NRG ENERGY, INC.
Form 10-Q
November 06, 2006

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

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

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

For the quarterly period ended: September 30, 2006

Commission File Number: 001-15891

NRG Energy, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**41-1724239**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
211 Carnegie Center Princeton, New Jersey	**08540**
(Address of principal executive offices)	(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 þ No o

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 þ Accelerated filer o Non-accelerated filer o

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

Yes o No þ

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 þ No o

As of November 2, 2006, there were 126,442,942 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 Energy, Inc. 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 Energy, Inc. in Item 1A of NRG Energy, Inc. s 2005 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 Energy, Inc. may not have adequate insurance to cover losses as a result of such hazards;

The effectiveness of NRG Energy, Inc. s risk management policies and procedures, and the ability of NRG Energy, Inc. s counterparties to satisfy their financial commitments;

Counterparties collateral demands and other factors affecting NRG Energy, Inc. s liquidity position and financial condition;

NRG Energy, Inc. 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 Energy, Inc. 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 ISO, or regional transmission organizations, or RTOs, that result in a failure to adequately compensate NRG Energy, Inc s generation units for all of its costs;

NRG Energy, Inc. s ability to borrow additional funds and access capital markets, as well as NRG Energy, Inc s substantial indebtedness and the possibility that NRG Energy, Inc. may incur additional indebtedness going forward;

Operating and financial restrictions placed on NRG Energy, Inc. contained in the indentures governing NRG Energy, Inc. s 7.25% and 7.375% unsecured senior notes due 2014 and 2016, respectively, in NRG Energy, Inc. s senior secured credit facility and in debt and other agreements of certain of NRG Energy, Inc. subsidiaries and project affiliates generally;

Significant operating and financial restrictions which may be placed on NRG Energy, Inc. as a result of the new financing transaction described in this Form 10-Q and instruments governing its existing indebtedness; and

NRG Energy, Inc s ability to implement its recently-announced strategy of developing and building new power generation facilities, including new nuclear units and integrated gasification combined cycle, or IGCC, units.

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 Energy, Inc. 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.

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
Acquisition Agreement	Acquisition Agreement dated September 30, 2005 underlying the February 2, 2006 acquisition of Texas Genco LLC, now referred to as NRG Texas
APB 18	Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*
BTA	Best Technology Available
BTU	British Thermal Unit
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAISO	California Independent System Operator
Capital Allocation Program	Share repurchase program as described in Note 8 to the Condensed Consolidated Financial Statements
CDWR	California Department of Water Resources
CL&P	Connecticut Light & Power
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 02-3	Emerging Issues Task Force Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*
EPA	Environmental Protection Agency
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 Accountings Standards Board
FERC	Federal Energy Regulatory Commission

Fresh Start	Reporting requirements as defined by SOP 90-7
Hedge Reset	Net settlement of existing hedges and reestablishment of new hedge positions
IGCC	Integrated Gasification Combined Cycle
ISO	Independent System Operator, also referred to as regional transmission organizations, or RTO
ISO-NE	ISO New England, Inc.
LIBOR	London Inter-Bank Offered Rate
MDE	Maryland Department of the Environment
MW	Megawatts
MWh	Saleable megawatt hours net of internal/parasitic load megawatt-hours
NiMo	Niagara Mohawk Power Corporation
NOx	Nitrogen oxides
NOL	Net operating loss
NOV	Notice of Violation
NQSO	Non-qualified stock option
NYISO	New York Independent System Operator
NYSDEC	New York Department of Environmental Conservation
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	Power Marketing Inc.
PPA	Power Purchase Agreement
PRB Coal	Coal produced in the northeastern Wyoming and southeastern Montana, which has low sulfur content
PUCT	Public Utility Commission of Texas

RMR	Reliability must-run
SEC	Securities and Exchange Commission
Sellers	Former holders of Texas Genco LLC shares
SERC	South East Electric Reliability Commission
SFAS	Statement of Financial Accounting Standards issued by the FASB
SFAS 71	SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*
SFAS 109	SFAS No. 109, *Accounting for Income Taxes*
SFAS 123 (R)	SFAS No. 123 (revised 2004), *Share-Based Payment*
SFAS 133	SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended*
SFAS 141	SFAS No. 141, *Business Combinations*
SFAS 142	SFAS No. 142, *Goodwill and Other Intangible Assets*
SFAS 143	SFAS No. 143, *Accounting for Asset Retirement Obligations*

GLOSSARY OF TERMS CONTINUED

SFAS 143	SFAS No. 143, *Accounting for Asset Retirement Obligations*
SFAS 144	SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*
SFAS 150	SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*
SO_2	Sulfur dioxide
SOP 90-7	Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*
STP	South Texas Project A nuclear generating facility located in Bay City, Texas in which NRG has a 44% ownership interest
NRG Texas	Formerly Texas Genco LLC, now a subsidiary of NRG Energy, Inc. following the Acquisition
US	United States of America
USEPA	United States Environmental Protection Agency
US GAAP	Generally Accepted Accounting Principles in the U.S.
WCP	West Coast Power (Generation) Holdings, Inc.

PART I FINANCIAL INFORMATION

Item 1 Condensed Consolidated Financial Statements and Notes

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

	Three months ended September 30		Nine months ended September 30	
(In millions, except for per share amounts)	**2006**	**2005**	**2006**	**2005**
Operating Revenues				
Revenues from majority-owned operations	$ 2,000	$ 687	$ 4,479	$ 1,723
Operating Costs and Expenses				
Cost of majority-owned operations	1,055	604	2,478	1,378
Depreciation and amortization	148	41	443	121
General, administrative and development	79	42	220	136
Impairment charges		6		6
Corporate relocation charges		2		6
Total operating costs and expenses	1,282	695	3,141	1,647
Operating Income/(Loss)	718	(8)	1,338	76
Other Income (Expense)				
Equity in earnings of unconsolidated affiliates	17	29	46	82
Write downs and gains/(losses) on sales of equity method investments	(3)	4	8	16
Other income, net	30	10	118	41
Refinancing expense		(19)	(178)	(54)
Interest expense	(154)	(43)	(420)	(141)
Total other expense	(110)	(19)	(426)	(56)
Income/(Loss) From Continuing Operations Before Income Taxes	608	(27)	912	20
Income tax expense	235	10	324	24
Income/(Loss) From Continuing Operations	373	(37)	588	(4)
Income from discontinued operations, net of income tax expense	49	10	63	24
Net Income/(Loss)	422	(27)	651	20
Dividends for Preferred Shares	14	4	37	12
Income/(Loss) Available for Common Stockholders	$ 408	$ (31)	$ 614	$ 8
	136	84	130	86

Weighted Average Number of Common Shares Outstanding Basic								
Income/(Loss) From Continuing Operations per Weighted Average Common Share Basic	$	2.64	$	(0.51)	$	4.22	$	(0.21)
Income From Discontinued Operations per Weighted Average Common Share Basic		0.36		0.12		0.48		0.28
Net Income/(Loss) per Weighted Average Common Share Basic	$	3.00	$	(0.39)	$	4.70	$	0.07
Weighted Average Number of Common Shares Outstanding Diluted		159		84		151		86
Income/(Loss) From Continuing Operations per Weighted Average Common Share Diluted	$	2.34	$	(0.51)	$	3.85	$	(0.21)
Income From Discontinued Operations per Weighted Average Common Share Diluted		0.31		0.12		0.41		0.28
Net Income/(Loss) per Weighted Average Common Share Diluted	$	2.65	$	(0.39)	$	4.26	$	0.07

See notes to condensed consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except shares and par value)	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,388	$ 493
Restricted cash	74	49
Accounts receivable, less allowance for doubtful accounts of $3 and $2	433	249
Inventory	397	240
Deferred income taxes	59	
Derivative instruments valuation	961	387
Collateral on deposits in support of energy risk management activities	132	438
Prepayments and other current assets	214	187
Current assets held-for-sale		43
Current assets discontinued operations	13	110
Total current assets	3,671	2,196
Property, plant and equipment, net of accumulated depreciation of $814 and $332	11,686	2,609
Other Assets		
Equity investments in affiliates	319	602
Notes receivable, less current portion	468	457
Goodwill	1,547	
Intangible assets, net of accumulated amortization of $213 and $79	1,001	257
Intangible assets held-for-sale	53	
Nuclear decommissioning trust fund	331	
Derivative instruments valuation	360	18
Funded letter of credit		350
Deferred income taxes	27	26
Other non-current assets	244	124
Non-current assets discontinued operations	14	827
Total other assets	4,364	2,661
Total Assets	$ 19,721	$ 7,466
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Current portion of long-term debt and capital leases	$ 123	$ 95
Accounts payable	278	241
Derivative instruments valuation	901	679

Accrued expenses and other current liabilities		485		172
Current liabilities discontinued operations		8		170
Total current liabilities		1,795		1,357
Other Liabilities				
Long-term debt and capital leases		7,826		2,410
Nuclear decommissioning reserve		278		
Nuclear decommissioning trust liability		319		
Deferred income taxes		362		128
Derivative instruments valuation		369		56
Out-of-market contracts		2,128		298
Other non-current liabilities		386		170
Non-current liabilities discontinued operations		5		569
Total non-current liabilities		11,673		3,631
Total Liabilities		13,468		4,988
Minority Interest		1		1
3.625% Convertible perpetual preferred stock (at liquidation value, net of issuance costs)		247		246
Commitments and Contingencies				
Stockholders Equity				
Preferred stock (at liquidation value, net of issuance costs)		892		406
Common Stock; $.01 par value; 500,000,000 shares authorized; 137,030,642 and 80,701,888 outstanding		1		1
Additional paid-in capital		4,458		2,431
Retained earnings		782		261
Less treasury stock, at cost 6,113,000 and 19,346,788 shares		(297)		(663)
Accumulated other comprehensive income/(loss)		169		(205)
Total stockholders equity		6,005		2,231
Total Liabilities and Stockholders Equity	$	19,721	$	7,466

See notes to condensed consolidated financial statements.

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

(In millions)	**Nine months ended September 30**	
	2006	**2005**
Cash Flows from Operating Activities		
Net income	$ 651	$ 20
Adjustments to reconcile net income to net cash provided/(used) by operating activities		
Distributions in excess/(less than) equity in earnings of unconsolidated affiliates	(27)	1
Depreciation and amortization of nuclear fuel	490	145
Amortization of financing costs and debt discount	24	8
Amortization of intangibles and out-of-market contracts	(393)	16
Amortization of unearned equity compensation	13	8
Write-off of deferred financing costs and debt premium	47	(7)
Write down and (gains) on sale of equity method investments	(8)	(16)
Asset impairment		6
Changes in deferred income taxes	309	(54)
Nuclear decommissioning trust liability	9	
Minority interest		1
Loss on sale of equipment	3	
Changes in derivatives	(301)	252
Gain on legal settlement	(67)	(14)
Gain on sale of discontinued operations	(71)	(11)
Gain on sale of emission allowances	(68)	
Changes in collateral deposits supporting energy risk management activities	349	(598)
Cash provided by changes in other working capital, net of acquisition and disposition affects	88	129
Net Cash Provided/(Used) by Operating Activities	1,048	(114)
Cash Flows from Investing Activities		
Acquisition of Texas Genco LLC, net of cash acquired	(4,304)	
Acquisition of WCP and Padoma, net of cash acquired	(32)	
Capital expenditures	(159)	(46)
Decrease/(Increase) in restricted cash , net	(24)	18
Decrease in notes receivable	22	100
Purchases of emission allowances	(76)	
Proceeds from sale of emission allowances	97	
Investments in nuclear decommissioning trust fund securities	(158)	
Proceeds from sales of nuclear decommissioning trust fund securities	149	
Proceeds from sale of equipment	1	
Proceeds from sale of investments	86	70
Proceeds from sale of discontinued operations	239	36
Return of capital from equity method investments and projects		1

Net Cash Provided/(Used) by Investing Activities	(4,159)	179
Cash Flows from Financing Activities		
Payment of dividends to preferred stockholders	(37)	(12)
Payment for treasury stock	(297)	(251)
Payment of minority interest obligations		(4)
Borrowing under revolving credit facility, net		80
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	246
Proceeds from issuance of long-term debt, net	7,373	249
Payment of deferred debt issuance costs	(174)	(2)
Payments for short and long-term debt	(4,697)	(979)
Net Cash Provided/(Used) by Financing Activities	3,990	(673)
Change in Cash from Discontinued Operations	14	17
Effect of Exchange Rate Changes on Cash and Cash Equivalents	2	(1)
Net Increase in Cash and Cash Equivalents	895	592
Cash and Cash Equivalents at Beginning of Period	493	1,069
Cash and Cash Equivalents at End of Period	$ 1,388	$ 477

See notes to condensed consolidated financial statements.

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

Note 1 Basis of Presentation

NRG Energy, Inc., NRG , or the Company , is a wholesale power generation company, primarily engaged in the ownership and operation of power generation facilities, the transacting in and trading of fuel and transportation services, and the marketing and trading of energy, capacity and related products in the United States.

The accompanying unaudited interim condensed 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, *Summary of Significant Accounting Policies,* to the Company s financial statements in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005. The following notes should be read in conjunction with such policies and other disclosures in the Form 10-K for the fiscal year ended December 31, 2005. Interim results are not necessarily indicative of results for a full fiscal year.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all material adjustments (consisting of normal, recurring accruals) necessary to fairly present NRG s consolidated financial position as of September 30, 2006, the results of NRG s operations for the three months and nine months ended September 30, 2006 and 2005, and NRG s cash flows for the nine months ended September 30, 2006 and 2005. 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.

Emission Allowances

NRG actively manages its SO_2 and NO_X emission allowances, as well as fuels, and accounts for this asset optimization activity related to emission allowances and other fuel commodities under EITF Issue No. 02-3, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities*. As such, revenues and costs for these activities are reflected on a net basis in the consolidated statement of operations. Emission allowances allocated for trading are considered to be intangible assets held-for-sale and are valued at the lower of their weighted average cost or fair value. In accordance with their classification as intangible assets, purchases and sales of emissions allowances are classified as an investing activity with the corresponding gains and/or losses on the sales recorded as an adjustment to operating activity in the consolidated statement of cash flows.

Goodwill and Intangible Assets

Goodwill is the excess of the purchase price of an acquired business over the fair value of the net assets acquired. NRG accounts for goodwill and other intangibles under the provisions of SFAS 142, *Goodwill and Other Intangible Assets,* and consequently NRG does not amortize goodwill. SFAS 142 requires us to evaluate goodwill and other intangibles not subject to amortization for impairment at least annually or more often if events and circumstances such as adverse changes in the business climate, indicate there may be impairment. Goodwill is impaired if the carrying value of the business exceeds its fair value. Annually, NRG estimates the fair value of the businesses the Company has acquired using estimated future cash flows or other methods to assess fair value. If the estimated fair value of the business is less than its carrying value, an impairment loss is required to be recognized to the extent that the carrying value of goodwill is greater than its fair value. SFAS 142 also requires the amortization of intangible assets with finite lives.

New Accounting Pronouncements

NRG adopted SFAS 123(R) and Staff Accounting Bulletin 107, or SAB 107, on January 1, 2006 under a modified version of prospective application, or the modified prospective method. Under the modified prospective method, NRG applied the provisions of SFAS 123(R) to new awards of stock-based compensation and to awards modified, repurchased, or cancelled after the required effective date. SFAS 123(R) requires that NRG apply a forfeiture rate to existing awards and to calculate the retroactive impact of such application. If material, NRG must recognize in income the cumulative effect of this as a change in accounting principle as of the required effective date. Upon adoption of SFAS 123(R) on January 1, 2006, NRG applied a forfeiture rate to the Company s existing awards and recognized in income approximately $1.1 million, or $0.8 million, net of tax, as a reduction to compensation expense for the nine months ended September 30, 2006. This amount did not materially affect the Company s consolidated financial position, results of operations or statement of cash flows for the nine months ended September 30, 2006.

On January 1, 2006, NRG adopted EITF Issue No. 04-6, *Accounting for Stripping Costs Incurred during Production in the Mining Industry*, or EITF 04-6. EITF 04-6 provides that costs incurred to remove overburden and waste material to access coal seams, or stripping costs , during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred. EITF 04-6 is effective for the first reporting period in fiscal years beginning after December 15, 2005. MIBRA GmbH, or MIBRAG, in which NRG holds a 50% equity investment, has mining operations which were negatively affected by this pronouncement. MIBRAG had capitalized costs totaling approximately $185 million (157 million), representing the stripping costs incurred during production as of December 31, 2005. As a result of the Adoption of EITF 04-6, such costs are no longer allowed to be capitalized and in accordance with the new pronouncement, were written off to retained earnings. The adoption of EITF 04-6 did not have a material impact on NRG s consolidated results of operations, but did have a material impact on NRG s consolidated financial position. Upon adoption of EITF 04-6 on January 1, 2006, NRG s investment in MIBRAG was reduced by 50% of the above mentioned asset, approximately $93 million after-tax, with an offsetting charge to retained earnings.

On January 1, 2006, NRG adopted EITF Issue No. 05-5, *Accounting for Early Retirement or Post-employment Programs with Specific Features (such as terms specified in Altersteilzeit Early Retirement Arrangements)*, or EITF 05-5. EITF 05-5 provides guidance on the accounting for early retirement or post-employment programs with specific features, and specifically the terms of Altersteilzeit early retirement arrangements. The Altersteilzeit, or ATZ, arrangement is a voluntary early retirement program in Germany designed to create an incentive for employees, within a certain age group, to transition from employment into retirement before their legal retirement age. If certain criteria are met by the employer, the German government provides to the employer a subsidy for bonuses paid to the employee and the additional contributions paid by the employer into the German government pension scheme under an ATZ arrangement for a maximum of six years. The Task Force reached a consensus that the employer should recognize the government subsidy when it meets the necessary criteria and is entitled to the subsidy. The Task Force also reached a consensus that payments made by the employer relative to the bonus feature and the additional contributions into the German government pension scheme, or the additional compensation, should be accounted for as a post-employment benefit under SFAS No. 112, *Employers Accounting for Post-employment Benefits*, which prescribes that an entity should recognize the additional compensation over the period from the point at which the employee signs the ATZ contract until the end of the active service period. Upon adoption of EITF 05-5 on January 1, 2006, NRG recognized additional equity in earnings of unconsolidated affiliates of approximately $2.1 million, after-tax, from the Company s MIBRAG interest. This amount reflects the cumulative effect of the adoption of EITF 05-5, and did not materially affect NRG s consolidated financial position, results of operations or statement of cash flows for the period ending September 30, 2006.

During the first quarter 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements Nos. 133 and 140*, or SFAS 155. This statement allows for fair value measurement of certain financial instruments, and eliminates certain exemptions from fair value measurement found within SFAS 133. The fair value election would not be available for hybrid instruments with embedded derivative features that are not required to be bifurcated, such as those that are clearly and closely related to the host instrument, or hybrid instruments with an embedded derivative that is eligible for one of FAS 133 s scope exceptions. This statement is effective for all financial instruments acquired, issued, or subject to a re-measurement, or new basis, event occurring after the beginning of the first fiscal year that begins after September 15, 2006. NRG does not expect this guidance to materially affect the Company s consolidated financial position, results of operations or statement of cash flows.

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. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including a decision as to whether to file or not to file in a particular jurisdiction. FIN 48 is effective for fiscal years beginning after December 15, 2006. Changes in net assets as a result of the adoption of FIN 48, if any, are to be accounted for as an adjustment to retained earnings. NRG is currently assessing the impact of FIN 48 on its consolidated financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* or SFAS 157. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. NRG is currently assessing the impact of SFAS 157 on its consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132 (R), or SFAS 158.* This statement requires an employer that sponsors one or more single-employer defined benefit plans to recognize the funded status of a benefit plan in its statement of financial position with an offset to other comprehensive income, and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. This statement is effective for financial statements of issuers of publicly traded equity securities for the end of the first fiscal year ending after December 15, 2006. NRG does not expect this guidance to materially affect the Company s consolidated financial position.

Note 2 Comprehensive Income/(Loss)

(In millions)	Three months ended September 30 2006	Three months ended September 30 2005	Nine months ended September 30 2006	Nine months ended September 30 2005
Net Income/(Loss)	$ 422	$ (27)	$ 651	$ 20
Changes in pension liability, net of tax	7		7	
Unrealized gain/(loss) from derivative activity, net of tax	28	(296)	332	(382)
Foreign currency translation adjustment	(2)		35	(50)
Other comprehensive income/(loss), net of tax	$ 33	$ (296)	$ 374	$ (432)
Comprehensive income/(loss)	$ 455	$ (323)	$ 1,025	$ (412)

Accumulated other comprehensive income/(loss) for the nine months ended September 30, 2006 was as follows:

(In millions) As of September 30	2006
Accumulated other comprehensive loss as of December 31, 2005	$ (205)
Changes in pension liability, net of tax	7
Unrealized gain from derivative activity, net of tax	332
Foreign currency translation adjustments	35
Accumulated other comprehensive income as of September 30, 2006	$ 169

Note 3 Business Acquisitions and Dispositions

Acquisition of Texas Genco LLC and Related Financing

On February 2, 2006, NRG acquired Texas Genco LLC pursuant to an Acquisition Agreement dated September 30, 2005. As such, the results of Texas Genco LLC have been included in NRG s consolidated financial statements since February 2, 2006. The purchase price of approximately $6.2 billion consisted of approximately $4.4 billion in cash, the issuance of approximately 35.4 million shares of NRG s common stock valued at approximately $1.7 billion and acquisition costs of approximately $0.1 billion. The value of NRG s common stock issued to the Sellers was based on NRG s average stock price immediately before and after the closing date of February 2, 2006. The acquisition also included the assumption of approximately $2.7 billion of Texas Genco LLC debt. Texas Genco LLC is now a wholly-owned subsidiary of NRG, and is being managed and accounted for as a separate business segment referred to as NRG Texas.

The acquisition of Texas Genco LLC and related financing activities were funded at closing with a combination of (i) cash proceeds received upon the issuance and sale in a public offering of 20,855,057 shares of NRG s common stock at a price of $48.75 per share; (ii) cash proceeds received upon the issuance and sale of $1.2 billion aggregate principal amount of 7.25% Senior Notes due 2014 and $2.4 billion aggregate principal amount of 7.375% Senior Notes due 2016; (iii) cash proceeds received upon the issuance and sale in a public offering of 2,000,000 shares of mandatory convertible preferred stock at a price of $250 per share; (iv) funds borrowed under a new senior secured credit facility consisting of a $3.6 billion term loan facility, a $1.0 billion revolving credit facility and a $1.0 billion synthetic letter of credit facility; and (v) cash on hand.

Like the rest of NRG, NRG Texas is a wholesale power generator whose principal business is selling electric wholesale power produced by power plants to wholesale purchasers such as retail electric providers, power trading organizations and other power generation companies. NRG Texas is the second-largest generation company in the

ERCOT market and the largest owner of power plants in the Houston area. As of September 30, 2006, NRG Texas operated 52 generating units at nine power generation plants, including an undivided 44% interest in two nuclear generation units at STP. The aggregate net generation capacity at NRG Texas is approximately 10,800 MW, which includes approximately 5,300 MW of low marginal cost solid fuel and nuclear powered baseload plants.

The acquisition of Texas Genco LLC was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair value of such assets and liabilities as of February 2, 2006. The excess of the purchase price over the fair value of the net tangible and identified intangible assets acquired was recorded as goodwill. The allocation of the purchase price may be adjusted if additional information on known contingencies existing at the date of acquisition becomes available within one year after the acquisition, and longer for certain income tax items. Changes in the allocation between the assessed goodwill and plant or other intangibles would result in a change in non-cash amortization expense.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of the acquisition.

(In millions)		**As of February 2, 2006**
Assets		
Current and non-current assets	$	832
Coal inventory		33
In-market contracts		
Power contracts		39
Water contracts		64
Coal contracts		100
Nuclear fuel contracts		48
SO_2 emission allowances		530
NOx emission allowances		320
Property, plant and equipment		9,318
Deferred tax asset		1,560
Goodwill		1,555
Total assets acquired		14,399
Liabilities		
Current and non-current liabilities		937
Pension and post-retirement liability		213
Out-of-market contracts:		
Coal		150
Gas swaps		472
Power contracts		2,100
Deferred tax liability		1,560
Long term debt		2,735
Total liabilities assumed		8,167
Net assets acquired	$	6,232

NRG is still in the process of finalizing the value of the tax basis of the assets and liabilities acquired which may affect the deferred tax balances with any changes to the tax basis values affecting the final balance of goodwill. NRG is also in the process of reviewing the estimated remaining useful lives for NRG Texas s fixed assets, and when finalized, this may affect the amount of depreciation expense NRG will recognize.

The following table summarizes the change in the value of goodwill during the six month period ended September 30, 2006:

(In millions)	
Goodwill balance at March 31, 2006	$ 2,748
Increase in fixed assets per valuation	(888)
Net decrease in intangibles and other contracts per valuation	319

Adjustment to deferred tax assets and liabilities	(624)
Impact to goodwill due to changes in valuation	(1,193)
Goodwill balance at September 30, 2006	$ 1,555

The changes in the fair value for fixed assets, identifiable intangibles and deferred taxes are due to several factors, including the following:

- Adjustments to the forecasted projected price of electricity, coal and emission allowances;
- The tax basis of the assets and liabilities acquired are more accurate, although still subject to revision; and
- More precise information with respect to identifiable tangible and intangibles assets.

Currently, NRG has valued goodwill at approximately $1.6 billion, with the appraisal of Property, Plant and Equipment increasing its fair value, compared to Texas Genco LLC s historical cost, by approximately $5.8 billion. If the remaining goodwill balance is indicative of a further increase in value of depreciable property plant and equipment, depreciation expense for the three months and nine months ended September 30, 2006 would increase by approximately $20 million and $55 million, respectively, reducing income from continuing operations before tax for the three and nine month period ended September 30, 2006 to approximately $588 million and $857 million, respectively.

Acquisition of Remaining 50% interest in WCP

On December 27, 2005, NRG entered into purchase and sale agreements for projects co-owned with Dynegy, Inc, or Dynegy, with these agreements consummated March 31, 2006. Under the agreements NRG acquired Dynegy s 50% ownership interest in WCP (Generation) Holdings, Inc., or WCP, for $205 million and NRG became the sole owner of WCP s 1,808 MW of generation capacity in Southern California. In addition, NRG sold to Dynegy its 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 sale price of $45 million, thus 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 unconsolidated 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 book 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 its book value of approximately $159 million at the date of the New Investment.

The value of the New Investment was allocated based on the estimated fair value of assets acquired and liabilities assumed as of March 31, 2006. The preliminary purchase price allocation reflected an excess of fair value of the net assets acquired over the purchase price of the New Investment, which resulted in negative goodwill of approximately $63 million. The negative goodwill was subsequently allocated as a reduction to the fair value of WCP s fixed assets. Once the WCP asset appraisals are final, the purchase price allocation may change from the amounts included herein based on the results of appraisal, changes in forecasted prices and an analysis of the income tax effect on the acquisition.

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

		New Investment			
(In millions)	**Original Investment**	**Fair Value before Negative Goodwill Allocation**	**Allocation of Negative Goodwill**	**Fair Value after Negative Goodwill Allocation**	**Preliminary Purchase Price Allocation**
Current assets	$ 148	$ 152	$	$ 152	$ 300
Property, plant and equipment	24	127	(57)	70	94
Intangible assets	2	14	(6)	8	10
Other non-current assets		8		8	8
Current liabilities	(12)	(12)		(12)	(24)
Non-current liabilities	(3)	(21)		(21)	(24)
Negative goodwill		(63)	63		
Total Equity	$ 159	$ 205	$	$ 205	$ 364

Supplemental Pro Forma Information

The following unaudited pro forma information represents the results of operations as if NRG, NRG Texas and WCP had combined at the beginning of the respective reporting periods. The unaudited pro forma information is not indicative of what the combined company s result of operations would have been had the companies been combined prior to the respective reporting periods or of future results of the combined operations.

(In millions)	Three months ended September 30 2005	Nine months ended September 30 2006	2005
Operating revenues	$ 1,625	$ 4,738	$ 3,942
Net income	175	325	363
Earnings per share Basic	1.43	2.14	2.88
Earnings per share Diluted	1.31	1.85	2.65
Weighted average number of shares outstanding Basic	118.9	134.4	121.3
Weighted average number of shares outstanding Diluted	129.4	155.4	131.8

The pro forma net income for the nine months ended September 30, 2006 reflects the following nonrecurring expenses incurred by Texas Genco LLC before February 2, 2006:

(In millions)	
Equity compensation costs incurred due to immediate vesting of equity compensation awards under change of control provisions	$ 271
Professional fees and other acquisition-related costs	61
Total	$ 332

Other Business Events

Resource Recovery On August 31, 2006, NRG signed an agreement to sell its Newport and Elk River Resource Recovery facilities, its Becker Ash Disposal facility, and its ownership interest in NRG Processing Solutions LLC, to Resource Recovery Technologies, LLC for total proceeds of approximately $26 million, subject to customary purchase price adjustments. The transaction is expected to close in the fourth quarter 2006, and is subject to customary approvals by the Minnesota Pollution Control Agency and other contractual partners.

Flinders On August 30, 2006, NRG announced the completion of the sale of its 100% owned Flinders power station and related assets or Flinders, located near Port Augusta, Australia, which consists of two coal-fueled plants Northern and Playford totaling 760 gross MW, to Babcock & Brown Power Pty, a subsidiary of Babcock & Brown, a global investment and advisory firm. Proceeds from the sale were approximately $242 million (AU$317 million). The sale resulted in the elimination of approximately of approximately $370 million (AU$485 million) of consolidated liabilities including approximately $183 million (AU$240 million) of non-recourse debt obligations and approximately $92 million (AU$121 million) in non-current liabilities related to the obligations for the purchase of electricity and the supply of fuel to the Osborne power station that were guaranteed by NRG. NRG recognized an after-tax gain of approximately $61 million from the sale, which is included in the other international segment results.

Padoma On July 14, 2006, NRG announced the completion of the acquisition of privately-held Padoma Wind Power, LLC, or Padoma, a wind farm developer, whose principals have developed, financed, built and operated wind farms in the U.S. and Europe. Padoma will maintain its headquarters in La Jolla, California and will operate as a subsidiary of NRG. The initial purchase price of $7 million was completely allocated to goodwill and is included as part of NRG s non-generation segment s assets.

Gladstone On June 8, 2006, NRG announced the sale of the Company s 37.5% equity interest in the Gladstone power station, or Gladstone, and its associated 100% owned NRG Gladstone Operating Services to Transfield Services, an Australia-based provider of operations, maintenance, ownership and asset management services for a purchase price of approximately $178 million (AU$239 million) subject to customary purchase price adjustments, plus assumption of NRG s share of Gladstone s unconsolidated debt and cash of approximately $58 million (AU$ 77 million) and approximately $26 million (AU$35 million), respectively. After-tax cash proceeds are expected to be in excess of $175 million (AU$ 234 million). The sale is pending until NRG satisfies certain conditions, particularly the securing of certain consents and waivers from the other owners of the project, or agrees to complete the sale on alternative terms. NRG is seeking to close the transaction in 2007.

Audrain On March 29, 2006, NRG completed the sale of Audrain generating station, a gas-fired peaking facility in Vandalia, Missouri, to AmerenUE, a subsidiary of Ameren Corporation. The proceeds from the sale were $115 million, plus AmerenUE s assumption of $240 million of non-recourse capital lease obligations and assignment of a $240 million note receivable. NRG recorded a pre-tax gain of $15 million.

As discussed in Note 4 below, the activities of Resource Recovery, Flinders and Audrain have been classified as discontinued operations.

Note 4 Discontinued Operations

NRG has classified certain business operations, and gains/losses recognized on sale, as discontinued operations for businesses that were sold or have met the required criteria for such classification. The financial results for all of these businesses have been accounted for as discontinued operations. Accordingly, current period operating results and prior periods have been restated to report the operations as discontinued.

SFAS 144, requires that discontinued operations be valued on an asset-by-asset basis at the lower of carrying amount or fair value less costs to sell. In applying those provisions, NRG s management considered cash flow analysis and offers related to the assets and businesses. This amount is included in income/loss from discontinued operations, net of income taxes in the accompanying condensed consolidated statements of operations. In accordance with SFAS 144, assets held for sale will not be depreciated commencing with their classification as such.

The assets and liabilities reported in the balance sheet as of December 31, 2005 as discontinued operations represent disposed operations of entities discussed in Note 3. For the three and nine months ended September 30, 2006 the after-tax gains recognized on the sale of discontinued operations were approximately $61 million and $71 million, respectively, and approximately $11 million was recognized for the three and nine months ended September 30, 2005.

For the three and nine months ended September 30, 2006, discontinued operations consisted of activity related to Resource Recovery, Flinders and Audrain. For the three and nine months ended September 30, 2005, discontinued operations consisted of activity related to Resource Recovery, Flinders, Audrain, NRG McClain, Northbrook New York, LLC, and Northbrook Energy, LLC.

Summarized results of operations of discontinued operations are as follows:

(In millions)	Three months ended September 30 2006	Three months ended September 30 2005	Nine months ended September 30 2006	Nine months ended September 30 2005
Operating revenues	$ 39	$ 79	$ 184	$ 228
Pre-tax income/(loss) from operations of discontinued operations	(13)	(1)	(9)	11
Income from discontinued operations, net of income taxes	49	10	63	24

Note 5 Write Downs and Gains/(Losses) on Sales of Equity Method Investments

Write downs and gains/(losses) on sales of equity method investments recorded in the condensed consolidated statement of operations include the following:

(In millions)	Three months ended September 30 2006	Three months ended September 30 2005	Nine months ended September 30 2006	Nine months ended September 30 2005
Latin American funds, or SLAP	$	$	$ 3	$
James River	(3)		(6)	
Cadillac			11	
Enfield				12
Kendall		4		4
Total write downs and gains/(loss) on sales of equity method investments	$ (3)	$ 4	$ 8	$ 16

SLAP On June 30, 2006, NRG, through its wholly-owned entities NRG Caymans-C and NRG Caymans-P completed the sale of its remaining interests in various Latin American power funds to a subsidiary of Australia Post. Total proceeds received were approximately $23 million and a pre-tax gain of approximately $3 million was recognized in the second quarter 2006.

James River On May 15, 2006, NRG completed the sale of Capistrano Cogeneration Company, a subsidiary of NRG which owned a 50% interest in James River, to Cogentrix. The proceeds from the sale were approximately $8 million. As a result of the sale, NRG recorded a pre-tax loss of approximately $6 million.

Cadillac On January 1, 2006, NRG sold its 49.5% of its 50% interest in a 38MW biomass fuel generation facility located in Cadillac, Michigan, along with its right to receive Production Tax Credits, or PTCs, through 2009 to Lakes Renewable LLC. In consideration, NRG received an up-front payment of $0.3 million, approximately $4 million in a note receivable and a promissory note equal to the value of its share in future PTCs earned through 2009. The sale was contingent upon the receipt of a favorable private letter ruling from the Internal Revenue Service, or IRS, and accordingly, all consideration was held in escrow. On April 13, 2006, NRG sold its remaining 0.5% share in Cadillac along with its interest in the notes receivable and promissory note to Delta Power for approximately $11 million, resulting in a pre-tax gain of approximately $11 million.

Note 6 Investments Accounted for by the Equity Method

As of December 31, 2005, NRG had a 50% interest in both MIBRAG and WCP, which were considered significant as defined by applicable SEC regulations. As discussed in Note 3, NRG acquired the remaining 50% interest in WCP on March 31, 2006 and, as such, WCP is no longer accounted for under the equity method of accounting. As of September 30, 2006, the only equity method investment which was considered significant was NRG s 50% interest in

MIBRAG.

MIBRAG Summarized Financial Information

For the three and nine months ended September 30, 2006, NRG recorded equity earnings for MIBRAG of $9.3 million and $23.5 million, respectively compared to the three and nine months ended September 30, 2005 equity earnings from MIBRAG of $8.9 million and $16.8 million, respectively.

The following table summarizes the results of operations for MIBRAG, including interests owned by NRG and other parties for the periods shown below:

Results of Operations (in millions)	**Three months ended September 30 2006**	**Three months ended September 30 2005**	**Nine months ended September 30 2006**	**Nine months ended September 30 2005**
Operating revenues	$ 126	$ 114	$ 340	$ 318
Operating income	22	24	61	50
Net income	18	18	47	34

As discussed in Note 1, NRG adopted EITF 04-6 as of January 1, 2006, which negatively affected NRG s equity investment in MIBRAG. As of December 31, 2005, MIBRAG had an asset valued at approximately $185 million (157 million), representing stripping costs incurred during mining operations, net of depreciation. Per the guidance of EITF 04-6, the value of such stripping cost is to be eliminated with an offsetting charge to retained earnings. As such, NRG s investment in MIBRAG has been reduced by 50% of the above mentioned asset, approximately $93 million after-tax, with an offsetting charge to retained earnings.

Note 7 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. 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 in OCI and subsequently recognize in earnings when the hedged item impacts income. The ineffective portion of a cash flow hedge is immediately recognized in income.

For derivatives designated as hedges of the fair value of assets or liabilities, the changes in fair value of both the derivative and the hedged item are recorded in current earnings, thus the ineffective portion of a hedging derivative instrument s change in fair value is captured and is immediately recognized into earnings.

For derivatives that are not designated as cash flow hedges or do not qualify for hedge accounting treatment, the changes in the fair value will be immediately recognized in earnings. Under the guidelines established per SFAS 133, certain derivative instruments may qualify for the normal purchase and sale exception and are therefore exempt from fair value accounting treatment. SFAS 133 applies to NRG s energy-related commodity contracts, interest rate swaps and foreign exchange contracts.

As the Company engages principally in the trading and marketing of its generation assets, most of NRG s commercial activities qualify for hedge accounting under the requirements of SFAS 133. In order to so qualify, the physical generation and sale of electricity should be highly probable at inception of the trade and throughout the period it is held, as is the case with the Company s baseload plants. For this reason, trades in support of NRG s peaking units will generally not qualify for hedge accounting treatment with any changes in fair value likely to be reflected on a mark-to-market basis in the statement of operations. The majority of trades in support of NRG s baseload units normally qualify for hedge accounting treatment with any change in fair value reflected in the balance sheets as part of OCI.

Derivative Impact to 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 September 30, 2006, net of tax:

(In millions)	**Energy Commodities**	**Interest Rate**	**Total**
Accumulated OCI balance at June 30, 2006	$ 29	$ 79	$ 108
Realized from OCI during the period:			
Due to realization of previously deferred amounts		1	1
Mark-to-market of hedge contracts	92	(65)	27
Accumulated OCI balance at September 30, 2006	$ 121	$ 15	$ 136
Gains expected to be realized from OCI during the next 12 months	$ 26	$	$ 26

The following table summarizes the effects of SFAS 133 on NRG s OCI balance attributable to hedged derivatives for the nine months ended September 30, 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		11		(2)		9
Mark-to-market of hedge contracts		314		9		323
Accumulated OCI balance at September 30, 2006	$	121	$	15	$	136

The following table summarizes the effects of SFAS 133 on NRG s OCI balance attributable to hedged derivatives for the three months ended September 30, 2005, net of tax:

(In millions)		**Energy Commodities**		**Interest Rate**		**Total**
Accumulated OCI balance at June 30, 2005	$	(77)	$	(2)	$	(79)
Realized from OCI during the period:						
Due to realization of previously deferred amounts		55		(2)		53
Mark-to-market of hedge contracts		(359)		10		(349)
Accumulated OCI balance at September 30, 2005	$	(381)	$	6	$	(375)

The following table summarizes the effects of SFAS 133 on NRG s OCI balance attributable to hedged derivatives for the nine months ended September 30, 2005, net of tax:

(In millions)	Energy Commodities	Interest Rate	Total
Accumulated OCI balance at December 31, 2004	$ 5	$ 2	$ 7
Realized from OCI during the period:			
Due to realization of previously deferred amounts	53	(1)	52
Mark-to-market of hedge contracts	(439)	5	(434)
Accumulated OCI balance at September 30, 2005	$ (381)	$ 6	$ (375)

Losses of $1 million and $9 million were reclassified from OCI to current period earnings for the three and nine months ended September 30, 2006, respectively, compared to losses of $53 million and $52 million for the three and nine months ended September 30, 2005, respectively, due to the unwinding of previously deferred amounts. These amounts are recorded on the same line in the statement of operations in which the hedged items were recorded. In addition, for the three and nine months ended September 30, 2006, NRG recorded gains in OCI of approximately $27 million and $323 million, respectively, compared to losses of $349 million and $434 million for the three and nine months ended September 30, 2005, respectively, related to changes in the fair values of derivatives accounted for as cash flow hedges. The balance in OCI relating to SFAS 133 as of September 30, 2006 was an unrecognized gain of approximately $136 million. Over the next 12 months, the Company expects that $26 million of net gains recorded in OCI as of September 30, 2006, will be recognized in earnings.

Derivative Impact to the Statement of Operations

The following table summarizes the pre-tax effects of non-hedge derivatives and derivative activities that do not qualify as hedges on NRG s statement of operations for the three months ended September 30, 2006:

(In millions)	Energy Commodities	Interest Rate	Total
Revenue from majority-owned subsidiaries	$ 183	$	$ 183
Equity in earnings of unconsolidated subsidiaries			
Cost of operations			
Interest Expense			
Total statement of operations impact before tax	$ 183	$	$ 183

The following table summarizes the pre-tax effects of non-hedge derivatives and derivative activities that do not qualify as hedges on NRG s statement of operations for the nine months ended September 30, 2006:

(In millions)	Energy Commodities	Interest Rate	Total
Revenue from majority-owned subsidiaries	$ 300	$	$ 300
Equity in earnings of unconsolidated subsidiaries			
Cost of operations			
Interest expense		3	3

Total statement of operations impact before tax	$	300	$	(3)	$	297

With the reclassification of Flinders as a discontinued operation in the second quarter 2006, previously designated cash flow hedges were no longer effective beyond the expected date of the sale and thus the deferred gain previously recorded in OCI of approximately $11 million was recognized as a derivative gain and was included in income from discontinued operations.

The following table summarizes the pre-tax effects of non-hedge derivatives and derivative activities that do not qualify as hedges on NRG s statement of operations for the three months ended September 30, 2005:

(In millions)	**Energy Commodities**		**Interest Rate**		**Total**	
Revenue from majority-owned subsidiaries	$	(166)	$		$	(166)
Equity in earnings of unconsolidated subsidiaries						
Cost of operations		6				6
Interest expense						
Total statement of operations impact before tax	$	(172)	$		$	(172)

The following table summarizes the pre-tax effects of non-hedge derivatives and derivative activities that do not qualify as hedges on NRG s statement of operations for the nine months ended September 30, 2005:

(In millions)	Energy Commodities	Interest Rate	Total
Revenue from majority-owned subsidiaries	$ (252)	$	$ (252)
Equity in earnings of unconsolidated subsidiaries	12		12
Cost of operations	5		5
Interest expense			
Total statement of operations impact before tax	$ (245)	$	$ (245)

Energy-Related Commodities

As part of NRG s risk management activities, NRG manages its commodity price risk associated with the Company s competitive supply activities and the price risk associated with power sales from NRG s electric generation facilities. In doing so, the Company may enter into a variety of derivative and non-derivative instruments, including the following:

Forward contracts, which commit NRG to purchase or sell energy commodities in the future.

Futures contracts, which are exchange-traded standardized commitments to purchase or sell a commodity or financial instrument.

Swap agreements, which require payments to or from counter-parties based upon the differential between two prices for a predetermined contractual (notional) quantity.

Option contracts, which convey the right to buy or sell a commodity, financial instrument, or index at a predetermined price.

The objectives for entering into such hedges include:

Fixing the price for a portion of anticipated future electricity sales through the use of various derivative instruments including gas swaps at a level that provides an acceptable return on the Company s electric generation operations.

Fixing the price of a portion of anticipated fuel purchases for the operation of NRG s power plants.

Fixing the price of a portion of anticipated energy purchases to supply NRG s load-serving customers.

Ineffectiveness Ineffectiveness will result from a difference in the relative price movements between a financial instrument and the underlying physical pricing point. If this difference is large enough, it may cause an entity to discontinue the use of hedge accounting. For the three and nine months ended September 30, 2006, NRG s pre-tax earnings were affected by unrealized gains of approximately $78 million and $122 million, respectively, due to the ineffectiveness associated with financial forward contracted electric and gas sales.

Discontinued Hedge Accounting During the third quarter 2006, due to a relatively mild summer season and expected lower power generation for the remainder of 2006, NRG discontinued cash flow hedge accounting for certain contracts related to commodity price risk previously accounted for as cash flow hedges. These contracts were originally entered into as hedges of forecasted sales by baseload plants. The decision not to deliver against these contracts was driven by the decline in natural gas and associated power prices making it uneconomical to dispatch the units into the marketplace. As a result, approximately $5 million of previously deferred revenue in OCI was recognized in earnings for the three and nine months ended September 30, 2006.

At September 30, 2006, NRG had hedge and non-hedge energy-related commodity contracts extending through December 31, 2026.

Interest Rates

NRG is exposed to changes in interest rates through the Company s issuance of variable rate and fixed rate debt. In order to manage its interest rate risk, NRG enters into interest-rate swap agreements. In January 2006, in anticipation of the New Senior Credit Facility, NRG entered into a series of forward starting interest rate swaps intended to hedge the variability in cash flows associated with this debt issuance. These transactions were designated as cash flow hedges with any gains/losses deferred on the balance sheet in OCI. In February 2006, with the completion of the sale of the Senior Notes, the Company designated a fixed-to-floating interest rate swap as a hedge of fair value changes in the Senior Notes. This interest rate swap was previously designated as a hedge of NRG s 8% Second Priority Notes which were effectively replaced by the Senior Notes. For the three months ended September 30, 2006, NRG did not recognize any ineffectiveness associated with this hedging relationship. For the nine months ended September 30, 2006, NRG recognized $3 million in ineffectiveness associated with this hedging relationship. NRG does not foresee any ineffectiveness of this hedging relationship in the future.

As of September 30, 2006, all of NRG s interest rate swap arrangements had been designated as either cash flow or fair value hedges. At September 30, 2006, NRG had interest rate derivative instruments extending through June 2019.

Foreign Currency Exchange Rates

To preserve the U.S. dollar value of projected foreign currency cash flows, NRG may hedge, or protect those cash flows using available foreign currency hedging instruments. On August 15, 2006, NRG entered into a forward foreign exchange contract to sell AU$300 million in exchange for $229 million and designated it as a fair value hedge. Due to changes in the exchange rate, NRG recognized a loss as of September 30, 2006 of approximately $5 million on its cash balance, with an offsetting gain from derivative income on the related contract. The contract settled on October 16, 2006.

Note 8 Long-Term Debt

Cash Tender Offer and Consent Solicitation

On December 15, 2005, NRG commenced a cash tender offer and consent solicitation for any and all outstanding $1.1 billion aggregate principal amount of the Company s 8% Second Priority Notes. On that date, NRG also commenced a cash tender offer and consent solicitation for any and all outstanding $1.1 billion aggregate principal amount of Texas Genco LLC and Texas Genco Financing Corp. s 6.875% senior notes due 2014, or the Texas Genco Notes. The offers to purchase the 8% Second Priority Notes and the Texas Genco Notes were part of NRG s previously announced financing plan in connection with the acquisition of Texas Genco LLC. As of February 2, 2006, NRG had received valid tenders from holders in aggregate principal amount of the 8% Second Priority Notes, representing approximately 99.96% of the outstanding 8% Second Priority Notes, and had received valid tenders from holders of the $1.1 billion in aggregate principal amount of the Texas Genco Notes, representing 100% of the outstanding Texas Genco Notes. The purchase price for the 8% Second Priority Notes of approximately $1.2 billion was paid by NRG on February 2, 2006 and included $0.1 billion prepayment penalty which was recorded in debt refinancing expense in NRG s consolidated income statement. The purchase price for the Texas Genco Notes of approximately $1.2 billion was paid by NRG on February 3, 2006 and included $0.1 billion prepayment penalty which was recorded as an acquisition cost for the acquisition of NRG Texas.

New Senior Credit Facility

On January 31, 2006, NRG used proceeds from the issuance of common stock and cash on hand to repay the $446 million outstanding principal balance of NRG s senior secured term loan facility, along with accrued but unpaid interest of approximately $2 million, and terminated the facility. On February 2, 2006, NRG used proceeds from the new debt financing to pay accrued but unpaid fees on the Company s revolving credit facility and funded letter of credit, and terminated those facilities as well.

On February 2, 2006, NRG entered into a new senior secured credit facility, or the New Senior Credit Facility, with a syndicate of financial institutions, including Morgan Stanley Senior Funding, Inc., as administrative agent, Morgan Stanley & Co., Inc., as collateral agent, and Morgan Stanley Senior Funding, Inc. and Citigroup Global Markets Inc. as joint lead book-runners, joint lead arrangers and co-documentation agents providing for up to an aggregate amount of $5.575 billion. The New Senior Credit Facility consisted of a $3.575 billion senior first priority secured term loan facility, or the Term Loan Facility, a $1.0 billion senior first priority secured revolving credit facility, or the Revolving Credit Facility, and a $1.0 billion senior first priority secured synthetic letter of credit facility, or the Letter of Credit Facility. The New Senior Credit Facility replaced NRG s then existing senior secured credit facility. The Term Loan Facility matures on February 1, 2013 and will amortize in 27 consecutive equal quarterly installments of 0.25% of the original principal amount of the Term Loan Facility, beginning June 30, 2006, with the balance payable on the seventh anniversary thereof. The full amount of the Revolving Credit Facility will mature on February 2, 2011. The Letter of Credit Facility will mature on February 1, 2013 and no amortization will be required in respect thereof. As of September 30, 2006, NRG had approximately $3.557 billion outstanding under the Company s Term Loan Facility. As of September 30, 2006, NRG had issued $858 million under the Company s Letter of Credit Facility and $157 million in letters of credit under the Company s Revolving Credit Facility.

The New Senior Credit Facility is guaranteed by substantially all of NRG s existing and future direct and indirect subsidiaries, with certain customary or agreed-upon exceptions for unrestricted foreign subsidiaries, project subsidiaries and certain other subsidiaries. The capital stock of substantially all of NRG s subsidiaries, with certain exceptions for unrestricted subsidiaries, foreign subsidiaries and project subsidiaries has been pledged for the benefit of the New Senior Credit Facility lenders.

The New Senior Credit Facility is also secured by first-priority perfected security interests in substantially all of the property and assets owned or acquired by NRG and its subsidiaries, other than certain limited exceptions. These exceptions include assets of certain unrestricted subsidiaries, equity interests in certain of NRG s project affiliates that have non-recourse debt financing, and voting equity interests in excess of 66% of the total outstanding voting equity interest of certain of NRG s foreign subsidiaries.

The New Senior Credit Facility contains customary covenants, which among other things require NRG to meet certain financial tests, including minimum interest coverage ratio and a maximum leverage ratio on a consolidated basis, and limit NRG s ability to:

incur indebtedness and liens and enter into sale and lease-back transactions;

make investments, loans and advances; and

pay dividends and/or other payments of subsidiaries.

NRG has the option to prepay the New Senior Credit Facility in whole or in part at any time.

Interest Rate Swaps In anticipation of the New Senior Credit Facility, in January 2006, NRG entered into a series of forward-setting interest rate swaps. These interest rate swaps became effective on February 15, 2006 and are intended to hedge the risks associated with floating interest rates. For each of the interest rate swaps, the Company pays its counterparty the equivalent of a fixed interest payment on a predetermined notional value, and NRG receives quarterly the equivalent of a floating interest payment based on a 3-month LIBOR calculated on the same notional value. All interest rate swap payments by NRG and its counterparties are made quarterly, and the LIBOR is determined in advance of each interest period. While the notional value of each of the swaps does not vary over time, the swaps are designed to mature sequentially. The total notional amount of these swaps is $2.15 billion.

The notional amounts and maturities of each tranche of these swaps are as follows:

Period of swap	**Notional Value**	**Maturity**
1 year	$120 million	March 31, 2007
2 year	$140 million	March 31, 2008
3 year	$150 million	March 31, 2009
4 year	$190 million	March 31, 2010
5 year	$1.55 billion	March 31, 2011

Senior Notes

On February 2, 2006, NRG completed the sale of (i) $1.2 billion aggregate principal amount of 7.25% senior notes due 2014, or 7.25% Senior Notes, and (ii) $2.4 billion aggregate principal amount of 7.375% senior notes due 2016, or 7.375% Senior Notes, collectively referred to as the Senior Notes. The Senior Notes were issued under an Indenture, dated February 2, 2006, or the Indenture, between NRG and Law Debenture Trust Company of New York, as trustee, or the Trustee, as supplemented by a First Supplemental Indenture, dated February 2, 2006, between NRG, the Guarantors named therein and the Trustee, relating to the 7.25% Senior Notes, and as supplemented by a Second Supplemental Indenture, dated February 2, 2006, between NRG, the Guarantors named therein and the Trustee, relating to the 7.375% Senior Notes. On March 14, 2006, NRG executed a Third Supplemental Indenture and a Fourth Supplemental Indenture, whereby the recently acquired NRG Texas subsidiaries were added as Guarantors. On April 28, 2006, NRG executed a Fifth Supplemental Indenture and a Sixth Supplemental Indenture, whereby the recently acquired WCP subsidiaries were added as Guarantors. The Indentures and the form of notes provide, among other things, that the Senior Notes will be senior unsecured obligations of NRG.

Interest is payable on the Senior Notes on February 1 and August 1 of each year beginning on August 1, 2006 until their maturity dates February 1, 2014 for the 7.25% Senior Notes and February 1, 2016 for the 7.375% Senior Notes. As of September 30, 2006, NRG had $3.6 billion in principal outstanding under the Company s Senior Notes.

At any time prior to February 1, 2009, NRG may redeem up to 35% of the aggregate principal amount of the series of Senior Notes with the net proceeds of certain equity offerings, at a redemption price of 107.25% of the principal amount, in the case of the 7.25% Senior Notes, and 107.375% of the principal amount, in the case of the 7.375% Senior Notes. In addition, NRG may redeem the 7.25% Senior Notes and 7.375% Senior Notes at the redemption prices expressed as a percentage of the principal amount redeemed set forth below, plus accrued and unpaid interest on the notes redeemed.

Prior to February 1, 2010 for the 7.25% Senior Notes, or the First Applicable 7.25% Redemption Date, NRG may redeem all or a portion of the 7.25% Senior Notes at a price equal to 100% of the principal amount plus a premium and accrued interest. The premium is the greater of (i) 1% of the principal amount of the note, or (ii) the excess of the principal amount of the note over the following: the present value of 103.625% of the note, plus interest payments due on the note from the date of redemption through the First Applicable 7.25% Redemption Date, discounted at a treasury rate plus 0.50%.

The following table sets forth the premium upon redemption for the 7.25% Senior Notes.

Redemption Period	**Premium as defined above**
Prior to February 1, 2010	
February 1, 2010 to February 1, 2011	103.625%
February 1, 2011 to February 1, 2012	101.813%
February 1, 2012 and thereafter	100.000%

Prior to February 1, 2011 for the 7.375% Senior Notes, or the First Applicable 7.375% Redemption Date, NRG may redeem all or a portion of the 7.375% Notes at a price equal to 100% of the principal amount plus a premium and accrued interest. The premium is the greater of (i) 1% of the principal amount of the note, or (ii) the excess of the principal amount of the note over the following: the present value of 103.688% of the note, plus interest payments due on the note from the date of redemption through the First Applicable 7.375% Redemption Date, discounted at a Treasury rate plus 0.50%.

The following table sets forth the premium upon redemption for the 7.375% Senior Notes.

Redemption Period	Premium as defined above
Prior to February 1, 2011	
February 1, 2011 to February 1, 2012	103.688%
February 1, 2012 to February 1, 2013	102.458%
February 1, 2013 to February 1, 2014	101.229%
February 1, 2014 and thereafter	100.000%

The Indentures provide for customary events of default which include, among others, nonpayment of principal or interest; breach of other agreements in the Indentures; defaults in failure to pay certain other indebtedness; the rendering of judgments to pay certain amounts of money against NRG and its subsidiaries; the failure of certain guarantees to be enforceable; and certain events of bankruptcy or insolvency. Generally, if an event of default occurs, the Trustee or the Holders of at least 25% in principal amount of the then outstanding series of Senior Notes may declare all of the Senior Notes of such series to be due and payable immediately.

The terms of the Indentures, among other things, limit NRG s ability and certain of its subsidiaries ability to:

pay dividends or other payments of subsidiaries;

incur additional debt; and

engage in sale and leaseback transactions.

Debt of Discontinued Operations

As discussed in Note 3, on August 30, 2006, NRG announced the completion of the sale of Flinders to Babcock and Brown of Australia. The sale resulted in the elimination of approximately $183 million (AU$240 million) of non-recourse debt.

On March 29, 2006, NRG completed the sale of the Audrain Generating Station to AmerenUE, a subsidiary of Ameren Corporation. Included in the purchase was Ameren s assumption of $240 million of non-recourse capital lease obligations and the assignment of a $240 million note receivable.

NRG Promissory Note

On June 5, 2006, NRG, repaid the principal and interest at maturity on its outstanding $10 million note payable to Xcel Energy.

Debt Related to Capital Allocation Program

During the third quarter 2006, NRG initiated a plan, known as the Capital Allocation Program, to repurchase approximately $750 million of its common stock. Phase I was a $500 million stock repurchase program, which was completed on October 13, 2006. Phase II, as originally announced, was to be an additional $250 million common stock buyback anticipated to commence during the first quarter 2007. NRG has upsized Phase II to $500 million and has accelerated the start to the fourth quarter 2006 and is expected to be completed by the end of the second quarter 2007.

As part of Phase I, the Company formed two wholly-owned unrestricted subsidiaries, NRG Common Stock Finance I, LLC and NRG Common Stock Finance II, LLC, during the third quarter 2006 to repurchase shares of NRG s common stock in the public markets or in privately negotiated transactions. These subsidiaries were funded with a combination of approximately $166 million in cash from NRG and a mix of notes and preferred interests issued to Credit Suisse of approximately $334 million for a total of $500 million. Both the notes and the preferred interests are non-recourse debt to NRG or any of its restricted subsidiaries, with the notes collateralized by the NRG common stock purchased by the subsidiaries. In addition, the assets of these two subsidiaries are not available to the creditors of NRG and its other subsidiaries.

Notes As of September 30, 2006, total notes issued and outstanding by these two wholly-owned unrestricted subsidiaries were approximately $147 million to Credit Suisse. NRG issued a total of $250 million in notes in Phase I of the Capital Allocation Program that will mature in two tranches: $137.5 million in October 2008 plus accrued interest at an annual rate of 5.45%, and the balance of $112.5 million in October 2009 plus accrued interest at an annual rate of 6.11%.

Preferred Interests These two wholly-owned unrestricted subsidiaries expect to issue approximately $84 million in preferred interests in connection with Phase I of the Capital Allocation Program. As of September 30, 2006, total preferred interests issued and outstanding was approximately $50 million to Credit Suisse. These preferred interests are classified as a liability per SFAS No. 150, because they embody a fixed unconditional obligation that these two unrestricted subsidiaries must settle. The preferred interests also mature in two tranches: $53 million in October 2008 plus accrued interest at an annual rate of 12.65%, and $31 million in October 2009 plus accrued interest at an annual rate of 13.23%.

Note 9 Changes in Capital Structure

As of September 30, 2006, NRG had 10,000,000 authorized preferred shares, 2,670,000 of which have been issued and were outstanding. The outstanding preferred shares are comprised of: 420,000 of 4% Preferred Stock, 250,000 of 3.625% Preferred Stock and 2,000,000 of 5.75% Preferred Stock.

Treasury Stock Purchased through Capital Allocation Program

During the third quarter 2006, NRG purchased 6,113,000 of its common stock at a volume-weighted average price of $48.61 per share for a total amount of approximately $297 million through its Capital Allocation Program. At maturity, should NRG s stock price exceed a compound annual growth rate of 20%, beyond a volume-weight average share price determined at the time of repurchase, or the Reference Price, NRG will pay to Credit Suisse the market value of NRG s stock price over the Reference Price in either cash or stock. This difference will be recorded as an increase to the cost of the treasury shares repurchased.

On October 13, 2006, NRG completed the first phase of the Capital Allocation Program, resulting in the repurchase of 10,587,700 of its common stock for approximately $500 million.

5.75% Preferred Stock

On February 2, 2006, NRG completed the issuance of 2,000,000 shares of 5.75% mandatory convertible preferred stock, or the 5.75% Preferred Stock, for net proceeds of $486 million, reflecting an offering price of $250 per share and the deduction of offering expenses and discounts of approximately $14 million. Dividends on the 5.75% Preferred Stock are $14.375 per share per year, and are due and payable on a quarterly basis beginning on March 15, 2006. The 5.75% Preferred Stock will automatically convert into common stock on March 16, 2009, or the Conversion Date, at a rate that is dependent upon the applicable market value of NRG s common stock.

The following table illustrates the conversion rate per share of the 5.75% Preferred Stock:

Applicable Market Value on Conversion Date	Conversion Rate
equal to or greater than $60.45	4.1356
less than $60.45 but greater than $48.75	4.1356 to 5.1282
less than or equal to $48.75	5.1282

Stock issued to the Sellers pursuant to the Acquisition Agreement

On February 2, 2006, pursuant to the Acquisition Agreement, NRG issued 35,406,292 shares of common stock to the Sellers. Of this amount, 19,346,788 shares were issued from treasury and 16,059,504 were newly issued shares. See Note 3 for a further discussion. On August 1, 2006, the lock-up period on the 35,406,292 shares was lifted pursuant to the Investor Rights Agreement between the Sellers and NRG.

Common Stock issued to the public

On January 31, 2006, NRG completed the issuance of 20,855,057 shares of NRG s common stock, for net proceeds of $986 million, reflecting an offering price of $48.75 per share after the deduction of offering expenses and discounts of approximately $31 million.

Second Lien Structure

Before the Acquisition, Texas Genco LLC s capital structure permitted the grant of second priority liens on its assets as security for its obligations under certain long-term power sales agreements and related hedges. The New Senior Credit Facility and the Indentures, which became effective as of February 2, 2006, allow these arrangements to remain in place. In addition, the new debt instruments also permit NRG to grant second priority liens on NRG s other assets in the United States in order to secure obligations under power sales agreements and related hedges, with certain limitations. 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 long-term power sales agreements and related hedges. As of September 30, 2006, the net discounted exposure on the hedges that were subject to the second lien structure was approximately $897 million.

Note 10 Equity Compensation

Incentive Compensation Plans

In December 2004, the FASB issued SFAS No. 123(R) *Share-Based Payment,* a revision to SFAS 123, or SFAS 123(R), which requires NRG to modify the recognition of expense for stock-based compensation in the statement of income. NRG adopted the requirements of SFAS 123(R) effective January 1, 2006 using the modified prospective method. The provisions of SFAS 123(R) did not result in a significant change in NRG s compensation expense because the Company previously recognized compensation expense in the statements of income under SFAS 123. In accordance with SFAS 123(R), NRG estimated a forfeiture rate for each of the Company s awards based on the number of instruments expected to vest rather than recording the actual forfeitures as they occur. The elimination of unearned compensation and amounts previously recognized in income related to the application of the new forfeiture rate to outstanding instruments as of January 1, 2006 were immaterial to NRG s consolidated results of operations.

Long-Term Incentive Plan, or LTIP

As of September 30, 2006, a total of 8,000,000 shares of NRG common stock were authorized for issuance under the LTIP, subject to adjustments in the event of a reorganization, recapitalization, stock split, reverse stock split, stock dividend, and combination of shares, merger or similar change in NRG s structure or outstanding shares of common stock. It is NRG s policy to issue treasury shares upon exercise of a LTIP award. If there are no treasury shares available, unissued shares of common stock will be issued. There were 4,300,489 shares of common stock remaining available for grants under NRG s LTIP as of September 30, 2006.

Non-Qualified Stock Options, or NQSO s

NQSO s granted under the LTIP have a three-year graded vesting schedule beginning on the grant date and become exercisable at the end of this requisite service period. As provided for by SFAS 123(R), for share options with graded vesting issued after January 1, 2006, NRG recognizes compensation costs on a straight-line basis over the requisite service period for the entire award. The maximum contractual term is ten years for approximately 600,000 of NRG s outstanding NQSO s, and six years for the remaining 1.1 million NQSO s. The aggregate intrinsic value for stock options outstanding as of September 30, 2006 and 2005 was approximately $57 million and $19 million, respectively. The aggregate intrinsic value for stock options exercisable as of September 30, 2006 and 2005 was approximately $15 million and $6 million, respectively. The weighted average remaining contractual term for stock options outstanding as of September 30, 2006 and 2005 was approximately six and seven years, respectively. The weighted average remaining contractual term for stock options exercisable as of September 30, 2006 and 2005 was approximately seven and eight years, respectively. Cash received from the exercise of NQSO s and the intrinsic value of exercised NQSO s for the nine months ended September 30, 2006 was $1.1 million and $1.3 million, respectively.

The fair value of stock option grants is estimated on the date of grant using the Black-Scholes option-pricing model. The following table shows the change in the outstanding NQSO balance for the nine months ended September 30, 2005 and 2006:

(In whole, except weighted average data)	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Grant-Date Fair Value Per Share**
Outstanding as of December 31, 2004	962,751	$ 23.15	$ 12.15
Granted	134,000	38.80	13.23
Canceled or Expired		N/A	N/A
Exercised		N/A	N/A
Outstanding at September 30, 2005	1,096,751	25.06	12.29
Exercisable at September 30, 2005	318,248	23.08	12.13

Outstanding as of December 31, 2005	1,095,251	25.04	12.29
Granted	711,785	47.51	14.18
Canceled or Expired	(92,968)	34.64	12.06
Exercised	(49,832)	21.48	9.77
Outstanding at September 30, 2006	1,664,236	34.22	13.18
Exercisable at September 30, 2006	618,327	24.26	12.44

The fair value of NQSO s issued during the nine months ended September 30, 2006 was based on the following assumptions:

Nine Months Ended September 30,	**2006**
Weighted average annualized valuation assumptions	
Expected Volatility	27.95% 29.64%
Weighted Average Volatility	28.37%
Expected Dividends	
Expected Term (in years)	4 6
Risk Free Rate	4.30% 5.05%
Forfeiture Rate	8%

NRG uses an expected term of four years for NQSO s based on the simple average of the contractual term and vesting term. Volatility is calculated based on a blended average of NRG and NRG s industry peers historical two-year stock price volatility data. A forfeiture rate of 8% was calculated for NQSO s based on an analysis of NRG s historical forfeitures, employment turnover, and expected future behavior.

Restricted Stock Units, or RSU s

RSU s granted under the LTIP fully vest three years from the date of issuance. Compensation expense is based on the fair value of the RSU s which is based on the closing price of NRG common stock on the date of grant multiplied by the number of RSU s granted. Such compensation expense, net of forfeitures, is amortized over the requisite service period. In determining NRG s forfeiture rate, two separate forfeiture rates that best represented the employment termination behavior related to issued RSU s were used, 8% for senior management and 25% for all other employees. The forfeiture rates were based on an analysis of NRG s historical forfeitures, employment turnover, and expected future behavior. The aggregate intrinsic values for non-vested RSU s on September 30, 2006 and 2005 were approximately $61 million and $55 million, respectively.

The following table shows the change in the outstanding RSU balance for the nine months ended September 30, 2005 and 2006:

(In whole except weighted average data)	Shares	Weighted Average Grant-Date Fair Value Per Share
Non-vested as of December 31, 2004	880,994	$ 21.59
Granted	473,850	38.70
Canceled	(56,600)	22.78
Exercised	(1,500)	19.90
Non-vested at September 30, 2005	1,296,744	27.80
Non-vested as of December 31, 2005	1,285,944	27.14
Granted	201,093	47.24
Canceled	(118,500)	28.86
Exercised	(20,000)	38.80
Non-vested at September 30, 2006	1,348,537	$ 30.43

Deferred Stock Units, or DSU s

DSU s granted under the LTIP are fully vested at the date of issuance. Compensation expense recorded is the fair value of the DSU based on the closing price of NRG common stock on the date of grant. For DSU s, compensation expense is fully recognized in the period of grant. The aggregate intrinsic values for DSU s outstanding at September 30, 2006 and September 30, 2005 were approximately $6 million and $5 million, respectively. The aggregate intrinsic values for DSU s converted for the nine months ended September 30, 2006 and 2005 was $0.4 million and $0.3 million, respectively. None of the DSU s issued were either canceled or had expired as of September 30, 2006 and 2005.

The following table shows the change in the outstanding DSU balance for the nine months ended September 30, 2005 and 2006:

(In whole, except weighted average data)	Shares	Weighted Average Grant-Date Fair Value Per Share
Outstanding as of December 31, 2004	60,281	$ 20.31
Granted	68,201	37.54
Conversions	(6,298)	28.20
Outstanding at September 30, 2005	122,184	29.21
Outstanding as of December 31, 2005	122,184	29.21
Granted	25,830	49.22
Conversions	(7,594)	38.75
Outstanding at September 30, 2006	140,420	$ 32.38

Performance Units, or PU s

NRG s outstanding PU s will be paid out after vesting if the average closing price of NRG s common stock for the ten trading days prior to the vesting date, or the Measurement Price, is equal to or greater than the Target Price. The payout for each performance unit will be equal to: (i) one share of common stock, if the Measurement Price equals the Target Price; (ii) a pro-rata amount between one and two shares of common stock, if the Measurement Price is greater than the Target Price but less than the Maximum Price and (iii) two shares of common stock, if the Measurement Price is equal to, or greater than, the Maximum Price.

The Target Price, Maximum Price and vesting period for each PU granted are presented in the following table:

Grant Date	Vesting Period	Outstanding Shares	Target Price	Maximum Price
August 1, 2005	3	36,300	$ 54.50	$ 63.75
January 3, 2006	3	84,500	$ 67.37	79.49
February 3, 2006	3	52,632	$ 66.41	77.67
March 1, 2006	3	25,000	$ 61.82	72.29
May 31, 2006	5	4,400	$ 69.90	81.74
May 31, 2006	3	4,400	$ 69.90	81.74
August 1, 2006	3	1,400	$ 68.27	79.83

The following table shows the change in the outstanding PU balance for the nine months ended September 30, 2005 and 2006:

(In whole, except weighted average data)	Outstanding Shares	Weighted Average Grant-Date Fair Value Per Share
Non-vested as of December 31, 2004		
Granted	45,900	$ 29.87
Canceled		
Non-vested at September 30, 2005	45,900	29.87
Non-vested as of December 31, 2005	44,900	$ 29.87
Granted	180,132	35.02
Canceled	(16,400)	32.19
Non-vested at September 30, 2006	208,632	$ 34.13

The fair value of PU s are estimated on the date of grant using a Monte Carlo simulation model. Volatility is calculated based on a blended average of NRG and NRG s industry peers two-year historical stock price volatility data. The aggregate intrinsic value for PU s outstanding as of September 30, 2005 and 2006 were approximately $2 million and $9 million, respectively.

Significant assumptions used in the fair value model during the period with respect to PU s are summarized below:

Nine months ended September 30,	2006
Weighted average annualized valuation assumptions	
Expected Volatility	27.95% 29.64%
Weighted Average Volatility	28.38%
Expected Dividends	
Expected Term (in years)	3 5

Risk Free Rate	4.30%	5.04%
Forfeiture Rate		8%

Supplemental Information

The following table summarizes total compensation expense recognized in accordance with SFAS 123(R) for the nine months ended September 30, 2006 and 2005 for each of the four types of awards issued under the LTIP including total non-vested compensation cost not yet recognized is also presented as of September 30, 2006:

(In millions, except weighted average data)	**Compensation expense Nine months ended September 30**		**Total non-vested compensation cost not yet recognized**	**Weighted average life remaining**
			As of September 30	
Award	**2006**	**2005**	**2006**	**2006**
NQSO s	$ 3	$ 3	$ 9	1.2
DSU s	1	2		
RSU s	7	5	19	1.2
PU s	2		5	2.3
Total	$ 13	$ 10	$ 33	

Note 11 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.

Dilutive effect for equity compensation The outstanding NQSO s, non-vested RSU s, DSU s and PU s are not considered outstanding for purposes of computing basic earnings per share. However, these instruments are included in the denominator for purposes of computing diluted earnings per share under the treasury stock method or the if-converted method. The dilutive effect of the potential exercise of outstanding NQSO s, non-vested RSU s and PU s are calculated using the treasury stock method. The dilutive effects of the DSU s are included in the denominator for purposes of computing diluted earnings per share under the if-converted method.

Dilutive effect for equity instruments NRG s outstanding 4% Preferred Stock, 3.625% Preferred Stock and 5.75% Preferred Stock are not considered outstanding for purposes of computing basic earnings per share. However, these instruments are considered for inclusion in the denominator for purposes of computing diluted earnings per share under the if-converted method.

The reconciliation of basic earnings per common share to diluted earnings per share is shown in the table below:

	Three months ended September 30		Nine months ended September 30	
(In millions, except per share data)	**2006**	**2005**	**2006**	**2005**
Basic earnings per share				
Numerator:				
Income/(Loss) from continuing operations	$ 373	$ (37)	$ 588	$ (4)
Preferred stock dividends	(14)	(5)	(38)	(14)
Net income/(loss) available to common stockholders from continuing operations	359	(42)	550	(18)
Discontinued operations, net of income tax expense	49	10	63	24
Net income/(loss) available to common stockholders	$ 408	$ (32)	$ 613	$ 6
Denominator:				
Weighted average number of common shares outstanding	136.2	83.5	130.3	85.9
Basic earnings per share:				
Income/(Loss) from continuing operations	$ 2.64	$ (0.51)	$ 4.22	$ (0.21)
Discontinued operations, net of income tax expense	0.36	0.12	0.48	0.28
Net income/(loss)	$ 3.00	$ (0.39)	$ 4.70	$ 0.07
Diluted earnings per share				
Numerator:				
Net income/(loss) available to common stockholders from continuing operations	$ 359	$ (42)	$ 550	$ (18)
Add preferred stock dividends for dilutive preferred stock	11		32	
Adjusted income/(loss) from continuing operations	370	(42)	582	(18)
Discontinued operations, net of tax	49	10	63	24
Net income/(loss) available to common stockholders	$ 419	$ (32)	$ 645	$ 6
Denominator:				
Weighted average number of common shares outstanding	136.2	83.5	130.3	85.9
Incremental shares attributable to the issuance of non-vested RSU s (treasury stock method)	0.9		0.8	
Incremental shares attributable to the assumed conversion of DSU s (if-converted method)	0.1		0.1	
	0.5		0.5	

Incremental shares attributable to the issuance of non-vested NQSO s (treasury stock method)								
Incremental shares attributable to the assumed conversion of convertible preferred stock (if-converted method)		20.8				19.6		
Total dilutive shares		158.5		83.5		151.3		85.9
Diluted earnings per share:								
Income/(Loss) from continuing operations	$	2.34	$	(0.51)	$	3.85	$	(0.21)
Discontinued operations, net of tax		0.31		0.12		0.41		0.28
Net income/(loss)	$	2.65	$	(0.39)	$	4.26	$	0.07

For the three and nine months ended September 30, 2006, options to purchase 40,364 and 620,985, respectively, of shares of common stock were not included in the computation because the effect would have been anti-dilutive.

For the three and nine months ended September 30, 2005, none of NRG s outstanding convertible preferred shares were included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

Note 12 Segment Reporting

NRG s identified reportable segments are primarily based on geographic areas, both domestic and foreign. On February 2, 2006 NRG acquired Texas Genco LLC now referred to as NRG Texas creating a new segment of operations Wholesale Power Generation Texas.

As of December 31, 2005, interest bearing intercompany debt was issued to certain subsidiaries in the Northeast and South Central segments that resulted in increased interest expense. This reduced the segments net income for the three and nine months ended September 30, 2006, by $15 million and $49 million for the Northeast segment and $7 million and $23 million for the South Central segment, respectively. During the third quarter 2005, such interest expense was immaterial to both segments.

Three months ended September 30, 2006

(In millions)	Wholesale Power Generation							All Other			
	Texas	Northeast	South Central	West	Other North America	Australia	Other International	Alternative Energy	Non-Generation	Other	Total
Operations											
Operating revenues	$ 1,151	$ 501	$ 165	$ 59	$ 6	$	$ 45	$	$ 38	$ 35	$ 2,000
Depreciation and amortization	104	22	15		3		1		3		148
Equity in earnings of unconsolidated affiliates				3		5	9				17
Income/(Loss) from continuing operations before income taxes	480	150	24	13	(7)	6	21	(1)	2	(80)	608
Net income/(loss) from continuing operations	445	150	24	13	(6)	5	17	(1)	(1)	(273)	373
Net income/(loss) from discontinued operations, net of income taxes						(10)	61	(2)			49
Net income/(loss)	$ 445	$ 150	$ 24	$ 13	$ (6)	$ (5)	$ 78	$ (3)	$ (1)	$ (273)	$ 422
Total assets	$ 12,717	$ 1,583	$ 895	$ 201	$ 222	$ 180	$ 1,058	$ 28	$ 1,591	$ 1,246	$ 19,721

Three months ended September 30, 2005

(In millions)	Wholesale Power Generation						All Other			
	Northeast	South Central	West	Other North America	Australia	Other International	Alternative Energy	Non-Generation	Other	Total
Operations										

Operating revenues	$ 439	$ 175	$ 1	$ 6	$	$ 41	$	$ 42	$ (17)	$ 687
Depreciation and amortization	19	16		2		1		2	1	41
Equity in earnings of unconsolidated affiliates			7	7	6	9				29
Income/(Loss) from continuing operations before income taxes	4	(8)	6	(2)	6	22		13	(68)	(27)
Net income/(loss) from continuing operations	4	(8)	6	(2)	5	17	(1)	11	(69)	(37)
Net income/(loss) from discontinued operations, net of income taxes				(1)	(1)		12			10
Net income/(loss)	$ 4	$ (8)	$ 6	$ (3)	$ 4	$ 17	$ 11	$ 11	$ (69)	$ (27)

	Nine months ended September 30, 2006										
	Wholesale Power Generation							All Other			
(In millions)	**Texas [a]**	**Northeast**	**South Central**	**West [b]**	**Other North America**	**Australia**	**Other International**	**Alternative Energy**	**Non-Generation**	**Other**	**Total**
Operations											
Operating revenues	$ 2,498	$ 1,196	$ 431	$ 108	$ 7	$	$ 131	$	$ 126	$ (18)	$ 4,479
Depreciation and amortization	309	66	45	1	7		2		9	4	443
Equity in earnings of unconsolidated affiliates				2	2	17	25				46
Income/(Loss) from continuing operations before income taxes	765	333	53	17	53	17	61	(1)	19	(405)	912
Net income/(loss) from continuing operations	719	333	53	19	53	14	47	(1)	13	(662)	588
Net income/(loss) from discontinued operations, net of income taxes					9	(11)	61	4			63
Net income/(loss)	$ 719	$ 333	$ 53	$ 19	$ 62	$ 3	$ 108	$ 3	$ 13	$ (662)	$ 651

(a) For the period February 2, 2006 to September 30, 2006.

(b) Includes results of WCP for the period April 1, 2006 to

September 30, 2006.

	Nine months ended September 30, 2005									
	Wholesale Power Generation						All Other			
(In millions)	Northeast	South Central	West	Other North America	Australia	Other International	Alternative Energy	Non-Generation	Other	Total
Operations										
Operating revenues	$ 1,087	$ 401	$ 1	$ 12	$	$ 123	$	$ 119	$ (20)	$ 1,723
Depreciation and amortization	56	46		5		3		8	3	121
Equity in earnings of unconsolidated affiliates			19	10	18	35				82
Income/(Loss) from continuing operations before income taxes	76	(6)	15	(14)	18	91	(2)	21	(179)	20
Net income/(loss) from continuing operations	76	(6)	15	(16)	14	78	(3)	18	(180)	(4)
Net income from discontinued operations, net of income taxes				2	4		18			24
Net income/(loss)	$ 76	$ (6)	$ 15	$ (14)	$ 18	$ 78	$ 15	$ 18	$ (180)	$ 20

Note 13 Income Taxes

Income tax expense for the three and nine months ended September 30, 2006 was $235 million and $324 million, respectively, compared to income tax expense of $10 million and $24 million, respectively, for the corresponding periods in 2005. The income tax expense for the nine months ended September 30, 2006 included domestic tax expense of $307 million and foreign tax expense of $17 million. The income tax expense for the nine months ended September 30, 2005 included domestic tax expense of $6 million and foreign tax expense of $18 million.

A reconciliation of the U.S. statutory rate to NRG s effective tax rate from continuing operations for the nine months ended September 30, 2006 and 2005 is as follows:

	Nine months ended September 30	
(In millions except rate data)	**2006**	**2005**
Income From Continuing Operations Before Income Taxes	$ 912	$ 20
Tax at 35%	319	7
State taxes	47	(4)
Valuation allowance	2	20
Disputed claims reserve	(29)	
Foreign operations	(23)	(11)
Permanent differences including subpart F income	8	12
Income Tax Expense	$ 324	$ 24
Effective income tax rate	35.5%	120.0%

The effective income tax rate for the nine months ended September 30, 2006 and 2005 differs from the U.S. statutory rate of 35% due to a current tax benefit, a property basis difference relating to disbursements from the disputed claims reserve, subpart F income and dividends, and 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 For the nine months ended September 30, 2006, NRG s domestic net deferred tax asset decreased by $476 million resulting in a domestic net deferred tax asset of $280 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 $432 million of domestic tax assets, thus a valuation allowance has remained, resulting in a domestic net deferred tax liability of $152 million.

As a result of the reduction in NRG s domestic net deferred tax assets, the Company s domestic valuation allowance was also reduced. In accordance with SOP 90-7, this movement reduced intangibles by $219 million and reduced NRG s tax expense by $8 million for the nine months ended September 30, 2006. As a result of losses incurred at some of NRG s foreign locations, the Company established approximately $10 million of additional foreign valuation allowances. Therefore, as of September 30, 2006, a valuation allowance of $508 million remained against NRG s total domestic and foreign net deferred tax assets.

Acquisition of NRG Texas On a preliminary basis, NRG established a deferred tax asset of $1.575 billion and $1.560 billion of deferred tax liabilities in purchase accounting as a result of the acquisition of NRG Texas.

NOL carryforwards As of September 30, 2006, the Company had NOL carryforwards available for federal income tax purposes of $271 million that will expire through 2026, including $15 million of NOL which is eligible for carryback to prior periods.. In addition, NRG has cumulative foreign NOL carryforwards of $270 million that do not have an expiration date.

Note 14 Benefit Plans and Other Postretirement Benefits, or OPEB

Substantially all employees hired prior to December 5, 2003 were eligible to participate in NRG s defined benefit pension plans. NRG initiated a noncontributory, defined benefit pension plan effective January 1, 2004, with credit for service from December 5, 2003. In addition, NRG provides postretirement health and welfare benefits (health care and death benefits) for certain groups of employees. Generally, these are groups that were acquired in recent years and for whom prior benefits are being continued (at least for a certain period of time or as required by union contracts). Cost sharing provisions vary by acquisition group and terms of any applicable collective bargaining agreements. As of September 30, 2006, NRG had contributed $39 million of the estimated $58 million expected to be contributed to NRG s pension plans in 2006.

As a result of the acquisition of NRG Texas, NRG assumed responsibility for the assets and liabilities of the NRG Texas pension and retiree welfare plans. This pension plan is a noncontributory defined benefit pension plan that provides cash balance benefits based on all years of service to employees who were employed prior to January 1, 2005. In addition, employees who were hired prior to 1999 are also eligible for grandfathered benefits under a final average pay formula. In most cases, the benefits under the grandfathered formula will be frozen by December 31, 2008.

The NRG Texas employees are also covered under an unfunded postretirement health and welfare plan. Each year, employees receive a fixed credit of $750 to their account plus interest. Certain grandfathered employees will receive additional credits through 2008. At retirement, the employees may use their accounts to purchase retiree medical and dental benefits from NRG. NRG s costs are limited to the amounts earned in the employee s account; all other costs are paid by the participant. The net periodic pension cost relating to the NRG Texas defined benefit plan for the three and nine months ended September 30, 2006 was $3 million and $8 million, respectively and $1 million for the nine months ended September 30, 2006 for its other postretirement benefits plans. The net periodic expense related to NRG Texas s other postretirement benefit plans for the three months ended September 30, 2006 was immaterial. These amounts are included in the tables below.

Components of Net Periodic Benefit Cost

The components of net pension and postretirement benefit costs were as follows:

	Defined Benefit Pension Plans			
	Three months ended September 30		Nine months ended September 30	
(In millions)	**2006**	**2005**	**2006**	**2005**
Service cost benefits earned	$ 4	$ 2	$ 13	$ 8
Interest cost on benefit obligation	4	1	12	3
Expected return on plan assets	(2)		(5)	
Net periodic benefit cost	$ 6	$ 3	$ 20	$ 11

	Other Postretirement Benefits Plans			
	Three months ended September 30		Nine months ended September 30	
(In millions)	**2006**	**2005**	**2006**	**2005**
Service cost benefits earned	$ 1	$	$ 2	$ 1
Interest cost on benefit obligation	1	1	3	2
Net periodic benefit cost	$ 2	$ 1	$ 5	$ 3

Note 15 Commitments and Contingencies

Lease Commitments

With the acquisition of Texas Genco LLC, NRG s operating lease commitments increased significantly. This increase was primarily due to the anticipated commencement of leases for 2,695 railcars over the next two years. As of September 30, 2006, approximately 810 of the railcars had been delivered and were under lease for future commitments of approximately $91 million, all relating to NRG Texas.

Coal, Gas and Transportation Commitments

As a result of the acquisition of Texas Genco LLC, NRG s coal, lignite, and gas purchase and transportation commitments have increased significantly. Future minimum payments under these agreements relating to NRG Texas for the following years are as follows:

Year		(In millions)
October 1, 2006 December 31, 2006	$	185
2007		730
2008		715
2009		719
2010		440
Thereafter		2,152
Total	$	4,941

Legal Issues

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 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 affect 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. In December 2002, the district court found that federal jurisdiction was absent and remanded the cases back to state court. On June 22, 2002, the case was again removed to Federal Court and plaintiffs filed a motion to remand which was granted. Defendants appealed to the U.S. Court of Appeals for the Ninth Circuit and it stayed the remand order pending its decision. On December 8, 2004, the Ninth Circuit affirmed the district court in most respects, and on March 3, 2005, the Ninth Circuit denied a motion for rehearing. 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. Briefs were filed by the plaintiffs on June 16, 2006, and by the defendants on August 30, 2006. 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.

On June 28, 2006, Dynegy executed a term sheet agreeing in principle to settle the class action claims in the natural gas anti-trust cases consolidated and pending in state court in San Diego, California. WCP and some of its subsidiaries are named defendants and Dynegy s settlement would include 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. The settlement was finalized in September 2006 and preliminarily approved by the court. It however 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.

On September 26, 2006, the plaintiffs in *Jerry Egger, et all versus Dynegy Inc., et al,* Case No. 809822, Superior Court of California (filed May 1, 2003) filed a voluntary notice of dismissal. Neither WCP and its subsidiaries nor NRG paid any defense costs 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 by the end of 2006. Neither WCP, it 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.

On May 17, 2006, the U.S. Bankruptcy Court for the Southern District of New York granted NRG s motion to disallow all pre-bankruptcy claims filed against NRG related to the California energy crisis in 2000 and 2001.

On August 2, 2006, the U.S. Court of Appeals for the Ninth Circuit in the case of *Public Utilities Commission of the State of California v. FERC, No. 01-71051* upheld in part and reversed in part several FERC orders and remanded the case back to FERC for further proceedings consistent with the decision. The case arose on a petition for review of a series of FERC orders wherein California sought certain refunds for prices paid for power by consumers and businesses. NRG does not believe it will be impacted by this decision.

FERC Proceedings

There are proceedings in which WCP and WCP subsidiaries are parties, which either are pending before FERC or on appeal from FERC to various U.S. Courts of Appeal. These cases involve, among other things, allegations of physical withholding, a FERC-established price mitigation plan determining maximum rates for wholesale power transactions in certain spot markets, and the enforceability of, and obligations under, various contracts with, among others, the CAISO, CDWR, and the State of California. The CDWR claim involves a February 2002 complaint filed by the State of California demanding that FERC abrogate the CDWR contract between the State and subsidiaries of WCP and seeks refunds associated with revenues collected from CDWR by WCP. In 2003, FERC rejected this demand and subsequently denied rehearing. The case was appealed to the U.S. Court of Appeals for the Ninth Circuit where all briefs were filed and oral argument was held December 8, 2004. Dynegy is indemnified by WCP and WCP is responsible for any loss associated with this CDWR litigation unless any such loss is deemed to have resulted from Dynegy s gross negligence or willful misconduct, in which case any such loss would be shared by the parties equally.

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.

New York Public Interest Research Group

On October 24, 2005, the U.S. Court of Appeals for the Second Circuit issued its opinion in *New York Public Interest Research Group or NYPIRG v. Stephen L. Johnson; Administrator; U.S. Environmental Protection Agency.* In 2000, the NYSDEC issued a NOV to the prior owner of the Huntley and Dunkirk stations. After an unsuccessful administrative challenge to the stations Title V air quality permits by NYPIRG, it appealed on October 31, 2003. The Second Circuit held that, during the Title V permitting process for the two stations, the 2000 NOV should have been sufficient for the NYSDEC to have made a finding that the stations were out of compliance. Accordingly, the court stated that the EPA should have objected to the Title V permits on that basis and the permits should have included compliance schedules. All petitions for rehearing before the court were denied. On June 3, 2005, the consent decree among NYSDEC, Niagara Mohawk Power Corporation, or NiMo, and NRG was entered in federal court, settling the substantive issues discussed by the Second Circuit in its decision. NYSDEC is now in the process of incorporating the consent decree obligations into the Huntley and Dunkirk Title V permits so as to make them permit conditions, an action NRG believes is supported by the Second Circuit s decision.

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 some or all of the disputes in the action. In a companion 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. As a result, during the second quarter 2006, NRG reduced by $18 million its reserve related to the matter. On October 23, 2006, the D.C. Circuit denied NiMo s petition for rehearing. NRG 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 their appointed arbitrators. The neutral arbitrator has yet to be selected. NRG believes it is adequately reserved.

Itiquira Energetica, S.A.

NRG s Brazilian project company, Itiquira Energetica S.A., or Itiquira, the owner of a 156 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 Itiquira in September 2002 and pertains to certain matters arising under the EPC contract between the parties. Itiquira sought Real 140 million and asserted that Inepar breached the contract. Inepar sought Real 39 million and alleged that Itiquira breached the contract. On September 2, 2005, the arbitration panel ruled in favor of Itiquira, 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, Itiquira s award was increased to approximately Real 227 million (approximately $97 million as of December 31, 2005). Itiquira 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.

CFTC Trading Litigation

On July 1, 2004, the Commodities Futures Trading Commission, or CFTC, filed a civil complaint against NRG in Minnesota federal district court, alleging false reporting of natural gas trades from August 2001 to May 2002, and seeking an injunction against future violations of the Commodity Exchange Act. In May 2004, the U.S. Bankruptcy Court presiding over NRG s chapter 11 bankruptcy reorganization expunged the CFTC s proof of claim. On March 15, 2005, NRG s motion to dismiss was granted by the federal district court. On May 13, 2005, the CFTC filed a notice of appeal with the U.S. Court of Appeals for the Eighth Circuit. On August 2, 2006, the court reversed the district court s dismissal of the CFTC s action against NRG seeking a permanent injunction against future violations of the Commodities Exchange Act. The case was remanded back to the district court for further proceedings consistent with the decision. On November 17, 2004, a bankruptcy court hearing was held on the CFTC s motion to reinstate its expunged bankruptcy claim, and on NRG s motion to enforce the provisions of the NRG plan of reorganization, thereby precluding the CFTC from continuing its federal court action. The bankruptcy court has yet to schedule a hearing or rule on the CFTC s pending motion to reinstate its expunged claim.

Texas Asbestos Litigation

Several of NRG s plants are the subject of lawsuits, primarily commenced in 2001, against numerous defendants by a large number of individuals who claimed personal injury due to alleged exposure to asbestos while working at plant sites in Texas. These are premise-based claims as distinguished from product-based claims. The overwhelming majority of these claimants are third party contractors or sub-contractors who participated in the construction, renovation, and/or repair of various industrial plants, including power plants. As of September 30, 2006, there were 3,386 pending claims. During the third quarter 2006, there were two claims filed, three claims settled, and 33 claims dismissed or otherwise resolved with no payment. For the nine months ended September 30, 2006, there were three claims filed, seven claims settled, and 222 claims dismissed or otherwise resolved with no payment. While ultimate financial responsibility for uninsured losses relating to asbestos claims has been assumed by NRG, CenterPoint Energy has agreed to continue to indemnify such claims to the extent they are covered by insurance maintained by CenterPoint Energy, subject to reimbursement of the costs of such defense from NRG. To date, costs of settlement and defense have not been material and a portion of the payments in respect of these claims has been offset by insurance recoveries.

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 October 11, 2006, the reserve held approximately $10 million in cash and approximately 692,000 shares of common stock. NRG believes the cash and stock together represent sufficient funds to satisfy all remaining disputed claims.

Bourbonnais Agreements

On January 31, 2006, NRG finalized a stipulation and settlement agreement with an equipment manufacturer related to turbine purchase agreements entered into in 1999 and 2001. The stipulation fixes the amount and provides for the allowance of the equipment manufacturer s proof of claim previously filed during NRG s bankruptcy proceeding. The settlement agreement provides for a $6 million payment by NRG to the equipment manufacturer, and the release of all claims NRG Bourbonnais and NRG have for the return of payments made under the 1999 and 2001 turbine purchase agreements. Under the settlement agreement, NRG received certain equipment valued at $55 million as well as a one-year option to purchase new-build equipment for a fixed price. During the first quarter 2006, NRG recorded approximately $67 million of other income associated with the settlement due to reversal of accounts payable totaling $35 million resulting from the discharge of the previously recorded liability, and an adjustment to write up the value of the equipment received to its fair value, resulting in income of approximately $32 million.

Note 16 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 level and in the regions in which NRG operates.

Texas Region

As a result of the Acquisition, NRG has become the beneficiary of decommissioning trusts that have been established to provide funding for decontamination and decommissioning of STP in which NRG owns a 44% interest. CenterPoint Energy Houston Electric, LLC, or CenterPoint, and American Electric Power, or AEP, collect, through rates or other authorized charges to their electric utility customers, amounts designated for funding NRG s portion of the decommissioning of the facility. In the event funds from the trusts are inadequate to fund NRG s ownership portion of the actual decommissioning costs, CenterPoint and AEP or their successors will be required to collect through rates or other authorized charges to customers as contemplated by the Texas Utility Code all additional amounts required to fund NRG s obligations relating to the decommissioning of the facility. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trust, the excess will be refunded to the ratepayers of CenterPoint, AEP, or their successors. The fair value of the trust assets are reflected as a non-current asset with an associated long-term liability to reflect the future obligation to fund the decommissioning of the facility from the trust assets or to refund or collect additional amounts from the ratepayers of CenterPoint, AEP or their successors.

In addition to the nuclear decommissioning trusts, NRG has recorded asset retirement obligations and liabilities in accordance with SFAS 143. The assets and liabilities were recorded on the respective acquisition dates based on the estimated future costs of decontamination and decommissioning of NRG s 44% interest in STP. The asset is being amortized over the remaining licensing period for STP and is reflected as a component of property, plant and equipment. The Asset Retirement Obligation, or ARO, accretion is being recognized with the associated liability.

As of September 30, 2006, the trust assets had a market value of $331 million. The unamortized portion of the retirement obligation asset was $266 million. The decommission liability was $319 million, and the reserve to fund the decommissioning from the trust assets and payments to or from ratepayers was $278 million. In accordance with SFAS 71, and due to the fact that NRG does not have any economic exposure for these decommissioning responsibilities, changes in the related assets and liabilities are not reflected in the statement of operations. As such, the total carrying value of all assets and all liabilities associated with the decommissioning and the trusts will always be equal.

Northeast Region

New England On March 7, 2006, a broad group of New England market participants filed a proposed settlement that 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. The FCM to be established by the settlement will operate on an annual descending clock forward capacity auction, by which ISO-NE will obtain the installed capacity requirement of New England, which is normally three years in advance. For the Company s Connecticut units subject to RMR Agreements, any transition payment will be credited against the monthly availability payment for those units, resulting in no additional revenues for those units. NRG s other New England generation units are expected to be eligible for the transition payments. On June 16, 2006, FERC issued an order accepting the proposed settlement.

FERC accepted revised RMR agreements for the Devon, Middleton and Montville stations on February 1, 2006, establishing them effective January 1, 2006, and providing for the continued operation of the stations as RMR facilities. The Devon RMR Agreement will terminate ninety days after the commencement of the Locational Forward Reserve Market, or LFRM, but no earlier than January 1, 2007. On May 12, 2006, FERC accepted ISO-NE s Ancillary Service Market Phase II package that includes the LFRM, granting the requested effective date of October 1, 2006, and thus triggering the termination of the Devon RMR Agreement effective January 1, 2007. On October 5, 2006, FERC accepted proposed revisions to the Devon RMR Agreement clarifying that, should the Devon units participate in the LFRM; the units will have to comply with the requirements of that market. Unless terminated earlier, the Middletown and Montville RMR agreements are expected to terminate upon the commencement of the FCM.

On February 15, 2006, NRG reported to FERC and to ISO-NE that for two days in January 2006, after unit 12 at the Devon station had been removed from service for needed maintenance, it was erroneously reported to ISO-NE as available. NRG further reported that when ISO-NE dispatched the Devon units on January 25, 2006, and unit 12 was unable to respond, inaccurate information was provided to ISO-NE. On March 28, 2006, NRG was advised by FERC that it had commenced a preliminary, non-public, informal investigation into the January 25, 2006, ISO-NE dispatch. That same day, FERC also issued to NRG a data request. On April 24, 2006, NRG submitted to FERC an initial response to the data request and made additional submissions during the second and third quarters of 2006. On June 21, 2006, and on October 5, 2006, NRG received supplemental data requests from FERC to which NRG has responded. NRG continues to investigate the matter and is cooperating with FERC and ISO-NE. The outcome of this investigation cannot be predicted at this time.

On October 11, 2006, FERC denied the complaint filed on September 12, 2005 by Richard Blumenthal, Attorney General for the State of Connecticut against ISO-NE that sought to amend the ISO-NE s market rules to require all electric generation facilities not currently operating under an RMR agreement in Connecticut to be placed under cost-of-service rates.

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 on November 17, 2005. These orders have subsequently been appealed to the D.C. Circuit which has already issued a briefing order. Resettlement of the market, while viewed as unlikely could have a material financial impact.

On April 19, 2006, a settlement was reached with respect to high prices in the NYISO energy market on May 8 and 9, 2000. At issue were material amounts paid to NRG for power delivered on those dates. As a result of the settlement, NRG will retain the amounts paid to it in 2005 and received additional non-material amounts. The settlement was filed with FERC on May 25, 2006 and on July 12, 2006, FERC issued an order accepting the proposed settlement.

On March 15, 2006, NRG received the results from NYISO Market Monitoring Unit s review of NRG s Astoria plant s 2004 Generating Availability Data System reporting. This audit may result in the resettlement of NRG s capacity revenues from the Astoria facility due to a redetermination of the amount of available capacity. NRG is currently in settlement discussions with the NYISO, and has established a reserve.

West Region

On October 11, 2006, the Nevada Public Utilities Commission, or NPUC, dismissed the Petition for Declaratory Order filed on August 18, 2006, by Nevada Power Company, or NPC, regarding its contract with Saguaro Power, which owns a cogeneration facility in Henderson, Nevada. The Saguaro facility is a Qualifying Facility and sells energy and capacity to NPC pursuant to a long-term contract in accordance with the Public Utility Regulatory Policy Act of 1978. In the petition, NPC sought, among other things, to modify certain provisions of the contract, or in the alternative, terminate the contract which would have harmed the materially affected project financially.

Note 17 Environmental Matters

The construction and operation of power projects are subject to stringent environmental, 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 extensive modifications to further reduce potential environmental impacts. In general, the effect of future laws or regulations is expected to require the addition of pollution control equipment or the imposition of restrictions on the Company s operations.

Environmental Capital Expenditures

NRG has estimated that approximately $1.3 billion of environmental capital expenditures will be incurred during the period 2007 through 2012 in order to keep NRG s facilities in compliance with environmental laws, primarily related to installation of particulate, SO_2, NO_X, and mercury controls to comply with CAIR and Clean Air Mercury rules, as well as installation of BTA under the Phase II 316(b) Rule. NRG updates its expected environmental retrofit plan and associated 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.

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 the 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 joint and several liabilities. The cost of investigation, remediation or removal of any hazardous or toxic substances or petroleum products could be substantial.

Northeast Region

Remedial obligations at the Arthur Kill generating station have been established in discussions between NRG and the NYSDEC and are estimated to be approximately $2 million. Remedial investigations continue at the Astoria generating station with long-term clean-up liability expected to be also approximately $2 million. NRG may be required to remediate historical coal tar contamination and record a deed restriction on the Astoria property if significant contamination is to remain in place. NRG will implement a remedial action plan over the next eight years to address historical ash contamination at other facilities in the Northeast region. The total estimated cost at these facilities is not expected to exceed $2 million.

As a result of a small 2001 underground fuel line leak at the Company s Vienna Generating Station, NRG submitted a plan for remediation to the Maryland Department of the Environment, or MDE. The MDE has not formally responded. The remediation in connection with this matter is not expected to materially impact NRG s financial results.

In January 2006, NRG Indian River Operations, Inc. received a letter of informal notification from Delaware Department of Natural Resources and Environmental Control, or DNREC, stating that it may be a potentially responsible party with respect to a historic captive landfill. NRG is working with the DNREC, through the Voluntary Clean-up Program, to investigate the site. The Company is unable to predict the financial impact at this time.

South Central Region

On January 27, 2004, Louisiana Generating, LLC and Big Cajun II received a request under Section 114 of the CAA from USEPA seeking information primarily related to physical changes made at Big Cajun II and subsequently received a notice of violation, or NOV, based on alleged NSR violations. NRG submitted multiple responses commencing on February 27, 2004 through 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 Louisiana Generating, LLC s offices by the DOJ during the week of August 14, 2006. Following the review, Louisiana Generating, LLC has forwarded requested copies of certain documents to the DOJ.

West Region

The Asset Purchase Agreements under which NRG acquired the Long Beach, El Segundo, Encina, and San Diego gas turbine generating facilities provide that Southern California Edison, or SCE, and San Diego Gas & Electric, or SDG&E, as sellers retain liability, and indemnify NRG for existing soil and groundwater contamination that exceeds remedial thresholds in place at the time of closing. Having identified existing contamination, SDG&E has agreed to address contamination and is undertaking corrective action at the Encina and San Diego plant sites.

NRG remediated contamination from a 2002 oil leak at the El Segundo Generating Station. Contaminated soils beneath the foundation were left in place, with approval from the Los Angeles Regional Water Quality Control Board, for removal when the building is demolished.

As part of decommissioning the 32nd Street Naval Station combustion turbine facility in San Diego, investigation and remediation of contaminated soils in inaccessible areas may be required in the future. Although NRG is unable to predict the exact financial impact at this time, NRG believes the cost to remediate will not be material.

Note 18 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 purchase and sale agreements, commodity sale and purchase agreements, joint venture agreements, operations 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 many cases, NRG s maximum potential liability cannot be estimated, since some of the underlying agreements contain no limits on potential liability.

Below are the descriptions of material guarantees and should be read in conjunction with the complete descriptions under Note 29 *Guarantees and Other Contingent Liabilities* in NRG s Form 10-K for the fiscal year ended December 31, 2005.

On August 30, 2006, with the completion of the sale of Flinders, NRG guaranteed the payment and performance of the Flinders subsidiaries obligations under the sale and purchase agreement. Maximum liability of NRG is limited to the sale price of AU$317 million. In addition, with the completion of the sale, existing guarantees and indemnities of NRG related to Flinders were released.

With the acquisition of Texas Genco LLC, NRG assumed several guarantee obligations relating to Texas Genco LLC s entities. Under these guarantees, NRG has guaranteed the payment obligations of NRG Texas LP, formerly known as Texas Genco II LP, under commercial agreements to various parties. Maximum obligations under these guarantees as of September 30, 2006 were approximately $35 million.

On June 1, 2006, NRG, through its wholly-owned entities NRG Caymans C and NRG Caymans P entered into an agreement to sell its investments in Latin America Power entities to a subsidiary of Australia Post. The agreement includes an indemnity from the companies relating to costs incurred by the buyer for breach of representations, warranties or covenants contained in the sale agreement. Liability for these companies is capped at approximately $23 million. No claim for a breach of representations or warranties can be brought after March 31, 2007.

On March 31, 2006, NRG purchased the remaining 50% interest in WCP from Dynegy. In conjunction with the purchase, NRG agreed to indemnify Dynegy, subject to certain caps and limitations, for breach of representations, warranties, covenants, and losses incurred under the CDWR litigation and certain California electricity-related litigation. For further information about the litigation, see Note 15.

On March 28, 2006, NRG executed a guarantee to the benefit of AmerenUE, the purchaser of NRG s Audrain generating assets. Pursuant to this agreement, NRG guaranteed the payment and performance of the Company and its subsidiaries obligations pursuant to the sale agreement. This guarantee extends to certain claims made within five years of the sale and the Company s maximum exposure under this guarantee is $10 million. In addition to this guarantee, NRG received a $2.75 million payment from the project lenders in consideration for retaining certain pre-closing tax liabilities related to the Audrain project. This payment was recorded within other non-current liabilities on NRG s consolidated balance sheet. In consideration for this payment, NRG agreed to indemnify the project lenders, subject to a $10 million cap for liabilities related to the pre-closing taxes applicable to the Audrain project.

In 2006, NRG executed a guarantee to the benefit each of two counterparties under the railcar lease described in Note 15. These guarantees cover payment and performance obligations of the Company s wholly-owned subsidiary, NRG Texas LP, under the relevant lease documents. NRG does not believe that it will be required to perform under this indemnity.

For the nine months ended September 30, 2006, NRG had net increases to its guarantee obligations under other commercial arrangements of approximately $463 million. These pertain to payment obligations of NRG Power Marketing Inc., or PMI.

Because many of the guarantees and indemnities NRG issues to third parties do not limit the amount or duration of the Company s obligations to perform under them, there exists a risk that NRG may have obligations in excess of the amounts described above. For those guarantees and indemnities that do not limit NRG s liability exposure, NRG may not be able to estimate what the Company s liability would be until a claim is made for payment or performance, due to the contingent nature of these contracts.

Note 19 Subsequent Event

On November 3, 2006, NRG announced its intention to enter into a series of transactions that includes (i) the reset of existing out-of-the-money hedges for years 2006 through 2010 to market, (ii) substantial new baseload hedges for the years 2010 and 2011 and, possibly, later years, (iii) the issuance of $1.1 billion of new high yield notes, and (iv) amendments to NRG s Senior Credit Facility, including the increase of the synthetic letter of credit facility by $500 million.

Resetting of Existing Hedges, or Hedge Reset NRG has entered into amendments of certain existing hedge agreements for the years 2006 through 2010, including hedge agreements with J.Aron & Company. These hedges were gas swaps and power contracts that were acquired as part of the acquisition of Texas Genco LLC, which closed on February 2, 2006. These hedges were entered into by Texas Genco at a time when power and natural gas prices were lower than they are today, and as a result, the hedges obligate NRG to sell power or natural gas at prices significantly below current market prices. Under the amended agreements, NRG has reset the pricing of these hedges to reflect current market prices, and has agreed to pay cash to the hedge counterparties in amounts that reflect a negotiated present value of the difference between the original prices in the hedges and the amended prices. The total amount to be paid to the counterparties is expected to be approximately $1.35 billion.

The Hedge Reset will provide the flexibility through NRG s second lien structure to expand its hedges on baseload generation for an extended period, and will improve the Company s cash flows and credit profile which will contribute to the Company s ability to amend its existing senior credit facility.

New Hedges NRG has entered into, and will continue to enter into, new forward natural gas swaps contracts for the years 2010 and 2011, in order to hedge future power prices with respect to NRG s baseload power generation facilities in those years. As appropriate market opportunities arise, NRG will extend the hedging program to later years. As a result of these transactions, NRG will be significantly more hedged with respect to its baseload power generation through 2011. NRG s obligations under the New Hedges and Hedge Reset are or will be secured by second liens on substantially all of the assets of NRG and its subsidiaries, pursuant to NRG s existing second lien structure.

Issuance of New High Yield Notes NRG plans to finance the payments required in order to reset the existing hedges with cash on hand and with proceeds from the issuance of $1.1 billion of new high yield notes.

Amendment of Senior Credit Facility NRG plans to amend its existing Senior Credit Facility to accomplish, among other things, the following objectives:

- to permit the incurrence of the new debt represented by the new high yield notes;

- to increase the amount of the synthetic letter of credit facility by $500 million, from $1.0 billion to $1.5 billion;

- to increase the Available Amount, and effect a corresponding increase in NRG's restricted payments capacity, by $250 million; and

- to provide additional flexibility to NRG with respect to certain covenants governing or restricting the use of excess cash flow, new investments, new indebtedness and permitted liens.

The amendments to the existing hedges, the issuance of the new high yield notes, and the amendments to the Senior Credit Facility are expected to close by November 21, 2006. NRG has entered into bridge agreements with Merrill Lynch & Co. to assure that it has adequate financing to fund the amounts owed to the hedge counterparties, and Merrill Lynch & Co. has issued a commitment to NRG to refinance its Senior Secured Credit Facility if the desired amendments to the existing facilities cannot be procured.

Impact to Results of Operations NRG will account for the Hedge Reset as a net settlement of its current hedge positions and a subsequent reestablishment of new hedge positions. The impact of the net settlement will be recorded as a decrease to NRG s consolidated revenues with an offsetting increase in revenues from a reduction in the associated derivative liability and the associated out-of-market power contract balance established upon the Acquisition of NRG Texas.

Note 20 Condensed Consolidating Financial Information

As of September 30, 2006, the Company had $1.2 billion of 7.25% Senior Notes and $2.4 billion of 7.375% Senior Notes 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 September 30, 2006.

Arthur Kill Power LLC
Astoria Gas Turbine Power LLC
Berrians I Gas Turbine Power LLC
Big Cajun II Unit 4 LLC
Cabrillo Power I LLC
Cabrillo Power II LLC
Chickahominy River Energy Corp.
Commonwealth Atlantic Power LLC
Conemaugh Power LLC
Connecticut Jet Power LLC
Devon Power LLC
Dunkirk Power LLC
Eastern Sierra Energy Company
El Segundo Power LLC
El Segundo Power II LLC
GCP Funding Company, LLC
Hanover Energy Company
Huntley Power LLC
Indian River Operations Inc.
Indian River Power LLC
James River Power LLC
Kaufman Cogen LP
Keystone Power LLC
Long Beach Generation LLC
Louisiana Generating LLC
Middletown Power LLC
Montville Power LLC
NEO California Power LLC
NEO Chester-Gen LLC
NEO Corporation
NEO Freehold-Gen LLC
NEO Landfill Gas Holdings Inc.
NEO Power Services Inc.
New Genco GP, LLC
New Genco LP, LLC
Norwalk Power LLC
NRG Affiliate Services Inc.
NRG Arthur Kill Operations Inc.
NRG Asia-Pacific, Ltd.
NRG Astoria Gas Turbine Operations Inc.
NRG Bayou Cove LLC
NRG Generation Holdings, Inc.
NRG Cabrillo Power Operations Inc.
NRG California Peaker Operations LLC
NRG Texas LP
NRG Texas LLC
NRG Connecticut Affiliate Services Inc.
NRG Devon Operations Inc.
NRG Dunkirk Operations Inc.
NRG El Segundo Operations Inc.
NRG Huntley Operations Inc.
NRG International LLC
NRG Kaufman LLC
NRG Mid Atlantic Affiliate Services Inc.
NRG Mesquite LLC
NRG Middletown Operations Inc.
NRG Montville Operations Inc.
NRG New Jersey Energy Sales LLC
NRG New Roads Holdings LLC
NRG North Central Operations Inc.
NRG Northeast Affiliate Services Inc.
NRG Norwalk Harbor Operations Inc.
NRG Operating Services, Inc.
NRG Oswego Harbor Power Operations Inc.
NRG Power Marketing Inc
NRG Rocky Road LLC
NRG Saguaro Operations Inc.
NRG South Central Affiliate Services Inc.
NRG South Central Generating LLC
NRG South Central Operations Inc.
NRG South Texas LP
NRG West Coast LLC
NRG Western Affiliate Services Inc.
Oswego Harbor Power LLC
Saguaro Power LLC
Somerset Operations Inc.
Somerset Power LLC
Texas Genco Financing Corp.
Texas Genco GP, LLC
Texas Genco Holdings, Inc.
Texas Genco LP, LLC
Texas Genco Operating Services, LLC
Texas Genco Services, LP
Vienna Operations Inc.
Vienna Power LLC
WCP (Generation) Holdings LLC

NRG Cadillac Operations Inc.	West Coast Power 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.

NRG Energy, Inc. and Subsidiaries
Condensed Consolidating Statements of Operations
For the Three Months Ended September 30, 2006
(Unaudited)

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc.	Eliminations (a)	Consolidated Balance
Operating Revenues					
Revenues from majority-owned operations	$ 1,903	$ 96	$ 1	$	$ 2,000
Operating Costs and Expenses					
Cost of majority-owned operations	995	63	(3)		1,055
Depreciation and amortization	141	6	1		148
General, administrative and development	26	4	49		79
Total operating costs and expenses	1,162	73	47		1,282
Operating Income/(Loss)	741	23	(46)		718
Other Income/(Expense)					
Equity in earnings of consolidated subsidiaries	94		480	(574)	
Equity in earnings of unconsolidated affiliates	2	15			17
Write downs and losses on sales of equity method investments	(2)	(1)			(3)
Other income, net	(12)	17	36	(11)	30
Interest expense	(33)	(22)	(110)	11	(154)
Total other income/(expense)	49	9	406	(574)	(110)
Income/(Loss) From Continuing Operations Before Income Taxes	790	32	360	(574)	608
Income tax expense/(benefit)	289	10	(64)		235
Income From Continuing Operations	501	22	424	(574)	373
Income/(losses) from discontinued operations, net of income tax expense (benefit)		51	(2)		49
Net Income	$ 501	$ 73	$ 422	$ (574)	$ 422

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

NRG Energy, Inc. and Subsidiaries
Condensed Consolidating Statements of Operations
For the Nine Months Ended September 30, 2006
(Unaudited)

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc.	Eliminations (a)	Consolidated Balance
Operating Revenues					
Revenues from majority-owned operations	$ 4,218	$ 261	$	$	$ 4,479
Operating Costs and Expenses					
Cost of majority-owned operations	2,298	178	2		2,478
Depreciation and amortization	420	19	4		443
General, administrative and development	73	11	136		220
Total operating costs and expenses	2,791	208	142		3,141
Operating Income/(Loss)	1,427	53	(142)		1,338
Other Income/(Expense)					
Equity in earnings of consolidated subsidiaries	130		911	(1,041)	
Equity in earnings of unconsolidated affiliates	3	43			46
Write downs and gains/(losses) on sales of equity method investments	(5)	13			8
Other income, net	14	93	26	(15)	118
Refinancing expense			(178)		(178)
Interest expense	(170)	(47)	(218)	15	(420)
Total other income/(expense)	(28)	102	541	(1,041)	(426)
Income/(Loss) From Continuing Operations Before Income Taxes	1,399	155	399	(1,041)	912
Income tax expense/(benefit)	530	44	(250)		324
Income From Continuing Operations	869	111	649	(1,041)	588
Income from discontinued operations, net of income tax expense		61	2		63
Net Income	$ 869	$ 172	$ 651	$ (1,041)	$ 651

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

NRG Energy, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet
September 30, 2006
(Unaudited)

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy Inc.	Eliminations(a)	Consolidated Balance
		ASSETS			
Current Assets					
Cash and cash equivalents	$ 36	$ 388	$ 964	$	$ 1,388
Restricted cash	1	73			74
Accounts receivable-trade, net	398	37	(2)		433
Inventory	385	12			397
Deferred income taxes	183	(20)	(104)		59
Derivative instruments valuation	956	5			961
Collateral on deposit in support of energy risk management activities	132				132
Prepayments and other current assets	89	38	737	(650)	214
Current assets discontinued operations		2	11		13
Total current assets	2,180	535	1,606	(650)	3,671
Net property, plant and equipment	11,264	406	16		11,686
Other Assets					
Investment in subsidiaries	712		9,451	(10,163)	
Equity investments in affiliates	32	287			319
Notes receivable, less current portion	998	468	4,460	(5,458)	468
Goodwill	1,547				1,547
Intangible assets, net	994	7			1,001
Intangible assets held-for-sale	53				53
Nuclear decommissioning trust fund	331				331
Derivative instruments valuation	346		14		360
Deferred income taxes		27			27
Other non-current assets	24	58	162		244
Non-current assets discontinued operations		1	13		14
Total other assets	5,037	848	14,100	(15,621)	4,364
Total Assets	$ 18,481	$ 1,789	$ 15,722	$ (16,271)	$ 19,721

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities					
Current portion of long-term debt and capital leases	$ 460	$ 93	$ 38	$ (468)	$ 123
Accounts payable	(988)	263	1,003		278
Deferred income taxes					
Derivative instruments valuation	901				901
Accrued expenses and other current liabilities	494	63	110	(182)	485
Current liabilities discontinued operations		3	5		8
Total current liabilities	867	422	1,156	(650)	1,795
Other Liabilities					
Long-term debt and capital leases	4,460	752	8,072	(5,458)	7,826
Nuclear decommissioning reserve	278				278
Nuclear decommissioning trust liability	319				319
Deferred income taxes	240	(79)	201		362
Derivative instruments valuation	342	6	21		369
Out-of-market contracts	2,128				2,128
Other non-current liabilities	346	25	15		386
Non-current liabilities discontinued operations			5		5
Total non-current liabilities	8,113	704	8,314	(5,458)	11,673
Total liabilities	8,980	1,126	9,470	(6,108)	13,468
Minority interest		1			1
3.625% Preferred Stock			247		247
Stockholders Equity	9,501	662	6,005	(10,163)	6,005
Total Liabilities and Stockholders Equity	$ 18,481	$ 1,789	$ 15,722	$ (16,271)	$ 19,721

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

NRG Energy, Inc. and Subsidiaries
Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2006
(Unaudited)

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc.	Eliminations (a)	Consolidated Balance
Cash Flows from Operating Activities					
Net income	$ 869	$ 172	$ 651	$ (1,041)	$ 651
Adjustments to reconcile net income to net cash provided/(used) by operating activities					
Distributions in excess of (less than) equity in earnings of unconsolidated affiliates and consolidated subsidiaries	(133)	(24)	(911)	1,041	(27)
Depreciation and amortization of nuclear fuel	453	30	7		490
Amortization of financing costs and debt discounts		5	19		24
Amortization of intangibles and out-of-market contracts	(390)	(3)			(393)
Amortization of unearned equity compensation			13		13
Write-off of deferred financing costs and debt premium			47		47
Write down and (gains)/losses of equity method investments	5	(13)			(8)
Changes in deferred income taxes	430	25	(146)		309
Nuclear decommissioning trust liability	9				9
Loss on sale of equipment	3				3
Changes in derivatives	(308)	1	6		(301)
Gain on legal settlement		(67)			(67)
Gain on sale of discontinued operations		(71)			(71)
Gain on sale of emission allowances	(68)				(68)
Changes in collateral deposit payments supporting of energy risk management activities	349				349
Cash provided/(used) by changes in working capital, net of acquisition and disposition affects	(494)	129	453		88

Net Cash Provided by Operating Activities	725	184	139		1,048
Cash Flows from Investing Activities					
Acquisition of Texas Genco LLC, WCP and Padoma, net of cash acquired			(4,336)		(4,336)
Capital expenditures	(140)	(17)	(2)		(159)
Decrease/(Increase) in restricted cash, net	2	(26)			(24)
Decrease/(Increase) in notes receivable	(922)	22	(3,063)	3,985	22
Purchases of emission allowances	(76)				(76)
Proceeds from sale of emission allowances	97				97
Investments in nuclear decommissioning trust fund securities	(158)				(158)
Proceeds from sales of nuclear decommissioning trust fund securities	149				149
Proceeds from sale of equipment	1				1
Proceeds from sale of investments	53	33			86
Proceeds from sale of discontinued operations		239			239
Net Cash Provided/(Used) by Investing Activities	(994)	251	(7,401)	3,985	(4,159)
Cash Flows from Financing Activities					
Payment of dividends to preferred stockholders			(37)		(37)
Payment for treasury stock		(297)			(297)
Funded letter of credit			350		350
Proceeds from Intercompany loans	3,063		922	(3,985)	
Proceeds from issuance of common stock, net			986		986
Proceeds from issuance of preferred shares, net			486		486
Proceeds from issuance of long-term debt		198	7,175		7,373
Payment of deferred debt issuance costs			(174)		(174)
Payments of short and long-term debt	(2,751)	(42)	(1,904)		(4,697)
	312	(141)	7,804	(3,985)	3,990

Net Cash Provided/(Used) by Financing Activities					
Change in Cash from Discontinued Operations		14			14
Effect of Exchange Rate Changes on Cash and Cash Equivalents		2			2
Net Increase in Cash and Cash Equivalents	43	310	542		895
Cash and Cash Equivalents at Beginning of Period	(7)	78	422		493
Cash and Cash Equivalents at End of Period	$ 36	$ 388	$ 964	$	$ 1,388

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

NRG Energy, Inc. and Subsidiaries
Condensed Consolidating Statements of Operations
For the Three Months Ended September 30, 2005
(Unaudited)

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc.	Eliminations (a)	Consolidated Balance
Operating Revenues					
Revenues from majority-owned operations	$ 594	$ 93	$ 1	$ (1)	$ 687
Operating Costs and Expenses					
Cost of majority-owned operations	541	64		(1)	604
Depreciation and amortization	33	6	2		41
General, administrative and development	7	7	28		42
Impairment charges	6				6
Corporate relocation charges			2		2
Total operating costs and expenses	587	77	32	(1)	695
Operating Income/(Loss)	7	16	(31)		(8)
Other Income (Expense)					
Equity in earnings of consolidated subsidiaries	20		42	(62)	
Equity in earnings of unconsolidated affiliates	14	15			29
Write downs and gains/(losses) on sales of equity method investments		4			4
Other income, net	2	12	1	(5)	10
Refinancing expense			(19)		(19)
Interest expense		(15)	(33)	5	(43)
Total other income/(expense)	36	16	(9)	(62)	(19)
Income/(Loss) From Continuing Operations Before Income Taxes	43	32	(40)	(62)	(27)
Income tax expense/(benefit)	11	12	(13)		10
Income/(Loss) From Continuing Operations	32	20	(27)	(62)	(37)
Income/(losses) from discontinued operations, net of income taxes	11	(1)			10
Net Income/(Loss)	$ 43	$ 19	$ (27)	$ (62)	$ (27)

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

NRG Energy, Inc. and Subsidiaries
Condensed Consolidating Statements of Operations
For the Nine Months Ended September 30, 2005
(Unaudited)

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc.	Eliminations (a)	Consolidated Balance
Operating Revenues					
Revenues from majority-owned operations	$ 1,475	$ 253	$ (1)	$ (4)	$ 1,723
Operating Costs and Expenses					
Cost of majority-owned operations	1,204	178		(4)	1,378
Depreciation and amortization	99	18	4		121
General, administrative and development	31	15	90		136
Impairment charges	6				6
Corporate relocation charges			6		6
Total operating costs and expenses	1,340	211	100	(4)	1,647
Operating Income/(Loss)	135	42	(101)		76
Other Income (Expense)					
Equity in earnings of consolidated subsidiaries	88		195	(283)	
Equity in earnings of unconsolidated affiliates	30	52			82
Write downs and gains/(losses) on sales of equity method investments		16			16
Other income, net	4	46	6	(15)	41
Refinancing expense			(54)		(54)
Interest expense		(47)	(109)	15	(141)
Total other income (expense)	122	67	38	(283)	(56)
Income/(Loss) From Continuing Operations Before Income Taxes	257	109	(63)	(283)	20
Income tax expense/(benefit)	80	20	(76)		24
Income/(Loss) From Continuing Operations	177	89	13	(283)	(4)
	11	6	7		24

Income from discontinued operations, net of income tax expense										
Net Income	$	188	$	95	$	20	$	(283)	$	20

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

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NRG Energy, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet
December 31, 2005
(Unaudited)

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations(1)	Consolidated Balance
		ASSETS			
Current Assets					
Cash and cash equivalents	$ (7)	$ 78	$ 422	$	$ 493
Restricted cash	3	46			49
Accounts receivable-trade, net	214	249	(214)		249
Inventory	232	8			240
Deferred income taxes	6	(1)	(5)		
Derivative instruments valuation	385	(1)	3		387
Collateral on deposit in support of energy risk management activities	438				438
Prepayments and other current assets	63	42	550	(468)	187
Current assets held for sale	8		35		43
Current assets discontinued operations		99	11		110
Total current assets	1,342	520	802	(468)	2,196
Net property, plant and equipment	2,176	412	21		2,609
Other Assets					
Investment in subsidiaries	787		1,774	(2,561)	
Equity investments in affiliates	243	359			602
Notes receivable	76	457	1,397	(1,473)	457
Intangible assets, net	238	19			257
Derivative instruments valuation	18				18
Funded letter of credit			350		350
Deferred income taxes		26			26
Other non-current assets	22	19	83		124
Non current assets discontinued operations		814	13		827
Total other assets	1,384	1,694	3,617	(4,034)	2,661
Total Assets	$ 4,902	$ 2,626	$ 4,440	$ (4,502)	$ 7,466
		LIABILITIES AND STOCK HOLDERS EQUITY			
Current Liabilities					
	$ 459	$ 90	$ 14	$ (468)	$ 95

Current portion of long-term debt and capital leases										
Accounts payable		158		67		16				241
Derivative instruments valuation		678		1						679
Other bankruptcy settlement				3						3
Accrued expenses and other current liabilities		60		42		67				169
Current liabilities discontinued operations				163		7				170
Total current liabilities		1,355		366		104		(468)		1,357
Other Liabilities										
Long-term debt and capital leases		1,397		620		1,866		(1,473)		2,410
Deferred income taxes		37		143		(52)				128
Derivative instruments valuation		25		11		20				56
Out-of-market contracts		298								298
Other non-current liabilities		126		22		22				170
Non-current liabilities discontinued operations				568		1				569
Total non-current liabilities		1,883		1,364		1,857		(1,473)		3,631
Total liabilities		3,238		1,730		1,961		(1,941)		4,988
Minority interest				1						1
3.625% Preferred Stock						246				246
Stockholders Equity		1,664		897		2,231		(2,561)		2,231
Total Liabilities and Stockholders Equity	$	4,902	$	2,628	$	4,438	$	(4,502)	$	7,466

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

NRG Energy, Inc. and Subsidiaries
Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2005
(Unaudited)

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc.	Eliminations (a)	Consolidated Balance
Cash Flows from Operating Activities					
Net income	$ 188	$ 95	$ 20	$ (283)	$ 20
Adjustments to reconcile net income to net cash provided (used) by operating activities					
Distributions in excess of/(less than) equity in earnings of unconsolidated affiliates and consolidated subsidiaries	(54)	(33)	304	(216)	1
Depreciation and amortization	100	38	7		145
Amortization of financing costs and debt discounts		5	3		8
Amortization of intangibles and out-of-market contracts	11	5			16
Amortization of unearned equity compensation	2		6		8
Write-off of deferred financing costs and debt premium		(9)	2		(7)
Write downs and (gains)//losses on sale of equity method investments		(16)			(16)
Asset impairment	6				6
Changes in deferred income taxes	(172)	(4)	122		(54)
Minority interest		1			1
Changes in derivatives	245	3	4		252
Gain on legal settlement		(14)			(14)
Gain on sale of discontinued operations		(11)			(11)
Changes in collateral deposit payments supporting energy risk management activities	(598)				(598)
Cash provided/(used) by changes in working capital, net of acquisition and disposition affects	315	(402)	216		129
Net Cash Provided/(Used) by Operating Activities	43	(342)	684	(499)	(114)

Cash Flows from Investing Activities					
Capital expenditures	(32)	(11)	(3)		(46)
Decrease/(increase) in restricted cash, net	1	17			18
Decrease/(increase) in notes receivable	305	225	(430)		100
Proceeds from sale of investments		70			70
Proceeds on sale of discontinued operations		36			36
Return of capital from equity method investments and projects		1			1
Net Cash Provided/(Used) by Investing Activities	274	338	(433)		179
Cash Flows from Financing Activities					
Payments of dividends to preferred stockholders	(478)	(21)	(12)	499	(12)
Payment for treasury stock			(251)		(251)
Repayment of minority interest obligations		(4)			(4)
Borrowing under revolving line of credit			80		80
Proceeds from issuance of preferred stock, net			246		246
Proceeds from issuance of long-term debt, net		249			249
Deferred debt issuance costs		(2)			(2)
Payments for short and long-term debt		(331)	(648)		(979)
Net Cash Used by Financing Activities	(478)	(109)	(585)	499	(673)
Change in Cash from Discontinued Operations		17			17
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(1)			(1)
Change in Cash and Cash equivalents	(161)	(97)	(334)		(592)
Cash and Cash Equivalents at Beginning of Period	156	201	712		1,069
Cash and Cash Equivalents at End of Period	$ (5)	$ 104	$ 378	$	$ 477

(a) All significant intercompany

transactions
have been
eliminated in
consolidation.

Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

NRG Energy, Inc., NRG , or the Company , is a wholesale power generation company, 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 marketing and trading of energy, capacity and related products in the United States and overseas. NRG has a diverse portfolio of electric generation facilities in terms of geography, fuel type and dispatch levels. NRG s principal domestic generation assets consist of a diversified mix of natural gas, coal, oil and nuclear facilities, representing approximately 46%, 34%, 15% and 5% of the Company s total domestic generation capacity, respectively. In addition, approximately 15% of the Company s domestic generating facilities have dual or multiple fuel capacity, which allows plants to dispatch with the lowest cost fuel option. NRG has also acquired Padoma Wind Power LLC, making it likely that the Company will invest in domestic terrestrial wind projects.

NRG s 2005 Annual Report on Form 10-K includes a detailed discussion of various items impacting its business, results of operations, and financial condition. These include:

Introduction and Overview section which provides a description of NRG s business segments;

Strategy section;

Business Environment section, including how regulation, weather, and other factors affect NRG s business; and

Critical Accounting Policies section.

Critical accounting policies are the accounting policies that are most important to the portrayal of NRG s financial condition and results of operations and require management s most difficult, subjective, or complex judgment. NRG s critical accounting policies include revenue recognition and derivative accounting, income taxes and valuation allowance for deferred taxes, evaluation of assets for impairment and other than temporary decline in value, goodwill and other intangible assets, and contingencies.

This discussion and analysis explains the general financial condition and the results of operations for NRG, including:

factors which affect the business;

earnings and costs in the periods presented;

changes in earnings and costs between periods;

sources of earnings;

impact of these factors on NRG s overall financial condition;

expected future expenditures for capital projects; and

expected sources of cash for further operations and capital expenditures.

As you read this discussion and analysis, refer to the consolidated statements of income which present the results of operations for the three and nine months ended September 30, 2006 and 2005. NRG analyzes and explains the differences between periods in the specific line items of the consolidated statements of income.

NRG has organized the discussion and analysis as follows:

changes to the business environment during the period;

significant events that occurred in 2006 that are important to understanding the results of operations;

results of operations beginning with an overview of NRG s consolidated results, followed by a more detailed discussion of those results by major operating segment;

financial condition, addressing liquidity, the sources and uses of cash, capital resources and commitments;

known trends that will affect its results of operation and financial condition in the future.

Changes in Accounting Standards

See Note 1 to the condensed consolidated financial statements of this Form 10-Q as found in Item 1 for a discussion of recent accounting developments.

Regulatory Matter Developments

Northeast Region

Improvements in the New England market design should favorably impact revenues from operations in the fourth quarter 2006 and beyond. Interim capacity transition payments provided for under the FCM settlement are scheduled to commence December 1, 2006. In addition, the LFRM market for Connecticut cleared at the cap of $14 KW-month for the eight month winter period from October 1, 2006 to May 31, 2007. NRG sold 292 MW in LFRM auction and expects its participation in this market to increase revenues from the region. On November 3, 2006, the New England Power Pool participants committee voted to eliminate Peaking Unit Safe Harbor, or PUSH, bidding and the ISO-NE is expected to make a filing implementing this vote. The elimination of PUSH bidding would primarily impact NRG s Norwalk Harbor plant.

On September 29, 2006, the Management Committee of the NYISO approved a proposal sponsored by Consolidated Edison, or ConEd, to impose additional mitigation on the current owners of its divested generation units in New York City, including NRG with its Arthur Kill and Astoria facilities. The proposed mitigation effectively lowers the bid caps currently set forth in the NYISO tariffs that were specified at the time ConEd divested the units. NRG is contesting the proposal before the NYISO Board of Directors.

NRG expects that the Settlement Agreement filed on September 29, 2006, in the Reliability Pricing Model, or RPM, proceeding will have a positive impact on its operations in the region when it is implemented. The Settlement Agreement proposes to implement RPM, a locational forward capacity market. The Settlement Agreement, which is supported by the majority of the parties in the proceeding, makes a number of changes to the RPM proposal filed by PJM on August 31, 2005, including changes to the demand curve, use of 3-year forward auctions, inclusion of a Fixed Resource Requirement Alternative that allows certain load-serving entities to opt out, and a generator peak-period availability metric. The Settlement Agreement proposes to implement RPM with the annual planning period that begins June 1, 2007, and to commence the RPM forward auctions in April 2007.

West Region

On September 29, 2006, CAISO notified NRG that it wishes to extend the existing RMR agreements for NRG s Cabrillo Power I, LLC and Cabrillo Power II, LLC facilities currently scheduled to expire on December 31, 2006, for another year.

On September 21, 2006, FERC conditionally accepted the CAISO s Market Redesign and Technology Upgrade, or MRTU, proposal which is currently scheduled to go into effect in November 2007. Significant components of the MRTU include locational marginal pricing of energy, a more effective congestion management system, a day-ahead market, and an increase to the existing bid caps. NRG considers these market reforms to be a positive development.

On July 20, 2006, the California Public Utility Commission, or CPUC, issued an order toward establishing a standard Resource Adequacy Capacity Product that follows on its decision to impose local capacity requirements, which takes effect January 1, 2007. On the same date, the CPUC issued its order on long-term resource procurement that requires Southern California Edison, or SCE, to procure at least 1,500 MW over the next couple of years. NRG views these initiatives as positive developments and expects to participate in auctions and Request for Proposals, or RFP s, to supply power to SCE and other load-serving entities affected by the order.

For a further discussion on NRG s regulatory matters, see Note 16 to the Condensed Consolidated Financial Statements of this Form 10-Q. Some of this information is about costs that may be material to NRG s financial results.

Environmental Matter Developments

West Region

On September 27, 2006, Governor Arnold Schwarzenegger signed Assembly Bill 32 California Global Warming Solutions Act of 2006 and Senate Bill 1368 Electricity: Emissions of Greenhouse Gases. Assembly Bill 32, or AB 32, requires the state to develop a greenhouse gas, or GHG, reduction program to reduce emissions to 1990 levels by 2020, a reduction of approximately 25%. The reductions will be phased in beginning 2012 pursuant to regulations to be adopted by 2011. The financial impact to NRG will depend on final regulations. Senate Bill 1368, or SB 1368, prohibits utilities from entering into contracts of five years or more for any baseload generation exceeding a 60% capacity factor unless the contracting facility complies with a greenhouse gas performance standard no higher than the rate of GHG emissions for a combined cycle natural gas baseload power plant. NRG s California plants and development projects are unaffected by SB 1368 because they either meet the combined cycle standard or they do not exceed the 60% capacity factor and/or five year contract term thresholds.

Northeast Region

On December 20, 2005, seven northeastern states entered into a Memorandum of Understanding to create a regional initiative to establish a cap-and-trade greenhouse gas program for electric generators, referred to as the Regional Greenhouse Gas Initiative, or

RGGI. The state of Maryland has since announced its intent to join pending an analysis of its impact to the state. In August 2006, the states participating in RGGI released a model rule to be adopted by the states. The program begins in 2009. The model rule addresses program descriptions including, timelines, monitoring, the use of offsets, and allowance trading. Individual states including Connecticut, Delaware and New York in which NRG operates, must promulgate state rules which can be based on the model rule, and in addition, address allowance allocations, treatment of unallocated allowances and leakage. NRG continues to actively participate in state and regional RGGI proceedings.

The USEPA issued rules adding Delaware and New Jersey to the Clean Air Interstate Rule, or CAIR, because emissions from these states contribute to non-attainment of the fine particle pollution National Ambient Air Quality Standards in other states. The USEPA also reconfirmed its position on five contested CAIR issues including striking down the pollution control project, or PCP, exclusion under the NSR regulations.

A number of states in which NRG operates or intends to operate coal plants, including Connecticut, Delaware, Massachusetts and New York, plan to constrain in-state mercury emissions above and beyond the federal Clean Air Mercury Rule, or CAMR. These states are in various stages of finalizing state regulations and a state implementation plan which will cap the state s mercury emissions at the proposed CAMR cap and trade levels. Louisiana and Texas will adopt the EPA cap and trade program. NRG continues to actively track developments to determine its financial impact, if any, on its operations.

In the fourth quarter 2006, the DNREC is expected to promulgate 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 are expected to govern the control of SO_2, NOx and mercury emissions from electric generating units. NRG s current plans to install controls at its Indian River facility may be affected by the regulation when it is promulgated.

All Other Regions

In February 2006, the USEPA promulgated a regulation that sets New Source Performance Standards, or NSPS, criteria for air pollutants from utility, industrial, commercial, and institutional steam generating units. While the emissions control requirements already in place through USEPA s air permitting and air toxic programs require controls for boilers equivalent to those established by this rule, the final rule substantially tightens the existing NSPS. Units constructed or undergoing major modification after February 28, 2005 are affected.

For a further discussion on NRG s environmental matters see Note 17 to the Condensed Consolidated Financial Statements of this Form 10-Q. Some of this information includes costs that may be material to NRG s financial results.

Consolidated Results of Operations

The following table provides selected financial information for NRG Energy, Inc., for the three and nine months ended September 30, 2006 and 2005:

	Three months ended September 30,			Nine months ended September 30,		
(In millions except otherwise noted)	**2006**	**2005**	**Change %**	**2006**	**2005**	**Change %**
Operating Revenues						
Energy revenue	$ 1,070	$ 699	53%	$ 2,364	$ 1,385	71%
Capacity revenue	430	141	205	1,125	416	170
Alternative revenue	28	29	(3)	93	90	3
O & M fees	4	5	(20)	13	14	(7)
Risk management activities	156	(255)	NA	265	(291)	NA
Revenue contract amortization	224	4	NA	494	5	NA
Other revenues	88	64	38	125	104	20
Total operating revenues	2,000	687	191	4,479	1,723	160
Operating Costs and Expenses						
Cost of majority-owned operations	1,055	604	75	2,478	1,378	80
Depreciation and amortization	148	41	261	443	121	266
General, administrative and development	79	42	88	220	136	62
Impairment charges		6	NA		6	NA
Corporate relocation charges		2	NA		6	NA
Total operating costs and expenses	1,282	695	84	3,141	1,647	91
Operating income	718	(8)	NA	1,338	76	NA
Other Income/(Expense)						
Equity in earnings of unconsolidated affiliates	17	29	(41)	46	82	(44)
Write downs and gains/(losses) on sales of equity method investments	(3)	4	NA	8	16	(50)
Other income, net	30	10	200	118	41	188
Refinancing expenses		(19)	NA	(178)	(54)	(230)
Interest expense	(154)	(43)	(258)	(420)	(141)	(198)
Total other (expenses)	(110)	(19)	(479)	(426)	(56)	(661)
Income/(Loss) from Continuing Operations before income tax expense	608	(27)	NA	912	20	NA
Income tax expense	235	10	NA	324	24	NA
Income/(Loss) from Continuing Operations	373	(37)	NA	588	(4)	NA
	49	10	390	63	24	163

Income from discontinued operations, net of income tax expense						
Net Income/(Loss)	$ 422	$ (27)	NA	$ 651	$ 20	NA
Business Metrics						
Average natural gas price Henry Hub (S/MMbtu)	6.12	9.92	(38)%	6.90	7.76	(11)%

NA- Not Applicable

Significant Events Reflected in NRG s Results of Operations during the nine months ended September 30, 2006

Operational

Total generation increased by 141% primarily due to the addition of NRG Texas to the NRG total portfolio.

Improved operating performance and new tolling agreements contributed to $81 million of higher operating income from the South Central region.

A mild winter and weakened power prices lowered generation demand for the Northeast region s peaking and intermediate assets by 57%.

NRG recorded a gain of $68 million from the sale of excess emission allowances.

NRG recorded $178 million in refinancing costs and $420 million in interest expense primarily due to new debt facilities associated with the acquisition of NRG Texas.

Record peak energy demand in each of the market s served by NRG s major business segments ranging with increases of 4% to 11% over previous records.

Recognized $265 million in gains from risk management activities.

Acquisitions/Dispositions

On February 2, 2006, NRG acquired Texas Genco LLC. Texas Genco LLC is now a wholly-owned subsidiary of NRG, and is managed and accounted for as a separate business segment referred to as NRG Texas.

On August 30, 2006, NRG announced the completion of the sale of its 100% owned Flinders power station and related assets. NRG received approximately $242 million in cash and recognized an after-tax gain on the sale of approximately $61 million.

On March 31, 2006, NRG acquired Dynegy s 50% ownership interest in WCP, and became the sole owner of WCP s 1,808 MW of generation in Southern California. The results of operations of WCP were consolidated as of April 1, 2006, prior to which, NRG s 50% ownership of WCP was recorded as an equity method investment.

On January 31, 2006, NRG finalized a settlement agreement with an equipment manufacturer related to certain turbine purchase agreements. Upon finalization of the settlement, NRG recorded a total of $67 million of other income, of which $35 million was related to the discharge of accounts payable previously recorded and $32 million was related to the receiving and recording of the equipment at fair value.

For the benefit of the following discussions, the tables below represent the results of NRG excluding the impact of NRG Texas and WCP for the three and nine months ended September 30, 2006:

For the three months ended September 30,	**2006**				**2005**
(In millions)	**Consolidated**	**NRG Texas**	**WCP**	**Total excluding NRG Texas/WCP**	**Consolidated**
Energy revenue	$ 1,070	$ 578	$ 31	$ 461	$ 699
Capacity revenue	430	234	27	169	141
Alternative revenue	28			28	29
O & M fees	4			4	5
Risk management activities	156	114	(2)	44	(255)
Contract amortization	224	219		5	