

NRG ENERGY, INC.
Form 10-K
February 12, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year ended December 31, 2008.**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition period from to .**

Commission file No. 001-15891

NRG Energy, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-1724239

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

211 Carnegie Center

Princeton, New Jersey

(Address of principal executive offices)

08540

(Zip Code)

(609) 524-4500

(Registrant's telephone number, including area code:)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value \$0.01	New York Stock Exchange
5.75% Mandatory Convertible Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of the last business day of the most recently completed second fiscal quarter, the aggregate market value of the common stock of the registrant held by non-affiliates was approximately \$10,001,849,139 based on the closing sale price of \$42.90 as reported on the New York Stock Exchange.

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 Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

Class	Outstanding at February 9, 2009
Common Stock, par value \$0.01 per share	236,232,031

Documents Incorporated by Reference:

Portions of the Proxy Statement for the 2009 Annual Meeting of Stockholders

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Glossary of Terms

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

AB32	Assembly Bill 32 California Global Warming Solutions Act of 2006
ABWR	Advanced Boiling Water Reactor
Acquisition	February 2, 2006 acquisition of Texas Genco LLC, now referred to as the Company's Texas region
APB	Accounting Principles Board
APB 18	APB Opinion No. 18, <i>The Equity Method of Accounting for Investments in Common Stock</i>
APB 23	APB Opinion No. 23, <i>Accounting for Income Taxes-Special Areas</i>
ARO	Asset Retirement Obligation
Baseload capacity	Electric power generation capacity normally expected to serve loads on an around-the-clock basis throughout the calendar year
BP	BP Wind Energy North America Inc.
BTA	Best Technology Available
BTU	British Thermal Unit
CAA	Clean Air Act
CAGR	Compound annual growth rate
CAIR	Clean Air Interstate Rule
CAISO	California Independent System Operator
CAMR	Clean Air Mercury Rule
Capital Allocation Plan	Share repurchase program
Capital Allocation Program	NRG's plan of allocating capital between debt reduction, reinvestment in the business, and share repurchases through the Capital Allocation Plan.
CDWR	California Department of Water Resources

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CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980
CL&P	The Connecticut Light & Power Company
CO ₂	Carbon dioxide
COLA	Combined Construction and Operating License Application
CPUC	California Public Utilities Commission
CS	Credit Suisse Group
CSF I	NRG Common Stock Finance I LLC
CSF II	NRG Common Stock Finance II LLC

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DNREC	Delaware Department of Natural Resources and Environmental Control
DPUC	Department of Public Utility Control
EAF	Annual Equivalent Availability Factor, which measures the percentage of maximum generation available over time as the fraction of net maximum generation that could be provided over a defined period of time after all types of outages and deratings, including seasonal deratings, are taken into account
EFOR	Equivalent Forced Outage Rates considers the equivalent impact that forced de-ratings have in addition to full forced outages
EITF	Emerging Issues Task Force
EITF 02-3	EITF Issue No. 02-3, <i>Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities</i>
EITF 04-6	EITF Issue No. 04-6, <i>Accounting for Stripping Costs Incurred during Production in the Mining Industry</i>
EITF 07-5	EITF No. 07-5, <i>Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock</i>
EITF 08-5	EITF 08-5, <i>Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement</i>
EITF 08-6	EITF 08-6, <i>Equity Method Investment Accounting Considerations</i>
EPAct of 2005	Energy Policy Act of 2005
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
ERO	Energy Reliability Organization
ESPP	Employee Stock Purchase Plan
EWG	Exempt Wholesale Generator
Exchange Act	The Securities Exchange Act of 1934, as amended
Expected Baseload Generation	The net baseload generation limited by economic factors (relationship between cost of generation and market price) and reliability factors

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(scheduled and unplanned outages)

FASB	Financial Accounting Standards Board – the designated organization for establishing standards for financial accounting and reporting
FCM	Forward Capacity Market
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation
FIN 45	FIN No. 45 <i>Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others</i>

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FIN 46R	FIN No. 46(R), <i>Consolidation of Variable Interest Entities</i>
FIN 47	FIN No. 47, <i>Accounting for Conditional Asset Retirement Obligations</i>
FIN 48	FIN No. 48, <i>Accounting for Uncertainty in Income Taxes</i>
FPA	Federal Power Act
Fresh Start	Reporting requirements as defined by SOP 90-7
FSP	FASB Staff Position
FSP APB 14-1	FSP No. APB 14-1, <i>Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)</i>
FSP FIN 39-1	FSP No. FIN 39-1, <i>Amendment of Financial Interpretation No. 39</i>
FSP FAS 132R-1	FSP No. FAS 132(R)-1 <i>Employers Disclosures about Postretirement Benefit Plan Assets</i>
FSP FAS 133-1 and FIN 45-4	FSP No. FAS 133-1 and FIN No. 45-4, <i>Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and Financial Interpretation Number 45; and Clarification of the Effective Date of FASB Statement No. 161</i>
FSP FAS 140-4 and FIN 46(R)-8	FSP No. FAS 140-4 and FIN 46(R)-8, <i>Disclosures by Public Entities (Enterprises) about Transfers of Financial assets and Interests in Variable Interest Entities</i>
FSP FAS 142-3	FSP No. FAS 142-3, <i>Determination of the Useful Life of Intangible Asset</i>
FSP FAS 157-3	FSP No. FAS 157-3, <i>Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active</i>
GHG	Greenhouse Gases
Gross Generation	The total amount of electric energy produced by generating units and measured at the generating terminal in kWh s or MWh s
Heat Rate	A measure of thermal efficiency computed by dividing the total BTU content of the fuel burned by the resulting kWh s generated. Heat rates can be expressed as either gross or net heat rates, depending whether the electricity output measured is gross or net generation and is generally expressed as BTU per net kWh
Hedge Reset	Net settlement of long-term power contracts and gas swaps by negotiating prices to current market completed in November 2006

IGCC	Integrated Gasification Combined Cycle
IRS	Internal Revenue Service
ISO	Independent System Operator, also referred to as Regional Transmission Organizations, or RTO
ISO-NE	ISO New England Inc.
ITISA	Itiquira Energetica S.A.
kV	Kilovolts

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kW	Kilowatts
kWh	Kilowatt-hours
LFRM	Locational Forward Reserve Market
LIBOR	London Inter-Bank Offer Rate
LMP	Locational Marginal Prices
LTIP	Long-Term Incentive Plan
MADEP	Massachusetts Department of Environmental Protection
MACT	Maximum Achievable Control Technology
Merit Order	A term used for the ranking of power stations in order of ascending marginal cost
MIBRAG	Mitteldeutsche Braunkohlengesellschaft mbH
Moody's	Moody's Investors Services, Inc. a credit rating agency
MMBtu	Million British Thermal Units
MOU	Memorandum of Understanding
MRTU	Market Redesign and Technology Upgrade
MW	Megawatts
MWh	Saleable megawatt hours net of internal/parasitic load megawatt-hours
MWt	Megawatts Thermal
NAAQS	National Ambient Air Quality Standards
NEPOOL	New England Power Pool
Net Baseload Capacity	Nominal summer net megawatt capacity of power generation adjusted for ownership and parasitic load, and excluding capacity from mothballed units as of December 31, 2008
Net Capacity Factor	The net amount of electricity that a generating unit produces over a period of time divided by the net amount of electricity it could have produced if it had run at full power over that time period. The net amount of electricity produced is the total amount of electricity generated minus the amount of electricity used during generation.

Net Exposure	Counterparty credit exposure to NRG, net of collateral
Net Generation	The net amount of electricity produced, expressed in kWh s or MWh s, that is the total amount of electricity generated (gross) minus the amount of electricity used during generation.
New York Rest of State	New York State excluding New York City
NINA	Nuclear Innovation North America LLC
NO _x	Nitrogen oxide
NOL	Net Operating Loss
NOV	Notice of Violation
NPNS	Normal Purchase Normal Sale

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NRC	United States Nuclear Regulatory Commission
NSR	New Source Review
NYISO	New York Independent System Operator
NYSDEC	New York Department of Environmental Conservation
OCI	Other Comprehensive Income
OTC	Ozone Transport Commission
Padoma	Padoma Wind Power LLC
Phase II 316(b) Rule	A section of the Clean Water Act regulating cooling water intake structures
PJM	PJM Interconnection, LLC
PJM market	The wholesale and retail electric market operated by PJM primarily in all or parts of Delaware, the District of Columbia, Illinois, Maryland, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia
PMI	NRG Power Marketing, LLC, a wholly-owned subsidiary of NRG which procures transportation and fuel for the Company's generation facilities, sells the power from these facilities, and manages all commodity trading and hedging for NRG
Powder River Basin, or PRB, Coal	Coal produced in northeastern Wyoming and southeastern Montana, which has low sulfur content
PPA	Power Purchase Agreement
PPM	Parts per Million
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PUHCA of 2005	Public Utility Holding Company Act of 2005
PURPA	Public Utility Regulatory Policy Act of 2005
Repowering	Technologies utilized to replace, rebuild, or redevelop major portions of an existing electrical generating facility, not only to achieve a substantial emissions reduction, but also to increase facility capacity, and improve system efficiency

<i>Repowering</i> NRG	NRG's program designed to develop, finance, construct and operate new, highly efficient, environmentally responsible capacity over the next decade
Revolving Credit Facility	NRG's \$1 billion senior secured credit facility which matures on February 2, 2011
RGGI	Regional Greenhouse Gas Initiative
RMR	Reliability Must-Run
ROIC	Return on invested capital
RPM	Reliability Pricing Model term for capacity market in PJM market
RTO	Regional Transmission Organization, also referred to as an Independent System Operator, or ISO

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S&P	Standard & Poor's, a credit rating agency
SARA	Superfund Amendments and Reauthorization Act of 1986
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002
Schkopau	Kraftwerk Schkopau Betriebsgesellschaft mbH, an entity in which NRG has a 41.9% interest
SCR	Selective Catalytic Reduction
SEC	United States Securities and Exchange Commission
Securities Act	The Securities Act of 1933, as amended
Senior Credit Facility	NRG's senior secured facility, which is comprised of a Term Loan Facility and a \$1.3 billion Synthetic Letter of Credit Facility which matures on February 1, 2013, and a \$1 billion Revolving Credit Facility, which matures on February 2, 2011.
Senior Notes	The Company's \$4.7 billion outstanding unsecured senior notes consisting of \$1.2 billion of 7.25% senior notes due 2014, \$2.4 billion of 7.375% senior notes due 2016 and \$1.1 billion of 7.375% senior notes due 2017
SERC	Southeastern Electric Reliability Council/Entergy
SFAS	Statement of Financial Accounting Standards issued by the FASB
SFAS 71	SFAS No. 71, <i>Accounting for the Effects of Certain Types of Regulation</i>
SFAS 106	SFAS No. 106, <i>Employers' Accounting for Postretirement Benefits Other Than Pensions</i>
SFAS 109	SFAS No. 109, <i>Accounting for Income Taxes</i>
SFAS 123R	SFAS No. 123 (revised 2004), <i>Share-Based Payment</i>
SFAS 133	SFAS No. 133, <i>Accounting for Derivative Instruments and Hedging Activities</i> as amended
SFAS 141	SFAS No. 141, <i>Business Combinations</i>
SFAS 141R	SFAS No. 141 (revised 2007), <i>Business Combinations</i>
SFAS 142	SFAS No. 142, <i>Goodwill and Other Intangible Assets</i>
SFAS 143	SFAS No. 143, <i>Accounting for Asset Retirement Obligations</i>

SFAS 144	SFAS No. 144, <i>Accounting for the Impairment or Disposal of Long-Lived Assets</i>
SFAS 157	SFAS No. 157, <i>Fair Value Measurement</i>
SFAS 158	SFAS No. 158, <i>Employers Accounting for Defined Benefit Pension and Other Postretirement Plans</i> an amendment of FASB Statements No. 87, 88, 106 and 132(R)
SFAS 159	SFAS No. 159, <i>The Fair Value Option for Financial Assets and Financial Liabilities</i> including an amendment of FASB Statement No. 115
SFAS 160	SFAS No. 160, <i>Noncontrolling Interest in Consolidated Financial Statements</i>

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SFAS 161	SFAS No. 161, <i>Disclosure about Derivative Instruments and Hedging Activities</i> an amendment of FASB Statement No. 133
Sherbino	Sherbino I Wind Farm LLC
SO ₂	Sulfur dioxide
SOP	Statement of Position issued by the American Institute of Certified Public Accountants
SOP 90-7	Statement of Position 90-7, <i>Financial Reporting by Entities in Reorganization Under the Bankruptcy Code</i>
STP	South Texas Project nuclear generating facility located near Bay City, Texas in which NRG owns a 44% Interest
STPNOC	South Texas Project Nuclear Operating Company
Synthetic Letter of Credit Facility	NRG's \$1.3 billion senior secured synthetic letter of credit facility which matures on February 1, 2013
TCEQ	Texas Commission on Environmental Quality
Term Loan Facility	A senior first priority secured term loan which matures on February 1, 2013, and is included as part of NRG's Senior Credit Facility.
Texas Genco	Texas Genco LLC, now referred to as the Company's Texas Region
Tonnes	Metric tonnes, which are units of mass or weight in the metric system each equal to 2,205 lbs and are the global Measurement for GHG
Tosli	Tosli Acquisition B.V.
Uprate	A sustainable increase in the electrical rating of a generating facility
US	United States of America
USEPA	United States Environmental Protection Agency
US GAAP	Accounting principles generally accepted in the United States
VAR	Value at Risk
WCP	WCP (Generation) Holdings, Inc.

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PART I

Item 1 Business

General

NRG Energy, Inc., or NRG or the Company, is a wholesale power generation company with a significant presence in major competitive power markets in the United States. NRG is engaged in the ownership, development, construction and operation of power generation facilities, the transacting in and trading of fuel and transportation services, and the trading of energy, capacity and related products in the regional markets in the US and select international markets where its generating assets are located.

As of December 31, 2008, NRG had a total global portfolio of 189 active operating fossil fuel and nuclear generation units, at 48 power generation plants, with an aggregate generation capacity of approximately 24,005 MW, and approximately 550 MW under construction which includes partners' interests of 275 MW. In addition, NRG has ownership interests in two wind farms representing an aggregate generation capacity of 270 MW, which includes partner interests of 75 MW. Within the US, NRG has one of the largest and most diversified power generation portfolios in terms of geography, fuel-type and dispatch levels, with approximately 22,925 MW of fossil fuel and nuclear generation capacity in 177 active generating units at 43 plants and ownership interests in two wind farms representing 195 MW of wind generation capacity. These power generation facilities are primarily located in Texas (approximately 11,010 MW, including the 195 MW from the two wind farms), the Northeast (approximately 7,020 MW), South Central (approximately 2,845 MW), and West (approximately 2,130 MW) regions of the US, and approximately 115 MW of additional generation capacity from the Company's thermal assets.

NRG's principal domestic power plants consist of a mix of natural gas-, coal-, oil-fired, nuclear and wind facilities, representing approximately 45%, 33%, 16%, 5% and 1% of the Company's total domestic generation capacity, respectively. In addition, 15% of NRG's domestic generating facilities have dual or multiple fuel capacity, which allows plants to dispatch with the lowest cost fuel option.

NRG's domestic generation facilities consist of intermittent, baseload, intermediate and peaking power generation facilities, the ranking of which is referred to as Merit Order, and include thermal energy production plants. The sale of capacity and power from baseload generation facilities accounts for the majority of the Company's revenues and provides a stable source of cash flow. In addition, NRG's generation portfolio provides the Company with opportunities to capture additional revenues by selling power during periods of peak demand, offering capacity or similar products to retail electric providers and others, and providing ancillary services to support system reliability.

NRG's Business Strategy

NRG's business strategy is designed to enhance the Company's position as a leading wholesale power generation company in the US. NRG will continue to utilize its asset base as a platform for growth and development and as a source of cash flow generation which can be used for the return of capital to debt and equity holders. The Company's strategy is focused on: (i) top decile operating performance of its existing operating assets and enhanced operating performance of the Company's commercial operations and hedging program; (ii) repowering of power generation assets at existing sites and development of new power generation projects; and (iii) investment in energy-related new businesses and new technologies where such investments create low to no carbon. This strategy is supported by the Company's five major initiatives (*FORNRG*, *RepoweringNRG*, *econrg*, *Future NRG* and *NRG Global Giving*) which

are designed to enhance the Company's competitive advantages in these strategic areas and allow the Company to surmount the challenges faced by the power industry in the coming years. This strategy is being implemented by focusing on the following principles:

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Operational Performance The Company is focused on increasing value from its existing assets. Through the **FORNRG** initiative, NRG will continue to focus on extracting value from its portfolio by improving plant performance, reducing costs and harnessing the Company's advantages of scale in the procurement of fuels and other commodities, parts and services, and in doing so improving the Company's return on invested capital, or ROIC. **FORNRG** is a companywide effort designed to increase ROIC through operational performance improvements to the Company's asset fleet, along with a range of initiatives at plants and at corporate offices to reduce costs, or in some cases, monetize or reduce excess working capital and other assets. The **FORNRG** accomplishments include both recurring and one-time improvements measured from a prior base year. For plant operations, the program measures cumulative current year benefits using current gross margins multiplied by the change in baseline levels of certain key performance indicators. The plant performance benefits include both positive and negative results for plant reliability, capacity, heat rate and station service.

In addition to the **FORNRG** initiative, the Company seeks to maximize profitability and manage cash flow volatility through the Company's commercial operations strategy. The Company will continue to execute asset-based risk management, hedging, marketing and trading strategies within well-defined risk and liquidity guidelines in order to manage the value of the Company's physical and contractual assets. The Company's marketing and hedging philosophy is centered on generating stable returns from its portfolio of baseload power generation assets while preserving an ability to capitalize on strong spot market conditions and to capture the extrinsic value of the Company's intermediate and peaking facilities and portions of its baseload fleet. NRG believes that it can successfully execute this strategy by leveraging its (i) expertise in marketing power and ancillary services, (ii) its knowledge of markets, (iii) its balanced financial structure and (iv) its diverse portfolio of power generation assets.

Finally, NRG remains focused on cash flow and maintaining appropriate levels of liquidity, debt and equity in order to ensure continued access to capital for investment, to enhance risk-adjusted returns and to provide flexibility in executing NRG's business strategy during business downturns, including a regular return of capital to its shareholders. NRG will continue to focus on maintaining operational and financial controls designed to ensure that the Company's financial position remains strong.

Development NRG is favorably positioned to pursue growth opportunities through expansion of its existing generating capacity and development of new generating capacity at its existing facilities. NRG intends to invest in its existing assets through plant improvements, repowerings, brownfield development and site expansions to meet anticipated requirements for additional capacity in NRG's core markets. Through the **RepoweringNRG** initiative, NRG will continue to develop, construct and operate new and enhanced power generation facilities at its existing sites, with an emphasis on new baseload capacity that is supported by long-term power sales agreements and financed with limited or non-recourse project financing. **RepoweringNRG** is a comprehensive portfolio redevelopment program designed to develop, construct and operate new multi-fuel, multi-technology, highly efficient and environmentally responsible generation capacity over the next decade. Through this initiative, the Company anticipates retiring certain existing units and adding new generation to meet growing demand in the Company's core markets, with an emphasis on new capacity that is expected to be supported by long-term hedging programs, including Power Purchase Agreements, or PPAs, and financed with limited or non-recourse project financing. NRG expects that these efforts will provide one or more of the following benefits: improved heat rates; lower delivered costs; expanded electricity production capability; an improved ability to dispatch economically across the regional general portfolio; increased technological and fuel diversity; and reduced environmental impacts, including facilities that either have near zero greenhouse gas, or GHG, emissions or can be equipped to capture and sequester GHG emissions.

New Businesses and New Technology NRG is focused on the development and investment in energy-related new businesses and new technologies where the benefits of such investments represent significant commercial opportunities and create a comparative advantage for the Company, including low or no GHG emitting energy generating sources, such as nuclear, wind, solar thermal, photovoltaic, clean coal and gas, and the employment of

post-combustion carbon capture technologies. In 2008, the Company began to increase its focus on ways to invest in or support the development of new energy-related businesses and technologies that could advance its multi-fuel, multi-technology growth strategy and look for new ways to reduce carbon emissions from its overall fleet, and we expect to continue to do so in the future. Furthermore, the Company intends to capitalize on the high growth opportunities presented by government-mandated renewable portfolio standards, tax incentives and loan

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guaranties for renewable energy projects and new technologies and expected future carbon regulation. A primary focus of this strategy is supported by the **econrg** initiative whereby NRG is pursuing investments in new generating facilities and technologies that will be highly efficient and will employ no and low carbon technologies to limit CO₂ emissions and other air emissions. econrg represents NRG's commitment to environmentally responsible power generation by addressing the challenges of climate change, clean air and water, and conservation of our natural resources while taking advantage of business opportunities that may inure to NRG as a result of our demonstration and deployment of green technologies. Within NRG, econrg builds upon a foundation in environmental compliance and embraces environmental initiatives for the benefit of our communities, employees and shareholders, such as encouraging investment in new environmental technologies, pursuing activities that preserve and protect the environment and encouraging changes in the daily lives of the Company's employees.

Company-Wide Initiatives In addition, the Company's overall strategy is also supported by **Future NRG** and **NRG Global Giving** initiatives. Future NRG is the Company's workforce planning and development initiative and represents NRG's strong commitment to planning for future staffing requirements to meet the on-going needs of the Company's current operations in addition to the Company's *Repowering* NRG initiatives. Future NRG encompasses analyzing the demographics, skill set and size of the Company's workforce in addition to the organizational structure with a focus on succession planning, training, development, staffing and recruiting needs. Included under the Future NRG umbrella is NRG University, which provides leadership, managerial, supervisory and technical training programs and individual skill development courses. NRG Global Giving is designed to enhance respect for the community, which is one of NRG's core values. Our Global Giving Program invests NRG's resources to strengthen the communities where we do business and seeks to make community investments in four focus areas: community and economic development, education, environment and human welfare.

Finally, NRG will continue to pursue selective acquisitions, joint ventures and divestitures to enhance its asset mix and competitive position in the Company's core markets. NRG intends to concentrate on opportunities that present attractive risk-adjusted returns. NRG will also opportunistically pursue other strategic transactions, including mergers, acquisitions or divestitures.

Competition and Competitive Strengths

Competition Wholesale power generation is a capital-intensive, commodity-driven business with numerous industry participants. NRG competes on the basis of the location of its plants and ownership of multiple plants in various regions, which increases the stability and reliability of its energy supply. Wholesale power generation is basically a local business that is currently highly fragmented relative to other commodity industries and diverse in terms of industry structure. As such, there is a wide variation in terms of the capabilities, resources, nature and identity of the companies NRG competes with depending on the market.

Scale and diversity of assets NRG has one of the largest and most diversified power generation portfolios in the US, with approximately 22,925 MW of fossil fuel and nuclear generation capacity in 177 active generating units at 43 plants and ownership interests in two wind farms representing 195 MW of wind generation capacity, as of December 31, 2008. The Company's power generation assets are diversified by fuel-type, dispatch level and region, which help mitigate the risks associated with fuel price volatility and market demand cycles. NRG's US baseload facilities, which consist of approximately 8,715 MW of generation capacity measured as of December 31, 2008, provide the Company with a significant source of stable cash flow, while its intermediate and peaking facilities, with approximately 14,210 MW of generation capacity as of December 31, 2008, provide NRG with opportunities to capture the significant upside potential that can arise from time to time during periods of high demand. In addition, approximately 15% of the Company's domestic generation facilities have dual or multiple fuel capability, which allows most of these plants to dispatch with the lowest cost fuel option. In 2008, NRG completed the construction of the Sherbino (150 MW including partner's interests of 75 MW) and Elbow Creek (120 MW) wind farms which

provide electricity to the Company's core region.

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The following chart demonstrates the diversification of NRG's domestic power generation assets as of December 31, 2008:

Reliability of future cash flows NRG has hedged a significant portion of its expected baseload generation capacity with decreasing hedged levels through 2014. NRG also has cooperative load contract obligations in South Central region which expire over various dates through 2026. The Company has the capacity and intent to enter into additional hedges when market conditions are favorable. In addition, as of December 31, 2008, the Company had purchased fuel forward under fixed price contracts, with contractually-specified price escalators, for approximately 51% of its expected baseload coal generation output from 2009 to 2014. The hedge percentage is reflective of the current agreement of the Jewett mine in which NRG has the contractual ability to adjust volumes in future years. These forward positions provide a stable and reliable source of future cash flow for NRG's investors, while preserving a portion of its generation portfolio for opportunistic sales to take advantage of market dynamics.

Favorable cost dynamics for baseload power plants In 2008, approximately 91% of the Company's domestic generation output was from plants fueled by coal or nuclear fuel. In many of the competitive markets where NRG operates, the price of power is typically set by the marginal costs of natural gas-fired and oil-fired power plants that currently have substantially higher variable costs than solid fuel baseload power plants. As a result of NRG's lower marginal cost for baseload coal and nuclear generation assets, the Company expects the baseload assets in the Electric Reliability Council of Texas, or ERCOT, to generate power majority of the time they are available.

Locational advantages Many of NRG's generation assets are located within densely populated areas that are characterized by significant constraints on the transmission of power from generators outside the particular region. Consequently, these assets are able to benefit from the higher prices that prevail for energy in these markets during periods of transmission constraints. NRG has generation assets located within New York City, southwestern Connecticut, Houston and the Los Angeles and San Diego load basins; all areas, which experience from time-to-time and to varying degrees of constraints on the transmission of electricity. This gives the Company the opportunity to capture additional revenues by offering capacity to retail electric providers and others, selling power at prevailing market prices during periods of peak demand and providing ancillary services in support of system reliability. Also, these facilities are often ideally situated for repowering or the addition of new capacity, because their location and existing infrastructure give them significant advantages over developed sites in their regions that do not have process infrastructure.

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The following table contains a summary of NRG's operating revenues by segment for the year ended December 31, 2008 as discussed in Item 15 Note 17, *Segment Reporting*, to the Consolidated Financial Statements.

Region	Energy Revenues	Capacity Revenues	Risk Management Activities	Contract Amortization	Thermal Revenues	Other Revenues	Total Operating Revenues
	(In millions)						
Texas	\$ 2,870	\$ 493	\$ 318	\$ 255	\$	\$ 90	\$ 4,026
Northeast	1,064	415	85			66	1,630
South Central	478	233	10	23		2	746
West	39	125				7	171
International	56	86				16	158
Thermal	12	7	5		114	16	154
Corporate and Eliminations							