

RRI ENERGY INC
Form 10-Q
May 11, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-16455

RRI Energy, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

76-0655566

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

1000 Main Street

Houston, Texas 77002

(Address of Principal Executive Offices) (Zip Code)

(713) 497-3000

(Registrant's Telephone Number, Including Area Code)

Reliant Energy, Inc.

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 shorter 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Edgar Filing: RRI ENERGY INC - Form 10-Q

As of April 24, 2009, the latest practicable date for determination, RRI Energy, Inc. had 350,426,995 shares of common stock outstanding and no shares of treasury stock.

TABLE OF CONTENTS

<u>Forward-Looking Information</u>	ii
------------------------------------	----

PART I.
FINANCIAL INFORMATION

<u>ITEM 1. FINANCIAL STATEMENTS</u>	1
-------------------------------------	---

<u>Consolidated Statements of Operations (unaudited) Three Months Ended March 31, 2009 and 2008</u>	1
---	---

<u>Consolidated Balance Sheets (unaudited) March 31, 2009 and December 31, 2008</u>	2
---	---

<u>Consolidated Statements of Cash Flows (unaudited) Three Months Ended March 31, 2009 and 2008</u>	3
---	---

<u>Notes to Unaudited Consolidated Interim Financial Statements</u>	4
---	---

<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	27
--	----

<u>Business Overview</u>	27
--------------------------	----

<u>Consolidated Results of Operations</u>	29
---	----

<u>Liquidity and Capital Resources</u>	34
--	----

<u>Off-Balance Sheet Arrangements</u>	35
---------------------------------------	----

<u>New Accounting Pronouncements, Significant Accounting Policies and Critical Accounting Estimates</u>	36
---	----

<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	37
---	----

<u>Market Risks and Risk Management</u>	37
---	----

<u>Non-Trading Market Risks</u>	37
---------------------------------	----

<u>Trading Market Risks</u>	38
-----------------------------	----

<u>Fair Value Measurements</u>	39
--------------------------------	----

<u>ITEM 4. CONTROLS AND PROCEDURES</u>	39
--	----

<u>Evaluation of Disclosure Controls and Procedures</u>	39
---	----

<u>Changes in Internal Control Over Financial Reporting</u>	39
---	----

PART II
OTHER INFORMATION

<u>ITEM 1. LEGAL PROCEEDINGS</u>	40
----------------------------------	----

<u>ITEM 6. EXHIBITS</u>	40
-------------------------	----

- Exhibit 2.1
- Exhibit 2.2
- Exhibit 2.3
- Exhibit 2.4
- Exhibit 3.2
- Exhibit 3.3
- Exhibit 31.1
- Exhibit 31.2
- Exhibit 32.1

Table of Contents

FORWARD-LOOKING INFORMATION

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements that contain projections, assumptions or estimates about the outcome of pending legal actions, our revenues, income, capital structure and other financial items, our plans and objectives for future operations or about our future economic performance, transactions and dispositions, financings or offerings and approvals related thereto. In many cases, you can identify forward-looking statements by terminology such as anticipate, estimate, believe, continue, could, intend, may, plan, potential, predict, should, will, expect, objective, projection, guidance, outlook, effort, target and other similar words. However, the absence of these words does not mean that the statements are not forward-looking.

Actual results may differ materially from those expressed or implied by the forward-looking statements as a result of many factors or events, including, but not limited to, the following:

- Demand and market prices for electricity, purchased power and fuel and emission allowances;
- Limitations on our ability to set rates at market prices;
- Legislative, regulatory and/or market developments;
- Our ability to obtain adequate fuel supply and/or transmission and distribution services;
- Interruption or breakdown of our generating equipment and processes;
- Failure of third parties to perform contractual obligations;
- Changes in environmental regulations that constrain our operations or increase our compliance costs;
- Failure by transmission system operators to communicate operating and system information properly and timely;
- Failure to meet our debt service, restrictive covenants or collateral postings;
- Ineffective hedging and other risk management activities;
- Changes in the wholesale energy market or in our evaluation of our generation assets;
- The outcome of pending or threatened lawsuits, regulatory proceedings, tax proceedings and investigations;
- Weather-related events or other events beyond our control;
- The timing and extent of changes in commodity prices or interest rates; and
- Financial market conditions and our access to capital.

Other factors that could cause our actual results to differ from our projected results are discussed or referred to in the Risk Factors section of our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Our filings and other important information are also available on our website at www.rrienergy.com.

Table of Contents

PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RRI ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
	(thousands of dollars, except per share amounts)	
Revenues:		
Revenues (including \$4,288 and \$12,202 unrealized losses (including \$0 and \$107,409 from affiliates))	\$ 466,184	\$ 879,798
Expenses:		
Cost of sales (including \$(39,455) and \$43,002 unrealized gains (losses)) (including \$0 and \$35,713 from affiliates)	324,674	508,839
Operation and maintenance	157,146	155,445
General and administrative	29,014	29,214
Western states litigation and similar settlements		34,000
Gains on sales of assets and emission and exchange allowances, net	(18,930)	(611)
Depreciation and amortization	67,858	82,797
Total operating expense	559,762	809,684
Operating Income (Loss)	(93,578)	70,114
Other Income (Expense):		
Income of equity investment, net	541	207
Debt extinguishments		(423)
Other, net	51	(64)
Interest expense	(46,919)	(52,346)
Interest income	248	6,425
Total other expense	(46,079)	(46,201)
Income (Loss) from Continuing Operations Before Income Taxes	(139,657)	23,913
Income tax expense (benefit)	(33,876)	10,977
Income (Loss) from Continuing Operations	(105,781)	12,936
Income (loss) from discontinued operations	(45,632)	364,276
Net Income (Loss)	\$ (151,413)	\$ 377,212
Basic Earnings (Loss) per Share:		
Income (loss) from continuing operations	\$ (0.30)	\$ 0.04
Income (loss) from discontinued operations	(0.13)	1.05

Edgar Filing: RRI ENERGY INC - Form 10-Q

Net income (loss)	\$	(0.43)	\$	1.09
Diluted Earnings (Loss) per Share:				
Income (loss) from continuing operations	\$	(0.30)	\$	0.04
Income (loss) from discontinued operations		(0.13)		1.03
Net income (loss)	\$	(0.43)	\$	1.07

See Notes to our Unaudited Consolidated Interim Financial Statements

Table of Contents

RRI ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2009	December 31, 2008
	(thousands of dollars, except per share amounts)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,410,315	\$ 1,004,367
Restricted cash	6,522	2,721
Accounts and notes receivable, principally customer	171,906	279,540
Inventory	295,375	314,999
Derivative assets	178,746	161,340
Margin deposits	125,893	231,676
Investment in and receivables from Channelview, net	58,636	58,703
Prepayments and other current assets	119,525	124,449
Current assets of discontinued operations	2,426,117	2,184,671
Total current assets	4,793,035	4,362,466
Property, plant and equipment, gross	6,468,178	6,417,268
Accumulated depreciation	(1,656,356)	(1,597,479)
Property, Plant and Equipment, net	4,811,822	4,819,789
Other Assets:		
Other intangibles, net	377,121	380,554
Prepaid lease	279,651	273,374
Other (\$28,188 and \$29,012 accounted for at fair value)	303,339	298,431
Long-term assets of discontinued operations	658,892	494,781
Total other assets	1,619,003	1,447,140
Total Assets	\$ 11,223,860	\$ 10,629,395

LIABILITIES AND EQUITY

Current Liabilities:		
Current portion of long-term debt and short-term borrowings	\$ 12,869	\$ 12,517
Accounts payable, principally trade	154,513	156,604
Derivative liabilities	254,087	202,206
Other	227,804	200,559
Current liabilities of discontinued operations	3,088,758	2,374,362
Total current liabilities	3,738,031	2,946,248

Other Liabilities:

Edgar Filing: RRI ENERGY INC - Form 10-Q

Derivative liabilities	127,871	140,493
Other	320,755	272,079
Long-term liabilities of discontinued operations	759,357	850,483
Total other liabilities	1,207,983	1,263,055
Long-term Debt	2,630,031	2,633,444
Commitments and Contingencies		
Temporary Equity Stock-based Compensation	9,769	9,004
Stockholders Equity:		
Preferred stock; par value \$0.001 per share (125,000,000 shares authorized; none outstanding)		
Common stock; par value \$0.001 per share (2,000,000,000 shares authorized; 350,359,291 and 349,812,537 issued)	111	111
Additional paid-in capital	6,243,969	6,238,639
Accumulated deficit	(2,526,614)	(2,375,201)
Accumulated other comprehensive loss	(79,420)	(85,905)
Total stockholders equity	3,638,046	3,777,644
Total Liabilities and Equity	\$ 11,223,860	\$ 10,629,395

See Notes to our Unaudited Consolidated Interim Financial Statements

Table of Contents

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

	Three Months Ended March 31,	
	2009	2008
	(thousands of dollars)	
Cash Flows from Operating Activities:		
Net income (loss)	\$ (151,413)	\$ 377,212
(Income) loss from discontinued operations	45,632	(364,276)
Net income (loss) from continuing operations	(105,781)	12,936
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	67,858	82,797
Deferred income taxes	(33,771)	9,319
Net changes in energy derivatives	43,743	(30,800)
Amortization of deferred financing costs	1,737	2,554
Gains on sales of assets and emission and exchange allowances, net	(18,930)	(611)
Western states litigation and similar settlements		34,000
Other, net	3,063	533
Changes in other assets and liabilities:		
Accounts and notes receivable, net	86,831	(6,925)
Changes in notes, receivables and payables with affiliate, net	67	(6,152)
Inventory	21,219	27,262
Margin deposits, net	105,783	9,141
Net derivative assets and liabilities	(10,298)	(7,045)
Accounts payable	2,287	30,410
Other current assets	(5,102)	(2,036)
Other assets	(4,221)	(2,812)
Taxes payable/receivable	(2,689)	24,001
Other current liabilities	40,076	27,893
Other liabilities	7,204	2,037
Net cash provided by continuing operations from operating activities	199,076	206,502
Net cash provided by discontinued operations from operating activities	289,161	97,552
Net cash provided by operating activities	488,237	304,054
Cash Flows from Investing Activities:		
Capital expenditures	(55,472)	(44,689)
Proceeds from sales of emission and exchange allowances	12,798	1,717
Purchases of emission allowances	(5,358)	(4,073)
Restricted cash	(3,801)	(1,687)
Net cash used in continuing operations from investing activities	(51,833)	(48,732)
Net cash used in discontinued operations from investing activities	(15,728)	(4,955)
Net cash used in investing activities	(67,561)	(53,687)

Cash Flows from Financing Activities:

Payments of long-term debt		(45,193)
Payments of debt extinguishments expenses		(423)
Proceeds from issuances of stock	2,163	5,067
Net cash provided by (used in) financing activities	2,163	(40,549)
Net Change in Cash and Cash Equivalents, Total Operations	422,839	209,818
Net Change in Cash and Cash Equivalents, Discontinued Operations	(16,891)	4,621
Cash and Cash Equivalents at Beginning of Period, Continuing Operations	1,004,367	524,070
Cash and Cash Equivalents at End of Period, Continuing Operations	\$ 1,410,315	\$ 738,509

Supplemental Disclosure of Cash Flow Information:

Cash Payments:

Interest paid (net of amounts capitalized) for continuing operations	\$ (4,745)	\$ 309
Income taxes paid (net of income tax refunds) for continuing operations	3,762	(22,343)

See Notes to our Unaudited Consolidated Interim Financial Statements

Table of Contents

RRI ENERGY, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(1) Background and Basis of Presentation

(a) Background.

RRI Energy refers to RRI Energy, Inc. and we, us and our refer to RRI Energy, Inc. and its consolidated subsidiaries. Our business consists primarily of one business segment, wholesale energy. See note 13. Our consolidated interim financial statements and notes (interim financial statements) are unaudited, omit certain disclosures and should be read in conjunction with our audited consolidated financial statements and notes in our Form 10-K.

On May 1, 2009, we sold our interests in the affiliates that operate our Texas retail residential and small business (mass) and commercial, industrial and governmental/institutional (C&I) business. In connection with this sale, we changed our name to RRI Energy, Inc. from Reliant Energy, Inc. effective May 2, 2009. See note 15. Our Board of Directors has concluded its review of strategic alternatives.

(b) Basis of Presentation.

Estimates. Management makes estimates and assumptions to prepare financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) that affect:

the reported amounts of assets, liabilities and equity;

the reported amounts of revenues and expenses; and

our disclosure of contingent assets and liabilities at the date of the financial statements.

We evaluate our estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which we believe to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate.

Adjustments and Reclassifications. The interim financial statements reflect all normal recurring adjustments necessary, in management's opinion, to present fairly our financial position and results of operations for the reported periods. Amounts reported for interim periods, however, may not be indicative of a full year period due to seasonal fluctuations in demand for electricity and energy services, changes in commodity prices, and changes in regulations, timing of maintenance and other expenditures, dispositions, changes in interest expense and other factors.

Deconsolidation of Channelview. On August 20, 2007, four of our wholly-owned subsidiaries, RRI Energy Channelview LP (Channelview LP), RRI Energy Channelview (Texas) LLC, RRI Energy Channelview (Delaware) LLC and RRI Energy Services Channelview LLC (collectively, Channelview), filed for reorganization under Chapter 11 of the Bankruptcy Code. As Channelview is currently subject to the supervision of the bankruptcy court, we deconsolidated Channelview's financial results beginning August 20, 2007 and began reporting our investment in Channelview using the cost method. The Channelview plant was sold on July 1, 2008. See note 14 for further discussion of Channelview.

Inventory. We value fuel inventories at the lower of average cost or market. We reduce these inventories as they are used in the production of electricity or sold. During the three months ended March 31, 2009 and 2008, we recorded \$24 million and \$0, respectively, for lower of average cost or market adjustments in cost of sales.

New Accounting Pronouncement Not Yet Adopted - Interim Disclosures about Fair Value of Financial Instruments. The Financial Accounting Standards Board (FASB) issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, which is effective for interim periods ending after June 15, 2009. The FSP amends Statement of Financial Accounting Standards (SFAS) No. 107, Disclosures about Fair Value of Financial Instruments and will require us to provide information about the fair value of our financial instruments, including methods and significant assumptions used to estimate the fair value, in interim financial statements.

Table of Contents

New Accounting Pronouncement Not Yet Adopted – Fair Value Measurements. The FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which is effective for interim periods ending after June 15, 2009. The FSP provides guidance on how to determine the fair value of assets and liabilities under SFAS No. 157, *Fair Value Measurements* in the current economic environment. We do not expect this FSP to have a significant impact on our consolidated financial statements.

New Accounting Pronouncement Not Yet Adopted – Disclosures about Plan Assets. The FASB issued FSP FAS 132(R)-1, *Employer’s Disclosures about Postretirement Benefit Plan Assets*, which is effective for 2009. In addition to enhanced disclosures regarding investment policies and strategies, this FSP will require us to disclose information about fair value measurements of plan assets that would be similar to the disclosures about fair value measurements required by SFAS No. 157, *Fair Value Measurements* in our 2009 Annual Report on Form 10-K.

(2) Stock-based Compensation

Our compensation expense for our stock-based incentive plans was:

	Three Months Ended March 31,	
	2009	2008
	(in millions)	
Stock-based incentive plans compensation expense (pre-tax)	\$ 3	\$ 4

No significant stock-based compensation awards were granted during the three months ended March 31, 2009. Stock-based compensation expense represents recognition of grant date fair value of previously granted awards over the vesting period. No tax benefits related to stock-based compensation were realized during the three months ended March 31, 2009 and 2008 due to our net operating loss carryforwards.

(3) Derivative Instruments and Hedging Activities

We account for our derivative instruments and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS No. 133). Effective January 1, 2009, we adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS No. 161).

Changes in commodity prices prior to the energy delivery period are inherent in our wholesale energy business. However, we believe the benefits of generally hedging our generation assets do not justify the costs, including collateral postings. Accordingly, we may enter selective hedges, including originated transactions, based on our assessment of (a) operational and market limitations requiring us to enter into power, fuel, capacity and emissions transactions to manage our generation assets, (b) the near term economic environment and volatile commodity markets and the benefits of hedging some of the downside risk to our earnings and cash flows and (c) market fundamentals and the opportunity to increase the return from our generation assets. For our risk management activities, we use derivative and non-derivative contracts that provide for settlement in cash or by delivery of a commodity. We use derivative instruments such as futures, forwards, swaps and options to execute our wholesale hedge strategy. We may also enter into derivatives to manage our exposure to changes in prices of emission and exchange allowances.

We account for our derivatives under one of three accounting methods (mark-to-market, accrual (under the normal purchase/normal sale exception to fair value accounting) or cash flow hedge accounting) based on facts and circumstances. The fair values of our derivative activities are determined by (a) prices actively quoted, (b) prices provided by other external sources or (c) prices based on models and other valuation methods. See note 5 for discussion on fair value measurements.

A derivative is recognized at fair value in the balance sheet whether or not it is designated as a hedge, except for derivative contracts designated as normal purchase/normal sale exceptions, which are not in our consolidated balance sheet or results of operations prior to settlement resulting in accrual accounting treatment.

Realized gains and losses on derivative contracts used for risk management purposes and not held for trading purposes are reported either on a net or gross basis based on the relevant facts and circumstances. Hedging transactions that do

not physically flow are included in the same caption as the items being hedged.

Table of Contents

A summary of our derivative activities and classification in our results of operations is:

Instrument	Primary Risk Exposure	Purpose for Holding or Issuing Instrument⁽¹⁾	Transactions that Physically Flow/Settle	Transactions that Financially Settle⁽²⁾
Power futures, forward, swap and option contracts	Price risk	Power sales to wholesale customers	Revenues	Revenues
		Power purchases related to wholesale operations	Cost of sales	Revenues
		Power purchases/sales related to legacy trading and non-core asset management positions ⁽³⁾	Revenues	Revenues
Natural gas and fuel futures, forward, swap and option contracts	Price risk	Natural gas and fuel sales related to wholesale operations	Revenues/Cost of sales	Cost of sales
		Natural gas and fuel purchases related to wholesale operations	Cost of sales	Cost of sales
		Natural gas and fuel purchases/sales related to legacy trading and non-core asset management positions ⁽³⁾	Cost of sales	Cost of sales
Emission and exchange allowances futures ⁽⁴⁾	Price risk	Purchases/sales of emission and exchange allowances	N/A ⁽⁵⁾	Revenues/Cost of sales

(1) The purpose for holding or issuing does not impact the accounting method elected for each instrument.

(2) Includes classification for mark-to-market derivatives and amounts reclassified from accumulated other

comprehensive
income
(loss) related to
cash flow
hedges.

(3) See discussion
below regarding
trading
activities.

(4) Includes
emission and
exchange
allowances
futures for
sulfur dioxide
(SO₂), nitrogen
oxide (NO_x)
and carbon
dioxide (CO₂).

(5) N/A is not
applicable.

In addition to market risk, we are exposed to credit and operational risk. We have a risk control framework to manage these risks, which include: (a) measuring and monitoring these risks, (b) review and approval of new transactions relative to these risks, (c) transaction validation and (d) portfolio valuation and reporting. We use mark-to-market valuation, value-at-risk and other metrics in monitoring and measuring risk. Our risk control framework includes a variety of separate but complementary processes, which involve commercial and senior management and our Board of Directors. See note 4 for further discussion of our credit policy.

Earnings Volatility from Derivative Instruments. We procure natural gas, coal, oil, natural gas transportation and storage capacity and other energy-related commodities to support our wholesale energy business. Some types of transactions may cause us to experience volatility in our earnings due to natural gas inventory related to transportation and storage generally receiving accrual treatment while the related derivative instruments are marked to market through earnings.

Unrealized gains and losses on energy derivatives consist of both gains and losses on energy derivatives during the current reporting period for derivative assets or liabilities that have not settled as of the balance sheet date and the reversal of unrealized gains and losses from prior periods for derivative assets or liabilities that settled prior to the balance sheet date but during the current reporting period.

Cash Flow Hedges. If certain conditions are met, a derivative instrument may be designated as a cash flow hedge. Derivatives designated as cash flow hedges must have a high correlation between price movements in the derivative and the hedged item. The changes in fair value of cash flow hedges are deferred in accumulated other comprehensive income (loss), net of tax, to the extent the contracts are, or have been, effective as hedges, until the forecasted transactions affect earnings. At the time the forecasted transactions affect earnings, we reclassify the amounts in accumulated other comprehensive income (loss) into earnings. We record the ineffective portion of changes in fair value of cash flow hedges immediately into earnings. For all other derivatives, changes in fair value are recorded as unrealized gains or losses in our results of operations.

Table of Contents

If and when an acceptable level of correlation no longer exists, hedge accounting ceases and changes in fair value are recognized in our results of operations. If it becomes probable that a forecasted transaction will not occur, we immediately recognize the related deferred gains or losses in our results of operations. The associated hedging instrument is then marked to market through our results of operations for the remainder of the contract term unless a new hedging relationship is redesignated.

Over the past several years, we have substantially decreased derivatives accounted for as cash flow hedges, in favor of utilizing the mark-to-market method of accounting or the normal purchase/normal sale exception for these derivatives. During the first quarter of 2007, we de-designated our remaining cash flow hedges; therefore, as of March 31, 2009 and December 31, 2008, we do not have any designated cash flow hedges.

Presentation of Derivative Assets and Liabilities. We present our derivative assets and liabilities on a gross basis (regardless of master netting arrangements with the same counterparty). Cash collateral amounts are also presented on a gross basis.

As of March 31, 2009, our commodity derivative assets and liabilities include amounts for non-trading and trading activities as follows:

Derivative Assets		Derivative Liabilities		Net Derivative Assets (Liabilities)
Current	Long-Term	Current (in millions)	Long-Term	