)
Negative goodwill		(48)	48	

Total Equity	\$ 159	\$206	\$	\$ 206	\$ 365
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Other Business Events

Red Bluff and Chowchilla On January 3, 2007, NRG completed the sale of the Company's Red Bluff and Chowchilla II power plants to an entity controlled by Wayzata Investment Partners LLC. These power plants, located in California, are fueled by natural gas, with generating capacity of 45 MW and 49 MW, respectively. The sale resulted in a pre-tax gain of approximately \$18 million.

Note 4 Discontinued Operations

NRG has classified material business operations and gains/losses recognized on sale, as discontinued operations for projects that were sold or have met the required criteria for such classification. The financial results for the affected businesses have been

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accounted for as discontinued operations. Accordingly, prior periods have been recast to report the operations as discontinued. NRG classifies certain assets as held-for-sale when management has committed to selling certain long lived assets within the next year. This classification does not affect prior period operating results.

For the three months ended March 31, 2006, discontinued operations consisted of the results related to the Company's Audrain, Flinders and Resource Recovery operations. NRG had no assets classified as discontinued operations for the three months ended March 31, 2007.

Summarized results of operations of the Company's discontinued operations were as follows:

(In millions)

Three months ended March 31,	2007	2006
Operating revenues	\$	\$ 68
Pre-tax income from operations of discontinued components		2
Income from discontinued operations, net of income taxes	\$	\$ 11

Note 5 Accounting for Derivative Instruments and Hedging Activities

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, or SFAS 133, requires NRG to recognize all derivative instruments on the balance sheet as either assets or liabilities and to measure them at fair value each reporting period unless they qualify for a Normal Purchase Normal Sale, or NPNS, exception. If certain conditions are met, NRG may be able to designate certain derivatives as cash flow hedges and defer the effective portion of the change in fair value of the derivatives to OCI and subsequently recognize in earnings when the hedged transaction occurs. The ineffective portion of a cash flow hedge is immediately recognized in earnings.

Accumulated Other Comprehensive Income

The following table summarizes the effects of SFAS 133 on NRG's OCI balance attributable to hedged derivatives for the three months ended March 31, 2007, net of tax:

(In millions)	Energy Commodities	Interest Rate	Total
Accumulated OCI balance at December 31, 2006	\$ 193	\$ 16	\$ 209
Realized from OCI during the period:			
Due to realization of previously deferred amounts	(17)		(17)
Mark-to-market of hedge contracts	(259)	(7)	(266)
Accumulated OCI balance at March 31, 2007	\$ (83)	\$ 9	\$ (74)
Losses expected to be realized from OCI during the next 12 months	\$ 4	\$	\$ 4

The following table summarizes the effects of SFAS 133 on NRG's OCI balance attributable to hedged derivatives for the three months ended March 31, 2006, net of tax:

(In millions)	Energy Commodities	Interest Rate	Total
Accumulated OCI balance at December 31, 2005	\$ (204)	\$ 8	\$ (196)
Realized from OCI during the period:			
Due to realization of previously deferred amounts	20	(2)	18
Mark-to-market of hedge contracts	187	42	229

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The following tables summarizes the pre-tax effects of non-hedge derivatives, derivatives that do not qualify as hedges, and ineffectiveness of hedge derivatives on NRG's statement of operations for the three months ended March 31, 2007:

(In millions)	Energy		Total
	Commodities	Interest Rate	
Operating Revenues	\$ (90)	\$	\$ (90)
Equity in earnings of unconsolidated subsidiaries			
Cost of operations			
Interest Expense			
Total statement of operations impact before tax	\$ (90)	\$	\$ (90)

The following tables summarizes the pre-tax effects of non-hedge derivatives, derivatives that do not qualify as hedges, and ineffectiveness of hedge derivatives on NRG's statement of operations for the three months ended March 31, 2006:

(In millions)	Energy		Total
	Commodities	Interest Rate	
Operating Revenues	\$ 49	\$	\$ 49
Equity in earnings of unconsolidated subsidiaries			
Cost of operations			
Interest expense		3	3
Total statement of operations impact before tax	\$ 49	\$ (3)	\$ 46

For the three months ended March 31, 2007, the unrealized loss associated with changes in the fair value of derivative instruments not accounted for as hedge derivatives of \$90 million is comprised of \$79 million of fair value decreases in forward sales of electricity and fuel, a \$44 million gain due to the ineffectiveness associated with financial forward contracted electric and gas sales, \$70 million from the reversal of mark-to-market gains which ultimately settled as financial revenues of which \$57 million was related to economic hedges and \$13 million was related to trading activity. In addition, the Company recorded \$15 million of gains associated with open positions also related to trading activity.

For the three months ended March 31, 2006, the unrealized gain associated with changes in the fair value of derivative instruments not accounted for as hedge derivatives of \$49 million is comprised of \$37 million of fair value increases in forward sales of electricity and fuel, an \$8 million loss due to the ineffectiveness associated with financial forward contracted electric and gas sales, \$21 million from the reversal of mark-to-market losses which ultimately settled as financial revenues, of which \$45 million was related to losses on economic hedges and \$24 million was related to gains on trading activity. In addition, the Company recorded \$1 million of losses associated with open positions also related to trading activity. NRG's pre-tax earnings were also affected by a \$3 million loss due to ineffectiveness associated with the Company's fixed-to-floating interest rate swap designated as a hedge of fair value changes in the Senior Notes.

Note 6 Changes in Capital Structure

The following table reflects the changes in NRG's common stock issued and outstanding during the three months ended March 31, 2007 and 2006:

	Authorized	Issued	Treasury	Outstanding
Balance as of December 31, 2006	500,000,000	137,124,132	(14,800,581)	122,323,551
Capital Allocation Program Phase II during the first quarter 2007			(1,500,000)	(1,500,000)
Shares issued from LTIP through March 31, 2007		299,457		299,457
Balance as of March 31, 2007	500,000,000	137,423,589	(16,300,581)	121,123,008
Balance as of December 31, 2005	500,000,000	100,048,676	(19,346,788)	80,701,888
Shares issued January 2006		20,855,057		20,855,057
Acquisition of Texas Genco LLC		16,059,504	19,346,788	35,406,292
Shares issued from LTIP through March 31, 2006		12,038		12,038
Balance as of March 31, 2006	500,000,000	136,975,275		136,975,275

Common Stock

NRG's authorized common stock consists of 500 million shares of NRG stock. Common stock issued as of March 31, 2007 and 2006 was 137,423,589 and 136,975,275 shares, respectively.

Table of Contents**Treasury Stock**

In 2006, NRG initiated a Capital Allocation Program executed in two phases. Phase I was completed in the fourth quarter 2006, with the repurchase of 10,587,700 shares of the Company's common stock for approximately \$500 million. Phase II is also a \$500 million share buyback program that began in the fourth quarter 2006 with the repurchase of 4,212,881 shares of NRG common stock for a total of approximately \$232 million. During the first quarter 2007, NRG repurchased an additional 1,500,000 shares of the Company's common stock for approximately \$103 million. As of March 31, 2007, NRG had repurchased a total of 16,300,581 shares of its common stock at a cost of approximately \$835 million as part of its Capital Allocation Program. The Company expects to complete Phase II of the Capital Allocation Program in 2007 with the repurchase of approximately an additional \$165 million of NRG common stock.

As part of Phase I of the Capital Allocation Program, NRG issued Notes and Preferred Interests to Credit Suisse which included an embedded derivative that NRG may choose to pay in cash or stock. At maturity, should NRG's stock price exceed a compound annual growth rate of 20% beyond the volume-weighted average share price at the time of repurchase, referred to as the Reference Price, NRG will pay to Credit Suisse the excess of NRG's stock price over the Reference Price. As of March 31, 2007, per the noted calculation, the amount owed to Credit Suisse was approximately \$24 million.

Stock Dividend

On April 25, 2007, NRG's Board of Directors approved a two-for-one stock split of the Company's outstanding shares of common stock to be effected in the form of stock dividend. The stock split will entitle each stockholder of record at the close of business on May 22, 2007 to receive one additional share for every outstanding share of common stock held. The additional shares resulting from the stock split are expected to be distributed by the Company's transfer agent on or about May 31, 2007. Upon the completion of the stock split, NRG will have approximately 242 million shares of common stock outstanding.

Note 7 Equity Compensation**Stock Options, or NQSO's**

The following table summarizes the change in the outstanding NQSO during the three months ended March 31, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value Per Share
Outstanding as of December 31, 2006	1,705,536	\$ 35.18	\$ 13.40
Granted	368,600	55.83	16.36
Forfeited	(25,401)	49.76	15.01
Exercised	(37,393)	43.29	13.45
Outstanding at March 31, 2007	2,011,342	38.63	13.92
Exercisable at March 31, 2007	1,037,003	\$ 27.74	\$ 12.74

Restricted Stock Units, or RSU's

The following table shows the change in the outstanding RSU balance during the three months ended March 31, 2007:

	Shares	Weighted Average Grant-Date Fair Value Per Share
Non-vested Shares		
Non-vested as of December 31, 2006	1,138,593	\$ 31.48

Granted	44,700		55.83
Vested	(475,350)		19.99
Forfeited	(17,550)		37.25
Outstanding as of March 31, 2007	690,393	\$	40.78

Performance Units, or PUs

The following table shows the change in the outstanding PU balance during the three months ended March 31, 2007:

Non-vested Shares	Shares		Weighted Average Grant-Date Fair Value Per Share
Non-vested as of December 31, 2006	205,332	\$	34.49
Granted	88,800		35.00
Vested			
Forfeited	(8,500)		33.12
Outstanding as of March 31, 2007	285,632	\$	34.69

Table of Contents**Note 8 Earnings Per Share**

Basic earnings per common share is computed by dividing net income less accumulated preferred stock dividends by the weighted average number of common shares outstanding. Shares issued and treasury shares repurchased during the year are weighted for the portion of the year that they were outstanding. Diluted earnings per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during the period.

The reconciliation of basic earnings per common share to diluted earnings per share is as follows:

(In millions, except per share data)

Three months ended March 31,	2007	2006
Basic earnings per share		
Numerator:		
Income from continuing operations	\$ 65	\$ 15
Preferred stock dividends	(14)	(11)
Net income available to common stockholders from continuing operations	51	4
Discontinued operations, net of income tax expense		11
Net income available to common stockholders	\$ 51	\$ 15
Denominator:		
Weighted average number of common shares outstanding	122.0	117.4
Basic earnings per share:		
Income from continuing operations	\$ 0.42	\$ 0.04
Discontinued operations, net of income tax expense		0.09
Net income	\$ 0.42	\$ 0.13
Diluted earnings per share		
Numerator:		
Net income available to common stockholders from continuing operations	\$ 51	\$ 4
Add preferred stock dividends for dilutive preferred stock	4	
Adjusted income from continuing operations	55	4
Discontinued operations, net of tax		11
Net income available to common stockholders	\$ 55	\$ 15
Denominator:		
Weighted average number of common shares outstanding	122.0	117.4
Incremental shares attributable to the issuance of equity compensation (treasury stock method)	1.6	1.4
Incremental shares attributable to embedded derivatives of certain financial instruments (if-converted method)	1.2	
Incremental shares attributable to assumed conversion features of outstanding preferred stock (if-converted method)	10.5	
Total dilutive shares	135.3	118.8

Diluted earnings per share:

Income from continuing operations	\$ 0.41	\$ 0.04
Income from discontinued operations, net of tax		0.09
Net income	\$ 0.41	\$ 0.13

Effects on Earnings per Share

Stock Awards

Non-Qualified Stock Options For the three months ended March 31, 2007, none of the Company's stock options were anti-dilutive. For the three months ended March 31, 2006, options to purchase 595,121 shares of common stock were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the

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common stock for the respective periods, and therefore the effect would have been anti-dilutive.

Performance Units For the three months ended March 31, 2007 and 2006, performance units of 252,332 and 206,332, respectively, were not included in the computation of diluted earnings per share because the average market price of NRG's common stock was less than the target price of the outstanding performance units, and therefore the effect would have been anti-dilutive.

Preferred Stock

5.75% Preferred Stock For the three months ended March 31, 2007 and 2006, the shares of common stock associated with the 5.75% Preferred Stock were not included in the diluted earnings per share computation since its effect would have been anti-dilutive.

4% Preferred Stock For the three months ended March 31, 2007, 10,500,000 shares of common stock associated with the 4% Preferred Stock were included in diluted earnings per share. For the three months ended March 31, 2006, the shares of common stock associated with the 4% Preferred Stock were not included in the diluted earnings per share computation since its effect would have been anti-dilutive.

3.625% Preferred Stock The Company's 3.625% Preferred Stock contains an embedded derivative which allows for additional cash or common shares to be issued if the average stock price for a 20-day period prior to redemption exceeds \$59.08—the market price trigger. For the three months ended March 31, 2007, the dilutive effect of the embedded derivative included in diluted earnings per share was 773,607 shares of common stock. For the three months ended March 31, 2006 calculation of diluted earnings per share was not impacted by this derivative because the market price trigger was higher than the average market price of NRG's common stock, and therefore its effect would have been anti-dilutive.

Notes and Preferred Interests As part of Phase I of the Capital Allocation Program, NRG issued Notes and Preferred Interests to Credit Suisse which included an embedded derivative that NRG may choose to pay in cash or stock. At maturity, should NRG's stock price exceed a compound annual growth rate of 20% beyond the volume-weighted average share price at the time of repurchase, referred to as the Reference Price, NRG will pay to Credit Suisse the excess of NRG's stock price over the Reference Price. The value of this excess is considered dilutive for purposes of earnings per share. As of March 31, 2007, NRG's stock price exceeded the Reference Price creating a dilutive effect of 385,286 shares.

Pro forma Earnings Per Share

As discussed in Note 6, *Changes in Capital Structure*, on April 25, 2007, the Company's Board of Directors approved a two-for-one stock split of the Company's outstanding common stock to be effected in the form of a stock dividend, payable on or about May 31, 2007 to stockholders of record on May 22, 2007. Once the split becomes effective, future presentation of earnings per share will be retroactively recast for all prior periods. Taking into account the effect of the split, basic and diluted earnings per share for the three months ended March 31, 2007, would have been \$0.21 and \$0.20, respectively. Taking into account the effect of the split, basic and diluted earnings per share for the three months ended March 31, 2006, would have been \$0.06 and \$0.06, respectively.

Note 9 Segment Reporting

The Company's segment structure reflects NRG's core areas of operation which are primarily the geographic regions of the Company's wholesale power generation, thermal and chilled water business, and corporate activities. Within NRG's wholesale power generation operations, there are distinct components with separate operating results and management structures for the following regions: Texas, Northeast, South Central, West and International. All prior period information has been restated to reflect the change in the Company's segment structure as discussed in Note 17, *Segment Reporting*, to the Company's financial statements in its Annual Report on Form 10-K for the year ended December 31, 2006.

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(in millions)	Wholesale Power Generation								Total
	South								
Three months ended March 31, 2007	Texas	Northeast	Central	West	International	Thermal	Corporate	Elimination	
Operating revenues	\$ 695	\$ 342	\$ 151	\$ 28	\$ 43	\$ 49	\$ 5	\$ (3)	\$ 1,310
Depreciation and amortization	114	25	17		1	3	1		161
Equity in earnings of unconsolidated affiliates				(2)	15				13
Income/(loss) from continuing operations before income taxes	113	38	10	5	24	23	(92)		121
Net income/(loss)	\$ 60	\$ 38	\$ 10	\$ 5	\$ 17	\$ 23	\$ (88)	\$	\$ 65
Total assets	\$ 12,731	\$ 1,561	\$ 1,014	\$ 185	\$ 1,028	\$ 222	\$ 11,510	\$ (9,540)	\$ 18,711

(in millions)	Wholesale Power Generation								Total	
	South									
Three months ended March 31, 2006	Texas			West		Thermal		Corporate	Elimination	Total
	(a)	Northeast	Central	(b)	International					
Operating revenues	\$ 406	\$ 392	\$ 172	\$ 1	\$ 42	\$ 42	\$ 8	\$ (20)	\$ 1,043	
Depreciation and amortization	74	22	16		1	3	2		118	
Equity in earnings of unconsolidated affiliates				(2)	21		2		21	
Income/(loss) from continuing operations before income taxes	(7)	132	28	(4)	31	4	(150)	(20)	14	
Income on discontinued operations, net of income taxes					1		10		11	
Net income/(loss)	\$ 18	\$ 132	\$ 28	\$ (2)	\$ 23	\$ 4	\$ (157)	\$ (20)	\$ 26	

(a) For the period
February 2,
2006 to
March 31, 2006.

(b) Only included
the equity
earnings of
WCP.

Table of Contents**Note 10 Income Taxes**

Income tax expense for the three months ended March 31, 2007 was \$56 million and an income tax benefit of \$1 million for the three months ended March 31, 2006. The income tax expense for the three months ended March 31, 2007 included domestic tax expense of \$48 million and foreign tax expense of \$8 million. The income tax benefit for the three months ended March 31, 2006 included domestic tax benefit of \$10 million and foreign tax expense of \$9 million.

A reconciliation of the U.S. statutory rate to NRG's effective tax rate from continuing operations for the three months ended March 31, 2007 and 2006 is as follows:

(In millions except rate data)

Three months ended March 31,	2007	2006
Income from continuing operations before income taxes	\$ 121	\$ 14
Tax at 35%	42	5
State taxes	6	2
Valuation allowance		2
Disputed claims reserve		(7)
Foreign operations	(1)	(6)
Foreign dividend	5	1
Permanent differences including subpart F income and non-deductible interest expense	4	2
Income tax expense/(benefit)	\$ 56	\$ (1)
Effective income tax rate	46.3%	(7.1)%

The effective income tax rate for the three months ended March 31, 2007 and 2006 differs from the U.S. statutory rate of 35% due to a taxable dividend from foreign operations and non-deductible interest, offset by earnings in foreign jurisdictions that are taxed at rates lower than the U.S. statutory rate.

Deferred tax assets and valuation allowance

Net deferred tax balance As of March 31, 2007, NRG recorded a net deferred tax asset of \$30 million. However, due to an assessment of positive and negative evidence, including projected capital gains and available tax planning strategies, NRG believes that it is more likely than not that a benefit will not be realized on \$583 million of tax assets, thus a valuation allowance has remained, resulting in a net deferred tax liability of \$553 million.

NOL carryforwards As of March 31, 2007, the Company had NOL carryforwards available for domestic income tax purposes of \$70 million that will expire through 2027. In addition, NRG has cumulative foreign NOL carryforwards of \$273 million of which \$73 million will expire in 2016 and of which \$200 million does not have an expiration date.

Uncertain tax benefits

NRG has identified certain unrecognized tax benefits whose after tax value was \$712 million, and if recognized, \$19 million will impact the Company's effective tax rate. Of the \$712 million in unrecognized tax benefits, \$693 million relates to periods prior to the Company's emergence from bankruptcy, and in accordance with SOP 90-7 and the application of Fresh Start accounting, any recognized benefit would not impact the Company's effective tax rate but would increase Additional Paid In Capital. NRG has accrued interest and penalty related to these unrecognized tax benefits of approximately \$4 million as of the adoption of FIN 48 by the Company on January 1, 2007. There were no interest and penalties related to unrecognized tax benefits that were recognized in the Company's results of operations for the three months ended March 31, 2007.

Tax jurisdictions NRG is subject to examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and various state and foreign jurisdictions including major operations located in Germany, Australia, and Brazil. The Company is no longer subject to U.S. federal income tax examinations for years prior to

2002. With few exceptions, state and local income tax examinations are no longer open for years before 2003. The Company's significant foreign operations are also no longer subject to examination by local jurisdictions for years prior to 2000.

Table of Contents**Note 11 Benefit Plans and Other Postretirement Benefits**

The net annual periodic pension cost for the three months ended March 31, 2007 and 2006 related to all of the Company's defined benefit pension plans, include the following components:

(In millions) Three months ended March 31	Defined Benefit Pension Plans	
	2007	2006
Service cost benefits earned	\$ 4	\$ 4
Interest cost on benefit obligation	4	3
Expected return on plan assets	(3)	(1)
Net periodic benefit cost	\$ 5	\$ 6

The net annual periodic cost for the three months ended March 31, 2007 and 2006 related to all of the Company's other post retirement benefits plans, include the following components:

(In millions) Three months ended March 31	Other Postretirement Benefits Plans	
	2007	2006
Service cost benefits earned	\$ 1	\$ 1
Interest cost on benefit obligation	1	1
Net periodic benefit cost	\$ 2	\$ 2

The total amount of employer contributions paid for the three months ended March 31, 2007 was \$12 million.

Note 12 Commitments and Contingencies**Commitments*****Second Lien Structure***

NRG has granted second priority liens to certain counterparties on substantially all of the Company's assets in the United States in order to secure obligations, which are primarily long-term in nature under certain power sale agreements and related contracts. NRG uses the second lien structure to reduce the amount of cash collateral and letters of credit that it may otherwise be required to post from time to time to support its obligations under these agreements. Within the second lien structure, the Company can hedge up to 80% of its baseload capacity and 10% of its non-baseload assets with these counterparties. As of March 31, 2007, the net discounted exposure on the agreements and hedges that were subject to the second lien structure was approximately \$90 million.

Coal Commitments

NRG enters into long-term contractual arrangements to procure fuel and transportation services for the Company's generation assets. NRG entered into additional coal purchase agreements during the first quarter 2007 with total commitments of approximately \$303 million spanning over the next six years.

Contingencies

Set forth below is a description of the Company's material legal proceedings. Pursuant to the requirements of SFAS 5, *Accounting for Contingencies*, and related guidance, NRG records reserves for estimated losses from contingencies when information available indicates that a loss is probable and the amount of the loss is reasonably estimable. Because litigation is subject to inherent uncertainties and unfavorable rulings or developments could occur, there can be no certainty that NRG may not ultimately incur charges in excess of presently recorded reserves. A future adverse ruling or unfavorable development could result in future charges, which could have a materially adverse effect on NRG's consolidated financial position, results of operations, or cash flows.

With respect to a number of the items listed below, management has determined that a loss is not probable or the amount of the loss

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is not reasonably estimable, or both. In some cases, management is not able to predict with any degree of substantial certainty the range of possible loss that could be incurred. Notwithstanding these facts, management has assessed each of these matters based on current information and made a judgment concerning its potential outcome, considering the nature of the claim, the amount and nature of damages sought, and the probability of success. Management's judgment may, as a result of facts arising prior to resolution of these matters, or other factors, prove inaccurate and investors should be aware that such judgment is made subject to the uncertainty of litigation.

In addition to the legal proceedings noted below, NRG and its subsidiaries are party to other litigation or legal proceedings arising in the ordinary course of business. In management's opinion, the disposition of these ordinary course matters will not materially adversely effect NRG's consolidated financial position, results of operations, or cash flows.

NRG believes that it has valid defenses to the legal proceedings and investigations described below and intends to defend them vigorously. However, litigation is inherently subject to many uncertainties. There can be no assurance that additional litigation will not be filed against the Company or its subsidiaries in the future, asserting similar or different legal theories and seeking similar or different types of damages and relief. Unless specified below, the Company is unable to predict the outcome of these legal proceedings and investigations may have or reasonably estimate the scope or amount of any associated costs and potential liabilities. An unfavorable outcome in one or more of these proceedings could have a material impact on the Company's consolidated financial position, results of operations, or cash flows. NRG also has indemnity rights for some of these proceedings to reimburse NRG for certain legal expenses and to offset certain amounts deemed to be owed in the event of an unfavorable litigation outcome.

California Electricity and Related Litigation

NRG, WCP, WCP's four operating subsidiaries, Dynegy, Inc., and numerous other unrelated parties are the subject of numerous lawsuits that arose based on events that occurred in the California power market in 2000 and 2001. The complaints primarily allege that the defendants engaged in unfair business practices, price fixing, antitrust violations, and other market gaming activities. Certain of these lawsuits originally commenced in 2000 and 2001, which seek unspecified treble damages and injunctive relief, were consolidated and made a part of a Multi-District Litigation proceeding before the U.S. District Court for the Southern District of California. The consolidated cases moved between state and federal court several times. On May 5, 2005, the case was remanded to California state court, and under a scheduling order, defendants filed their objections to the pleadings. On July 22, 2005, based upon the filed rate doctrine and federal preemption, the court dismissed NRG Energy, Inc. without prejudice, leaving only subsidiaries of WCP remaining in the case. On October 3, 2005, the court sustained defendants' demurrer, dismissing the case against all remaining defendants. On December 2, 2005, the plaintiffs filed their notice of appeal from the dismissal with the California State Court of Appeals—Fourth District and on February 26, 2007, the court affirmed the lower court's judgment of dismissal. Other cases, including putative class actions, have been filed in state and federal court on behalf of business and residential electricity consumers that name WCP and/or subsidiaries of WCP, in addition to numerous other defendants. These complaints allege the defendants attempted to manipulate gas indexes by reporting false and fraudulent trades, and violated California's antitrust law and unfair business practices law. The complaints seek restitution and disgorgement, civil fines, compensatory and punitive damages, attorneys' fees, and declaratory and injunctive relief. Motion practice is proceeding in these cases and dispositive motions have been filed in several of these proceedings.

In September 2006, Dynegy executed a settlement agreement to resolve the class action claims in the natural gas anti-trust cases consolidated and pending in state court in San Diego, California. Approved in late December 2006, the Court has dismissed the class action claims. WCP and some of its subsidiaries were named defendants and Dynegy's settlement includes full releases for these entities. The settlement resolves claims by core and non-core California consumers of natural gas for damages arising from or relating to allegations of misreporting of natural gas transactions or wash trading. Preliminarily approved by the court, the settlement excludes similar cases filed by individual plaintiffs, which Dynegy continues to defend. Neither WCP and its subsidiaries nor NRG paid any defense costs or settlement funds, as Dynegy owed and provided a complete defense and indemnification.

In August 2006, Dynegy entered into an agreement to settle class action claims by California natural gas resellers and cogenerators. These claims are pending in Nevada federal district court in *In Re Western States Wholesale*

Natural Gas Antitrust Litigation . WCP and its subsidiaries are named defendants and Dynegy's settlement would include full releases for these entities. The settlement is expected to be submitted to the court for approval in 2007. Neither WCP, its subsidiaries, nor NRG paid any defense costs or settlement funds, as Dynegy owed and provided a complete defense and indemnification.

In cases relating to natural gas, Dynegy is defending WCP and/or its subsidiaries pursuant to an indemnification agreement and will be the responsible party for any loss. In cases relating to electricity, Dynegy's counsel is representing it and WCP and/or its subsidiaries, with each party responsible for half of the costs and each party responsible for half of any loss.

Table of Contents***California Department of Water Resources***

On December 19, 2006, the U.S. Court of Appeals for the Ninth Circuit reversed FERC's prior determinations regarding the enforceability of certain wholesale power contracts and remanded the case to FERC for further proceedings consistent with the decision. One of these contracts was the wholesale power contract between the California Department of Water Resources, or CDWR, and subsidiaries of WCP. This case originated with a February 2002 complaint filed at FERC by the State of California alleging that many parties, including WCP subsidiaries, overcharged the State. For WCP, the alleged overcharges totaled approximately \$940 million for 2001 and 2002. The complaint demanded that FERC abrogate the CDWR contract and sought refunds associated with revenues collected under the contract. In 2003, FERC rejected this complaint, denied rehearing, and the case was appealed to the Ninth Circuit where oral argument was held on December 8, 2004. On December 19, 2006, the Court decided that in FERC's review of the contracts at issue, FERC could not rely on the Mobile-Sierra standard presumption of just and reasonable rates, where such contracts were not reviewed by FERC with full knowledge of the then existing market conditions. WCP and the other defendants expect to seek review by the U.S. Supreme Court prior to the May 3, 2007, deadline. The Supreme Court is expected to decide in 2007 whether it will accept the appeal. At this time, while NRG cannot predict with certainty whether WCP will be required to make refunds for rates collected under the CDWR contract or estimate the range of any such possible refunds, a reconsideration of the CDWR contract by FERC with a resulting order mandating significant refunds could have a material adverse impact on NRG's financial position, statement of operations, and statement of cash flows. As part of the 2006 acquisition of Dynegy's 50% ownership interest in WCP, WCP and NRG assumed responsibility for any risk of loss arising from this case, unless any such loss was deemed to have resulted from certain acts of gross negligence or willful misconduct on the part of Dynegy, in which case any such loss would be shared equally between WCP and Dynegy.

Connecticut Congestion Charges

On November 28, 2001, CL&P sought recovery in the U.S. District Court for Connecticut for amounts it claimed were owed for congestion charges under the October 29, 1999 Standard Offer Services Contract. CL&P withheld approximately \$30 million from amounts owed to PMI under contract and PMI counterclaimed. CL&P's motion for summary judgment, which PMI opposed, remains pending. NRG cannot estimate at this time the overall exposure for congestion charges for the term of the contract prior to the implementation of standard market design, which occurred on March 1, 2003; however, the full amount withheld by CL&P has been reserved as a reduction to outstanding accounts receivable.

Station Service Disputes

On October 2, 2000, NiMo commenced an action against NRG in New York state court seeking damages related to NRG's alleged failure to pay retail tariff amounts for utility services at the Dunkirk Plant between June 1999 and September 2000. The parties agreed to consolidate this action with two other actions against the Huntley and Oswego Plants. On October 8, 2002, by stipulation and order, this action was stayed pending submission to FERC of the disputes in the action. At FERC, NiMo asserted the same claims and legal theories, and on November 19, 2004, FERC denied NiMo's petition and ruled that the NRG facilities could net their service obligations over each 30 calendar day period from the day NRG acquired the facilities. In addition, FERC ruled that neither NiMo nor the New York Public Service Commission could impose a retail delivery charge on the NRG facilities because they are interconnected to transmission and not to distribution. On April 22, 2005, FERC denied NiMo's motion for rehearing. NiMo appealed to the U.S. Court of Appeals for the D.C. Circuit which, on June 23, 2006, denied the appeal finding that NYISO's station service program that permits generators to self supply their station power needs by netting consumption against production in a month is lawful. On October 23, 2006, the D.C. Circuit denied NiMo's petition for rehearing and on January 22, 2007, NiMo sought review before the U.S. Supreme Court. On April 30, 2007, the U.S. Supreme Court denied NiMo's request for the review thus ending further avenues to appeal FERC's ruling in this matter. NRG currently believes it is adequately reserved.

On December 14, 1999, NRG acquired certain generating facilities from CL&P. A dispute arose over station service power and delivery services provided to the facilities. On December 20, 2002, as a result of a petition filed at FERC by Northeast Utilities Services Company on behalf of itself and CL&P, FERC issued an order finding that, at times when NRG is not able to self-supply its station power needs, there is a sale of station power from a third-party

and retail charges apply. In August 2003, the parties agreed to submit the dispute to binding arbitration. In July and August 2006, the parties submitted their respective statements of the case to the three member arbitration panel. A discovery and briefing schedule was issued and a hearing is set for September 2007. NRG believes it is adequately reserved.

Table of Contents***ITISA***

NRG's Brazilian project company, ITISA, the owner of a 155 MW hydro project in Brazil, is in arbitration with the former Engineering, Procurement and Construction, or EPC, contractor for the project, Inepar Industria e Construcoes, or Inepar. The dispute was commenced in arbitration by ITISA in September 2002 and pertains to certain matters arising under the EPC contract between the parties. ITISA sought Real 140 million and asserted that Inepar breached the contract. Inepar sought Real 39 million and alleged that ITISA breached the contract. On September 2, 2005, the arbitration panel ruled in favor of ITISA, awarding it Real 139 million and Inepar Real 4.7 million. Due to interest accrued from the commencement of the arbitration to the award date, ITISA's award was increased to approximately Real 227 million (approximately \$110 million as of March 31, 2007). ITISA has commenced the lengthy process in Brazil to execute on the arbitral award. NRG is unable to predict the outcome of this execution process. On December 21, 2005, Inepar's request for clarifications was denied. Due to the uncertainty of the ongoing collection process, NRG is accounting for receipt of any amounts as a gain contingency.

Disputed Claims Reserve

As part of NRG's plan of reorganization, NRG funded a disputed claims reserve for the satisfaction of certain general unsecured claims that were disputed claims as of the effective date of the plan. Under the terms of the plan, as such claims are resolved, the claimants are paid from the reserve on the same basis as if they had been paid out in the bankruptcy. To the extent the aggregate amount required to be paid on the disputed claims exceeds the amount remaining in the funded claims reserve, NRG will be obligated to provide additional cash and common stock to satisfy the claims. Any excess funds in the disputed claims reserve will be reallocated to the creditor pool for the pro rata benefit of all allowed claims. The contributed common stock and cash in the reserves is held by an escrow agent to complete the distribution and settlement process. Since NRG has surrendered control over the common stock and cash provided to the disputed claims reserve, NRG recognized the issuance of the common stock as of December 6, 2003 and removed the cash amounts from the balance sheet. Similarly, NRG removed the obligations relevant to the claims from the balance sheet when the common stock was issued and cash contributed.

On April 3, 2006, the Company made a supplemental distribution to creditors under the Company's Chapter 11 plan, totaling \$25 million in cash and 2,541,000 shares of common stock. As of April 18, 2007, the reserve held approximately \$10 million in cash and approximately 691,709 shares of common stock. NRG believes the cash and stock together represent sufficient funds to satisfy all remaining disputed claims.

Note 13 Regulatory Matters

With the exception of NRG's thermal and chilled water business and decommissioning responsibilities related to STP, NRG's operations are not regulated operations subject to SFAS 71 and NRG does not record assets and liabilities that result from the regulated ratemaking processes. NRG does operate, however, in a highly regulated industry and the Company is subject to regulation by various federal and state agencies. As such, NRG is affected by regulatory developments at both the federal and state levels and in the regions in which NRG operates.

Northeast Region

New England On December 28, 2006, the Attorneys General of the State of Connecticut and Commonwealth of Massachusetts filed an appeal of the FERC orders accepting the settlement of the New England capacity market design with the U.S. Court of Appeals for the D.C. Circuit. The settlement, filed March 7, 2006, by a broad group of New England market participants, provides for interim capacity transition payments for all generators in New England for the period starting December 1, 2006 through May 31, 2010, and the establishment of a Forward Capacity Market, or FCM, commencing May 31, 2010. On June 16, 2006, FERC issued an order accepting the settlement, which was reaffirmed on rehearing by order dated October 31, 2006. Interim capacity transition payments provided for under the FCM settlement commenced December 1, 2006, as scheduled. A successful appeal by the Attorneys General could disturb the settlement and create a refund obligation of interim capacity transition payments. On April 5, 2007, the Connecticut Attorney General filed a motion seeking to stay the interim capacity transition payments.

New York A dispute is ongoing with respect to high prices for spinning reserves, or SR, and non-spinning reserves, or NSR, in the NYISO-administered markets during the period from January 29, 2000 to March 27, 2000. Certain entities have argued that the NYISO acted unreasonably in declining to invoke Temporary Extraordinary Operating Procedures, or TEP, to recalculate prices and that the markets should be resettled for various reasons. In a

series of orders, FERC declined to grant the requested relief. On appeal, the U.S. Court of Appeals for the D.C. Circuit remanded the case back to FERC to further explain its decision not to utilize TEP to remedy certain of these market issues. On March 4, 2005, FERC issued an order reaffirming that (i) the NYISO acted reasonably in not invoking TEP, (ii) NYISO did not violate its tariff, and (iii) refunds should not be granted; this order was reaffirmed on rehearing

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on November 17, 2005. These orders have subsequently been appealed to the D.C. Circuit. Resettlement of the market, while viewed as unlikely, could have a material financial impact on the Company's results of operations.

West Region

On December 1, 2006, NRG filed to extend the existing RMR agreements for NRG's Cabrillo Power I, LLC (Encina) and Cabrillo Power II, LLC (San Diego Jets) for 2007, seeking to continue the then-existing rate effective January 1, 2007. On January 24, 2007, FERC accepted the Cabrillo Power I filing. On January 30, 2007, FERC accepted the Cabrillo II filing, subject to refund, in response to protests filed by the CPUC and CAISO, and established settlement procedures. The parties have reached a settlement in principle that will result in an annual fixed revenue requirement of approximately \$5 million.

Note 14 Environmental Matters

The construction and operation of power projects are subject to stringent environmental and safety protection and land use laws and regulation in the U.S. If such laws and regulations become more stringent, or new laws, interpretations or compliance policies apply and NRG's facilities are not exempt from coverage, the Company could be required to make modifications to further reduce potential environmental impacts. In addition, increased public concern and mounting political pressure may result in federal or additional state requirements to reduce or mitigate the effects of greenhouse gases emissions, including carbon dioxide. In general, the effect of such future laws or regulations is expected to require the addition of pollution control equipment or the imposition of restrictions or additional costs on the Company's operations.

Environmental Capital Expenditures

Based on current rules, technology and plans, NRG has estimated that \$1.3 billion of capital expenditures will be incurred during the period 2007 through 2012 in order to keep NRG's facilities in compliance with environmental laws. These expenditures are primarily related to installation of particulate, SO₂, NO_x, and mercury controls to comply with Clean Air Interstate Rule, or CAIR, and the Clean Air Mercury Rule, or CAMR, as well as installation of Best Technology Available under the Phase II 316(b) Rule. NRG typically updates its estimates for environmental capital expenditures annually. These plans, including installed equipment and timing as well as cost can be expected to change over time, in some cases materially. These plans are based on current regulatory requirements and best engineering practices. Changes to regulations or market conditions could result in changes to installed equipment timing or associated costs. Depending upon the outcome of the challenge to DNREC's Regulation No. 1146 discussed below, NRG will reassess its options for its Indian River power plant and associated costs.

Other Environmental Matters

Under various federal, state, and local environmental laws and regulations, a current or previous owner or operator of any facility may be required to investigate and remediate releases or threatened releases of hazardous or toxic substances or petroleum products located at a facility, and may be held liable to a governmental entity or to third parties for property damage, personal injury and investigation and remediation costs incurred by the party in connection with any releases or threatened releases. These laws impose strict (without fault) and joint and several liability. The cost of investigation, remediation, or removal of any hazardous or toxic substances or petroleum products could be substantial.

Texas Region

The lignite used to fuel the Texas region's Limestone facility is obtained from a surface mine adjacent to the facility under an amended long-term contract with Texas Westmoreland Coal Co., or TWCC, entered into in August 1999. TWCC is responsible for performing ongoing reclamation activities at the mine until all lignite reserves have been produced. When production is completed at the mine, NRG will be responsible for final mine reclamation obligations. The Railroad Commission of Texas has imposed a bond obligation of approximately \$70 million on TWCC for the reclamation of this lignite mine. Final reclamation activity is expected to commence in 2015. Pursuant to the contract with TWCC, an affiliate of CenterPoint Energy, Inc. has guaranteed \$50 million of this obligation until 2010. The remaining sum of approximately \$20 million has been bonded by the mine operator, TWCC. Under the terms of the agreement, NRG is required to post a corporate guarantee of TWCC's bond obligation in the amount of \$50 million when CenterPoint's obligation lapses. As of March 31, 2007, NRG has established an ARO of approximately \$20 million related to the mine reclamation obligation.

Northeast Region

In January 2006, NRG Indian River Operations, Inc. received a letter of informal notification from the Delaware Department of Natural Resources and Environmental Control, or DNREC, stating that it may be a potentially responsible party with respect to a

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historic captive landfill. NRG is working with DNREC through the Voluntary Clean-up Program to investigate the site. The Company is unable to predict the financial impact at this time.

In November 2006, DNREC promulgated Regulation No. 1146, or Reg 1146, Electric Generating Unit Multi-Pollutant Regulation and Section 111(d) of the State Plan for the Control of Mercury Emissions from Coal-Fired Electric Steam Generating Units. These regulations govern the control of SO₂, NO_x, and mercury emissions from electric generating units. NRG's current plan to install controls at the Company's Indian River facility, while on an accelerated basis, is unable to meet certain deadlines for SO₂ and NO_x controls in Phase 1, taking into account the time required, as a practical matter, to design, install, and commission the necessary equipment. NRG and the owners of all other subject facilities in the state filed a challenge to Reg 1146 with the Environmental Appeals Board, or EAB, on December 6, 2006. In addition, NRG also filed a protective appeal with the Delaware Superior Court on December 29, 2006. A hearing is scheduled to commence before the EAB on June 18, 2007. NRG is unable to predict the outcome of the proceedings at this time, but failure to obtain relief may result in a material impact on the Company's results of operations.

South Central Region

On January 27, 2004, NRG's Louisiana Generating, LLC and the Company's Big Cajun II plant received a request under Section 114 of the Clean Air Act, or CAA, from USEPA seeking information primarily related to physical changes made at the Big Cajun II plant, and subsequently received a notice of violation, or NOV, on February 15, 2005, alleging that NRG's predecessors had undertaken projects that triggered requirements under the PSD program, including the installation of emission controls. NRG submitted multiple responses commencing February 27, 2004 and ending on October 20, 2004. On May 9, 2006, these entities received from the Department of Justice, or DOJ, a notice of deficiency related to their responses, to which NRG responded on May 22, 2006. A document review was conducted at NRG's Louisiana Generating, LLC offices by the DOJ during the week of August 14, 2006. On December 8, 2006, the USEPA issued a supplemental NOV updating the original February 15, 2005 NOV. Discussions with the USEPA are ongoing and the Company cannot predict with certainty the outcome of this matter.

Note 15 Guarantees

NRG and its subsidiaries enter into various contracts that include indemnification and guarantee provisions as a routine part of the Company's business activities. Examples of these contracts include asset purchases and sale agreements, commodity sale and purchase agreements, joint venture agreements, operation and maintenance agreements, service agreements, settlement agreements, and other types of contractual agreements with vendors and other third parties. These contracts generally indemnify the counterparty for tax, environmental liability, litigation and other matters, as well as breaches of representations, warranties and covenants set forth in these agreements. In some cases, NRG's maximum potential liability cannot be estimated, since the underlying agreements contain no limits on potential liability.

This footnote should be read in conjunction with the complete description under Note 25, *Guarantees*, to the Company's financial statements in its Annual Report on Form 10-K for the year ended December 31, 2006.

For the three months ended March 31, 2007, NRG had net increases to its guarantee obligations under other commercial arrangements of approximately \$128 million. These pertain to payment obligations of NRG Power Marketing, Inc., or PMI.

Note 16 Condensed Consolidating Financial Information

As of March 31, 2007, the Company had \$1.2 billion of 7.25% Senior Notes due 2014, \$2.4 billion of 7.375% Senior Notes due 2016 and \$1.1 billion of 7.375% Senior Notes due 2017 outstanding. These notes are guaranteed by certain of NRG's current and future wholly-owned domestic subsidiaries, or guarantor subsidiaries.

Each of the following guarantor subsidiaries fully and unconditionally guaranteed the Senior Notes as of March 31, 2007:

Arthur Kill Power LLC	NRG Connecticut Affiliate Services Inc.
Astoria Gas Turbine Power LLC	NRG Devon Operations Inc.
Berrians I Gas Turbine Power LLC	NRG Dunkirk Operations Inc.
Big Cajun II Unit 4 LLC	NRG El Segundo Operations Inc.

Cabrillo Power I LLC
Cabrillo Power II LLC

NRG Generation Holdings, Inc.
NRG Huntley Operations Inc.

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Chickahominy River Energy Corp.	NRG International LLC
Commonwealth Atlantic Power LLC	NRG Kaufman LLC
Conemaugh Power LLC	NRG Mesquite LLC
Connecticut Jet Power LLC	NRG MidAtlantic Affiliate Services Inc.
Devon Power LLC	NRG Middletown Operations Inc.
Dunkirk Power LLC	NRG Montville Operations Inc.
Eastern Sierra Energy Company	NRG New Jersey Energy Sales LLC
El Segundo Power, LLC	NRG New Roads Holdings LLC
El Segundo Power II LLC	NRG North Central Operations Inc.
GCP Funding Company, LLC	NRG Northeast Affiliate Services Inc.
Hanover Energy Company	NRG Norwalk Harbor Operations Inc.
Hoffman Summit Wind Project, LLC	NRG Operating Services, Inc.
Huntley IGCC LLC	NRG Oswego Harbor Power Operations Inc.
Huntley Power LLC	NRG Power Marketing Inc.
Indian River IGCC LLC	NRG Rocky Road LLC
Indian River Operations Inc.	NRG Saguario Operations Inc.
Indian River Power LLC	NRG South Central Affiliate Services Inc.
James River Power LLC	NRG South Central Generating LLC
Kaufman Cogen LP	NRG South Central Operations Inc.
Keystone Power LLC	NRG South Texas LP
Lake Erie Properties Inc.	NRG Texas LLC
Louisiana Generating LLC	NRG Texas LP
Middletown Power LLC	NRG West Coast LLC
Montville IGCC LLC	NRG Western Affiliate Services Inc.
Montville Power LLC	Oswego Harbor Power LLC
NEO Chester-Gen LLC	Padoma Wind Power, LLC
NEO Corporation	Saguaro Power LLC
NEO Freehold-Gen LLC	San Juan Mesa Wind Project II, LLC
NEO Landfill Gas Holdings Inc.	Somerset Operations Inc.
NEO Power Services Inc.	Somerset Power LLC
New Genco GP, LLC	Texas Genco Financing Corp.
New Genco LP, LLC	Texas Genco GP, LLC
Norwalk Power LLC	Texas Genco Holdings, Inc.
NRG Affiliate Services Inc.	Texas Genco LP, LLC
NRG Arthur Kill Operations Inc.	Texas Genco Operating Services, LLC
NRG Asia-Pacific, Ltd.	Texas Genco Services, LP
NRG Astoria Gas Turbine Operations Inc.	Vienna Operations Inc.
NRG Bayou Cove LLC	Vienna Power LLC
NRG Cabrillo Power Operations Inc.	WCP (Generation) Holdings LLC
NRG Cadillac Operations Inc.	West Coast Power LLC
NRG California Peaker Operations LLC	

The non-guarantor subsidiaries include all of NRG's foreign subsidiaries and certain domestic subsidiaries. NRG conducts much of its business through and derives much of its income from its subsidiaries. Therefore, the Company's ability to make required payments with respect to its indebtedness and other obligations depends on the financial results and condition of its subsidiaries and NRG's ability to receive funds from its subsidiaries. Except for NRG Bayou Cove, LLC, which is subject to certain restrictions under the Company's Peaker financing agreements, there are no restrictions on the ability of any of the guarantor subsidiaries to transfer funds to NRG. In addition, there may be restrictions for certain non-guarantor subsidiaries.

The following condensed consolidating financial information presents the financial information of NRG Energy, Inc., the guarantor subsidiaries and the non-guarantor subsidiaries in accordance with Rule 3-10 under the Securities and Exchange Commission's Regulation S-X. The financial information may not necessarily be indicative of results of operations or financial position had the guarantor subsidiaries or non-guarantor subsidiaries operated as independent entities.

In this presentation, NRG Energy, Inc. consists of parent company operations. Guarantor subsidiaries and non-guarantor subsidiaries of NRG are reported on an equity basis. For companies acquired, the fair values of the assets and liabilities acquired have been presented on a push-down accounting basis.

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2007

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations ^(a)	Consolidated Balance
Operating Revenues					
Total operating revenues	\$ 1,215	\$ 95	\$	\$	\$ 1,310
Operating Costs and Expenses					
Cost of operations	716	66	2		784
Depreciation and amortization	153	7	1		161
General and administrative	28	3	55		86
Development costs	23				23
Total operating costs and expenses	920	76	58		1,054
Gain on sale of assets	18		(1)		17
Operating Income/(Loss)	313	19	(59)		273
Other Income/(Expense)					
Equity in earnings of consolidated subsidiaries	32		156	(188)	
Equity in earnings of unconsolidated affiliates	(2)	15			13
Other income, net	2	9	10	(5)	16
Interest expense	(70)	(26)	(90)	5	(181)
Total other income/(expense)	(38)	(2)	76	(188)	(152)
Income From Continuing Operations Before Income Taxes					
	275	17	17	(188)	121
Income Tax Expense/(Benefit)	99	5	(48)		56
Net Income	\$ 176	\$ 12	\$ 65	\$ (188)	\$ 65

(a) All significant intercompany transactions have been eliminated in consolidation.

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
March 31, 2007

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations ^(a)	Consolidated Balance
ASSETS					
Current Assets					
Cash and cash equivalents	\$	\$ 170	\$ 534	\$	\$ 704
Accounts receivable, net	369	40			409
Inventory	387	13			400
Derivative instruments valuation	853		1		854
Prepayments and other current assets	213	13	200	(124)	302
Total current assets	1,822	236	735	(124)	2,669
Net property, plant and equipment	11,104	399	18		11,521
Other Assets					
Investment in subsidiaries	488		9,155	(9,643)	
Equity investments in affiliates	28	333			361
Notes receivable and capital lease	1,027	476	5,474	(6,501)	476
Goodwill	1,787				1,787
Intangible assets, net	957	1			958
Nuclear decommissioning trust	357				357
Derivative instruments valuation	182		5		187
Other non-current assets	24	84	175		283
Intangible assets held-for-sale	112				112
Total other assets	4,962	894	14,809	(16,144)	4,521
Total Assets	\$ 17,888	\$ 1,529	\$ 15,562	\$ (16,268)	\$ 18,711
LIABILITIES AND STOCKHOLDERS EQUITY					
Current Liabilities					
Current portion of long-term debt	\$ 40	\$ 100	\$ 36	\$ (47)	\$ 129
Accounts payable	(850)	271	874		295
Derivative instruments valuation	824				824
Accrued expenses and other current liabilities	340	65	(8)	(77)	320
Total current liabilities	354	436	902	(124)	1,568
Other Liabilities					

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Long-term debt	5,474	837	8,827	(6,501)	8,637
Nuclear decommissioning reserve	280				280
Nuclear decommissioning trust liability	335				335
Deferred income taxes	532	(123)	214		623
Derivative instruments valuation	394	6	18		418
Out-of-market contracts	839				839
Other long-term obligations	379	30	28		437
Total non-current liabilities	8,233	750	9,087	(6,501)	11,569
Total liabilities	8,587	1,186	9,989	(6,625)	13,137
Minority interest		1			1
3.625% Preferred Stock			247		247
Stockholders Equity	9,301	342	5,326	(9,643)	5,326
Total Liabilities and Stockholders Equity	\$ 17,888	\$ 1,529	\$ 15,562	\$ (16,268)	\$ 18,711

(a) All significant intercompany transactions have been eliminated in consolidation.

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2007

(In millions)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations ^(a)	Consolidated Balance
Cash Flows from Operating Activities					
Net income	\$ 176	\$ 12	\$ 65	\$ (188)	\$ 65
Adjustments to reconcile net income to net cash provided by operating activities					
Distributions less than equity earnings of unconsolidated affiliates and consolidated subsidiaries	272	(12)	146	(416)	(10)
Depreciation and amortization of nuclear fuel	166	7	1		174
Amortization of financing costs and debt discount		2	7		9
Amortization of intangibles and out-of-market contracts	(29)				(29)
Amortization of unearned equity compensation			7		7
Changes in deferred income taxes	21	(3)	29		47
Changes in nuclear decommissioning liability	9				9
Changes in derivatives	91	1	(2)		90
Gain on sale of assets	(17)				(17)
Gain on sale of emission allowances	(5)				(5)
Changes in collateral deposits supporting energy risk management activities	(120)				(120)
Cash provided by/(used by) changes in other working capital, net of dispositions affects	(155)	(11)	52		(114)
Net Cash Provided by Operating Activities	409	(4)	305	(604)	106
Cash Flows from Investing Activities					
Proceeds from payment of intercompany loans			12	(12)	
Capital expenditures	(106)	(1)			(107)
Decrease/(increase) in restricted cash		(5)			(5)
		9			9

Decrease/(increase) in notes receivable					
Purchases of emission allowances	(61)				(61)
Proceeds from sale of emission allowances	32				32
Proceeds from sale of assets	29				29
Purchases in trust fund securities	(68)				(68)
Proceeds from sales of trust fund securities	59				59
Net Cash Provided/Used by Investing Activities	(115)	3	12	(12)	(112)
Cash Flows from Financing Activities					
Payments to Parent for intercompany loans	(12)			12	
Payments from intercompany dividends	(302)	(302)		604	
Payments for dividends to preferred stockholders			(14)		(14)
Payments for treasury stock			(103)		(103)
Payments for short and long-term debt	(1)	(9)	(9)		(19)
Net Cash Used by Financing Activities	(315)	(311)	(126)	616	(136)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		2			2
Net Increase/(Decrease) in Cash and Cash Equivalent	(21)	(310)	191		(140)
Cash and Cash Equivalents at Beginning of Period	20	432	343		795
Cash and Cash Equivalents at End of Period	\$ (1)	\$ 122	\$ 534	\$	\$ 655

(a) All significant intercompany transactions have been eliminated in consolidation.

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
December 31, 2006

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations ^(a)	Consolidated Balance
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 20	\$ 432	\$ 343	\$	\$ 795
Restricted cash	1	43			44
Accounts receivable-trade, net	332	40			372
Inventory	408	13			421
Derivative instruments valuation	1,230				1,230
Prepayments and other current assets	200	32	736	(747)	221
Total current assets	2,191	560	1,079	(747)	3,083
Net property, plant and equipment	11,178	403	19		11,600
Other Assets					
Investment in subsidiaries	730		9,163	(9,893)	
Equity investments in affiliates	31	313			344
Notes receivable and capital lease	1,015	479	5,503	(6,518)	479
Goodwill	1,789				1,789
Intangible assets, net	977	4			981
Nuclear decommissioning trust fund	352				352
Derivative instruments valuation	424		15		439
Other non-current assets	51	56	182		289
Intangible assets held-for-sale	78		1		79
Total other assets	5,447	852	14,864	(16,411)	4,752
Total Assets	\$ 18,816	\$ 1,815	\$ 15,962	\$ (17,158)	\$ 19,435
LIABILITIES AND STOCKHOLDERS EQUITY					
Current Liabilities					
Current portion of long-term debt	\$ 460	\$ 101	\$ 37	\$ (468)	\$ 130
Accounts payable	(682)	287	727		332
Derivative instruments valuation	964				964
Deferred income taxes	23	7	134		164
Accrued expenses and other current liabilities	509	53	160	(280)	442

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Total current liabilities	1,274	448	1,058	(748)	2,032
Other Liabilities					
Long-term debt and capital lease	5,504	869	8,791	(6,517)	8,647
Nuclear decommissioning reserve	289				289
Nuclear decommissioning trust liability	324				324
Deferred income taxes	494	(104)	164		554
Derivative instruments valuation	325	6	20		351
Out-of-market contracts	897				897
Other non-current liabilities	385	26	24		435
Total non-current liabilities	8,218	797	8,999	(6,517)	11,497
Total liabilities	9,492	1,245	10,057	(7,265)	13,529
Minority interest		1			1
3.625% Preferred Stock			247		247
Stockholders Equity	9,324	569	5,658	(9,893)	5,658
Total Liabilities and Stockholders Equity	\$ 18,816	\$ 1,815	\$ 15,962	\$ (17,158)	\$ 19,435

(a) All significant intercompany transactions have been eliminated in consolidation.

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**NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2006**

(In millions)	Guarantor	Non-Guarantor	NRG Energy, Inc. (Note Issuer)	Eliminations^(a)	Consolidated Balance
	Subsidiaries	Subsidiaries			
Operating Revenues					
Total operating revenues	\$ 957	\$ 86	\$		