NRG ENERGY, INC.
Form 10-Q
November 04, 2010

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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**
For the quarterly period ended: September 30, 2010

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
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 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 þ **No** o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ **No** o

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 þ	**Accelerated filer** o	**Non-accelerated filer** o	**Smaller reporting company** o

(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 o **No** þ

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 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 þ **No** o

As of November 1, 2010, there were 247,197,248 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 of NRG Energy, Inc., or NRG or the Company, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The words believes, projects, anticipates, plans, expects, intends, estimates and similar expressions are intended to identify forward-lo statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause NRG s actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors, risks and uncertainties include the factors described under Risks Factors Related to NRG Energy, Inc. in Part I, Item 1A, of the Company s Annual Report on Form 10-K, for the year ended December 31, 2009, including the following:

- General economic conditions, changes in the wholesale power markets and fluctuations in the cost of fuel;
- Volatile power supply costs and demand for power;
- Hazards customary to the power production industry and power generation operations such as fuel and electricity price volatility, unusual weather conditions, catastrophic weather-related or other damage to facilities, unscheduled generation outages, maintenance or repairs, unanticipated changes to fuel supply costs or availability due to higher demand, shortages, transportation problems or other developments, environmental incidents, or electric transmission or gas pipeline system constraints and the possibility that NRG may not have adequate insurance to cover losses as a result of such hazards;
- The effectiveness of NRG s risk management policies and procedures, and the ability of NRG s counterparties to satisfy their financial commitments;
- Counterparties collateral demands and other factors affecting NRG s liquidity position and financial condition;
- NRG s ability to operate its businesses efficiently, manage capital expenditures and costs tightly, and generate earnings and cash flows from its asset-based businesses in relation to its debt and other obligations;
- NRG s ability 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 and increased regulation of carbon dioxide and other greenhouse gas emissions;
- Price mitigation strategies and other market structures employed by ISOs or RTOs that result in a failure to adequately compensate NRG s generation units for all of its costs;
- NRG s ability to borrow additional funds and access capital markets, as well as NRG s substantial indebtedness and the possibility that NRG may incur additional indebtedness going forward;
- Operating and financial restrictions placed on NRG and its subsidiaries that are contained in the indentures governing NRG s outstanding notes, in NRG s Senior Credit Facility, and in debt and other agreements of certain of NRG subsidiaries and project affiliates generally;
- NRG s ability to implement its *Repowering*NRG strategy of developing and building new power generation facilities, including new nuclear, wind and solar projects;
- NRG s ability to implement its econrg strategy of finding ways to meet the challenges of climate change, clean air and protecting natural resources while taking advantage of business opportunities;
- NRG s ability to implement its *FOR*NRG strategy of increasing the return on invested capital through operational performance improvements and a range of initiatives at plants and corporate offices to reduce costs or generate revenues;
- NRG s ability to achieve its strategy of regularly returning capital to shareholders;
- Reliant Energy s ability to maintain market share;
- NRG s ability to successfully evaluate investments in new business and growth initiatives; and
- NRG s ability to successfully integrate and manage acquired businesses.

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

GLOSSARY OF TERMS

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

2009 Form 10-K	NRG s Annual Report on Form 10-K for the year ended December 31, 2009
Baseload capacity	Electric power generation capacity normally expected to serve loads on an around-the-clock basis throughout the calendar year
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
CAISO	California Independent System Operator
CATR	Clean Air Transport 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
C&I	Commercial, industrial and governmental/institutional
CFTC	U.S. Commodity Futures Trading Commission
CO_2	Carbon dioxide
CPS	CPS Energy
CSF Debt	CSF I and CSF II issued notes and preferred interest, individually referred to as CSF I Debt and CSF II Debt
CSRA	Credit Sleeve Reimbursement Agreement with Merrill Lynch in connection with acquisition of Reliant Energy, as hereinafter defined
CSRA Amendment	Amendment of the existing CSRA with Merrill Lynch which became effective October 5, 2009
DNREC	Delaware Department of Natural Resources and Environmental Control
ERCOT	Electric Reliability Council of Texas, the Independent System Operator and the regional reliability coordinator of the various electricity systems within Texas
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board the designated organization for establishing standards for financial accounting and reporting

FERC	Federal Energy Regulatory Commission
Funded Letter of Credit Facility	NRG s $1.3 billion term loan-backed fully funded senior secured letter of credit facility, of which $500 million matures on February 1, 2013, and $800 million matures on August 31, 2015, and is a component of NRG s Senior Credit Facility
GHG	Greenhouse Gases
GWh	Gigawatt hour
IGCC	Integrated Gasification Combined Cycle
ISO	Independent System Operator, also referred to as Regional Transmission Organizations, or RTO
ISO-NE	ISO New England Inc.
kW	Kilowatts
kWh	Kilowatt-hours

LIBOR	London Inter-Bank Offer Rate
LTIP	Long-Term Incentive Plan
MACT	Maximum Achievable Control Technology
Mass	Residential and small business
Merit Order	A term used for the ranking of power stations in order of ascending marginal cost
MIBRAG	Mitteldeutsche Braunkohlengesellschaft mbH
MMBtu	Million British Thermal Units
MW	Megawatts
MWh	Saleable megawatt hours net of internal/parasitic load megawatt-hours
NAAQS	National Ambient Air Quality Standards
NINA	Nuclear Innovation North America LLC
NO_x	Nitrogen oxide
NPNS	Normal Purchase Normal Sale
NRC	U.S. Nuclear Regulatory Commission
NYISO	New York Independent System Operator
OCI	Other comprehensive income
Phase II 316(b) Rule	A section of the Clean Water Act regulating cooling water intake structures
PJM	PJM Interconnection, LLC
PJM market	The wholesale and retail electric market operated by PJM primarily in all or parts of Delaware, the District of Columbia, Illinois, Maryland, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia
PM 2.5	Particulate matter particles with a diameter of 2.5 micrometers or less
PPA	Power Purchase Agreement
PUCT	Public Utility Commission of Texas
Reliant Energy	NRG s retail business in Texas purchased on May 1, 2009, from Reliant Energy, Inc. which is now known as RRI Energy, Inc., or RRI

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
*Repowering*NRG	NRG s program designed to develop, finance, construct and operate new, highly efficient, environmentally responsible capacity
RERH	RERH Holding, LLC and its subsidiaries
Revolving Credit Facility	NRG s $875 million senior secured revolving credit facility, which matures on August 31, 2015, and is a component of NRG s Senior Credit Facility
RGGI	Regional Greenhouse Gas Initiative
RMR	Reliability Must-Run
ROIC	Return on invested capital
RRI	RRI Energy, Inc. (formerly Reliant Energy, Inc.)
Sarbanes-Oxley	Sarbanes-Oxley Act of 2002, as amended
SEC	United States Securities and Exchange Commission

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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, an $875 million Revolving Credit Facility and a $1.3 billion Funded Letter of Credit Facility
Senior Notes	The Company s $6.5 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, $1.1 billion of 7.375% senior notes due 2017, $700 million of 8.5% senior notes due 2019 and $1.1 billion of senior notes due 2020
SO_2	Sulfur dioxide
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
TANE	Toshiba America Nuclear Energy Corporation
TANE Facility	NINA s $500 million credit facility with TANE which matures on February 24, 2012
TEPCO	The Tokyo Electric Power Company of Japan, Inc.
Term Loan Facility	A senior first priority secured term loan, of which approximately $975 million matures on February 1, 2013, and $1.0 billion matures on August 31, 2015, and is a component of NRG s Senior Credit Facility
TNEA	TEPCO Nuclear Energy America LLC
Tonnes	Metric tonnes, which are units of mass or weight in the metric system each equal to 2,205lbs and are the global measurement for GHG
TWh	Terawatt hour
U.S.	United States of America
U.S. DOE	United States Department of Energy
U.S. EPA	United States Environmental Protection Agency
U.S. GAAP	Accounting principles generally accepted in the United States
VaR	Value at Risk

ACCOUNTING PRONOUNCEMENTS

The FASB has established the FASB Accounting Standards Codification, or ASC, as the source of authoritative U.S. GAAP. The FASB issues updates to the ASC through Accounting Standards Updates, or ASUs. The following ASC topics and ASUs are referenced in this report:

ASC 280	ASC-280, *Segment Reporting*
ASC 450	ASC-450, *Contingencies*
ASC 740	ASC-740, *Income Taxes*
ASC 805	ASC-805, *Business Combinations*
ASC 810	ASC-810, *Consolidation*
ASC 815	ASC-815, *Derivatives and Hedging*
ASC 820	ASC-820, *Fair Value Measurements and Disclosures*
ASC 980	ASC-980, *Regulated Operations*
ASU 2009-15	ASU No. 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*
ASU 2009-17	ASU No. 2009-17, *Consolidations: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*
ASU 2010-02	ASU No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary a Scope Clarification*
ASU 2010-06	ASU No. 2010-06, *Fair Value Measurement and Disclosures: Improving Disclosures about Fair Value Measurements*
ASU 2010-09	ASU No. 2010-09, *Subsequent Events (Topic 815): Amendments to Certain Recognition and Disclosure Requirements*
ASU 2010-10	ASU No. 2010-10, *Consolidation (Topic 810): Amendments for Certain Investment Funds*

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

	Three months ended September 30,		Nine months ended September 30,	
(In millions, except for per share amounts)	**2010**	**2009**	**2010**	**2009**
Operating Revenues				
Total operating revenues	$ 2,685	$ 2,916	$ 7,033	$ 6,811
Operating Costs and Expenses				
Cost of operations	1,835	1,893	4,803	3,901
Depreciation and amortization	210	212	620	594
Selling, general and administrative	172	182	441	396
Acquisition-related transaction and integration costs		6		41
Development costs	14	12	36	34
Total operating costs and expenses	2,231	2,305	5,900	4,966
Gain on sale of assets			23	
Operating Income	454	611	1,156	1,845
Other Income/(Expense)				
Equity in earnings of unconsolidated affiliates	16	6	41	33
Gain on sale of equity method investment				128
Other income/(expense), net	11	5	34	(9)
Interest expense	(169)	(178)	(469)	(475)
Total other expense	(142)	(167)	(394)	(323)
Income Before Income Taxes	312	444	762	1,522
Income tax expense	89	166	271	614
Net Income	223	278	491	908
Less: Net loss attributable to noncontrolling interest			(1)	(1)
Net income attributable to NRG Energy, Inc.	223	278	492	909
Dividends for preferred shares	2	6	7	27
Income available for NRG Energy, Inc. common stockholders	$ 221	$ 272	$ 485	$ 882
Earnings per share attributable to NRG Energy, Inc. common stockholders				
	252	249	254	247

Weighted average number of common shares outstanding basic				
Net income per weighted average common share basic	$ 0.88	$ 1.09	$ 1.91	$ 3.58
Weighted average number of common shares outstanding diluted	253	272	255	274
Net income per weighted average common share diluted	$ 0.87	$ 1.02	$ 1.90	$ 3.29

See notes to condensed consolidated financial statements.

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except shares)	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$ 3,447	$ 2,304
Funds deposited by counterparties	457	177
Restricted cash	19	2
Accounts receivable trade, less allowance for doubtful accounts of $35 and $29, respectively	904	876
Inventory	463	541
Derivative instruments valuation	2,479	1,636
Cash collateral paid in support of energy risk management activities	477	361
Prepayments and other current assets	250	311
Total current assets	8,496	6,208
Property, plant and equipment, net of accumulated depreciation of $3,606 and $3,052, respectively	11,844	11,564
Other Assets		
Equity investments in affiliates	510	409
Note receivable affiliate and capital leases, less current portion	402	504
Goodwill	1,713	1,718
Intangible assets, net of accumulated amortization of $948 and $648, respectively	1,541	1,777
Nuclear decommissioning trust fund	389	367
Derivative instruments valuation	1,001	683
Restricted cash supporting funded letter of credit facility	1,301	
Other non-current assets	222	148
Total other assets	7,079	5,606
Total Assets	$ 27,419	$ 23,378
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Current portion of long-term debt and capital leases	$ 157	$ 571
Accounts payable	765	697
Derivative instruments valuation	2,072	1,473
Deferred income taxes	381	197
Cash collateral received in support of energy risk management activities	457	177
Accrued expenses and other current liabilities	650	647
Total current liabilities	4,482	3,762

Other Liabilities		
Long-term debt and capital leases	9,063	7,847
Funded letter of credit	1,300	
Nuclear decommissioning reserve	313	300
Nuclear decommissioning trust liability	256	255
Deferred income taxes	1,747	1,783
Derivative instruments valuation	500	387
Out-of-market contracts	235	294
Other non-current liabilities	1,054	806
Total non-current liabilities	14,468	11,672
Total Liabilities	18,950	15,434
3.625% convertible perpetual preferred stock (at liquidation value, net of issuance costs)	248	247
Commitments and Contingencies		
Stockholders Equity		
Preferred stock (at liquidation value, net of issuance costs)		149
Common stock	3	3
Additional paid-in capital	5,316	4,948
Retained earnings	3,817	3,332
Less treasury stock, at cost 53,767,753 and 41,866,451 shares, respectively	(1,503)	(1,163)
Accumulated other comprehensive income	571	416
Noncontrolling interest	17	12
Total Stockholders Equity	8,221	7,697
Total Liabilities and Stockholders Equity	$ 27,419	$ 23,378

See notes to condensed consolidated financial statements.

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

(In millions) **Nine months ended September 30,**	**2010**	**2009**
Cash Flows from Operating Activities		
Net income	$ 491	$ 908
Adjustments to reconcile net income to net cash provided by operating activities:		
Distributions and equity in earnings of unconsolidated affiliates	(19)	(33)
Depreciation and amortization	620	594
Provision for bad debts	46	37
Amortization of nuclear fuel	30	28
Amortization of financing costs and debt discount/premiums	23	35
Amortization of intangibles and out-of-market contracts	(17)	79
Changes in deferred income taxes and liability for uncertain tax benefits	272	561
Changes in nuclear decommissioning trust liability	26	19
Changes in derivatives	(48)	(234)
Changes in collateral deposits supporting energy risk management activities	(116)	13
(Gain)/loss on sale and disposal of assets, net	(6)	2
Gain on sale of equity method investment		(128)
Loss/(gain) on sale of emission allowances	4	(8)
Gain recognized on settlement of pre-existing relationship		(31)
Amortization of unearned equity compensation	23	20
Changes in option premiums collected, net of acquisition	60	(278)
Cash used by changes in other working capital, net of acquisition	(248)	(304)
Net Cash Provided by Operating Activities	1,141	1,280
Cash Flows from Investing Activities		
Acquisition of businesses, net of cash acquired	(142)	(356)
Capital expenditures	(490)	(560)
Increase in restricted cash, net	(17)	(10)
Decrease/(increase) in notes receivable	28	(18)
Purchases of emission allowances	(56)	(68)
Proceeds from sale of emission allowances	14	20
Investments in nuclear decommissioning trust fund securities	(245)	(237)
Proceeds from sales of nuclear decommissioning trust fund securities	219	218
Proceeds from renewable energy grants	102	
Proceeds from sale of assets, net	30	6
Proceeds from sale of equity method investment		284
Other	(13)	(6)
Net Cash Used by Investing Activities	(570)	(727)
Cash Flows from Financing Activities		
Payment of dividends to preferred stockholders	(7)	(27)
Payment for treasury stock	(180)	(250)

Net receipt from/(payments for) acquired derivatives that include financing elements	58	(140)
Installment proceeds from sale of noncontrolling interest in subsidiary	50	50
Proceeds from issuance of long-term debt	1,252	843
Proceeds from issuance of term loan for funded letter of credit facility	1,300	
Increase in restricted cash supporting funded letter of credit facility	(1,301)	
Proceeds from issuance of common stock	2	1
Payment of deferred debt issuance costs	(70)	(29)
Payments for short and long-term debt	(529)	(248)
Net Cash Provided by Financing Activities	575	200
Effect of exchange rate changes on cash and cash equivalents	(3)	3
Net Increase in Cash and Cash Equivalents	1,143	756
Cash and Cash Equivalents at Beginning of Period	2,304	1,494
Cash and Cash Equivalents at End of Period	$ 3,447	$2,250

See notes to condensed consolidated financial statements.

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

Note 1 Basis of Presentation

NRG Energy, Inc., or NRG or the Company, is primarily a wholesale power generation company with a significant presence in major competitive power markets in the U.S., as well as a major retail electricity provider in the ERCOT (Texas) market. NRG is engaged in the ownership, development, construction and operation of power generation facilities, both conventional and renewable, the transacting in and trading of fuel and transportation services, the trading of energy, capacity and related products in the U.S. and select international markets, and supply of electricity and energy services to retail electricity customers in the Texas market.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with the SEC 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 following notes should be read in conjunction with the accounting policies and other disclosures as set forth in the notes to the Company s financial statements in its Annual Report on Form 10-K for the year ended December 31, 2009, or 2009 Form 10-K. Interim results are not necessarily indicative of results for a full year.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all material adjustments consisting of normal and recurring accruals necessary to present fairly the Company s consolidated financial position as of September 30, 2010, the results of operations for the three and nine months ended September 30, 2010, and 2009, and cash flows for the nine months ended September 30, 2010, and 2009. 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.

Note 2 Summary of Significant Accounting Policies

Other Cash Flow Information

NRG s investing activities do not include capital expenditures of $215 million which were accrued and unpaid at September 30, 2010.

Recent Accounting Developments

ASU No. 2009-17 On January 1, 2010, the Company adopted the provisions of ASU No. 2009-17, *Consolidations: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, or ASU 2009-17. This guidance amends ASC 810 by altering how a company determines when an entity that is insufficiently capitalized or not controlled through its voting interests should be consolidated. The previous ASC 810 guidance required a quantitative analysis of the economic risk/rewards of a Variable Interest Entity, or a VIE, to determine the primary beneficiary. ASU 2009-17 specifies that a qualitative analysis be performed, requiring the primary beneficiary to have both the power to direct the activities of a VIE that most significantly impact the entities economic performance, as well as either the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The Company s adoption of ASU 2009-17 on January 1, 2010, did not have an impact on its results of operations, financial position or cash flows.

ASU No. 2010-10 In February 2010, the FASB issued ASU No. 2010-10, *Consolidation (Topic 810): Amendments for Certain Investment Funds*, or ASU 2010-10. The amendments to ASC 810 clarify that related parties should be considered when evaluating the criteria for determining whether a decision maker s or service provider s fee represents a variable interest. In addition, the amendments clarify that a quantitative calculation should not be the sole basis for evaluating whether a decision maker s or service provider s fee represents a variable interest. The Company adopted the provisions of ASU 2010-10 effective January 1, 2010, with no impact on its results of operations, financial position or cash flows.

Other effects of ASU 2009-17/ASU 2010-10 adoption NRG determined that one of its equity method investments was a VIE as of January 1, 2010, upon adoption of this new guidance. NRG owns a 50% interest in Sherbino I Wind Farm LLC, or Sherbino, a 150 MW wind farm operated as a joint venture with BP Wind Energy North America Inc. The Company has determined that Sherbino is a VIE, but the Company is not the primary beneficiary, under the amended guidance in ASU 2009-17 and ASU 2010-10. Therefore, NRG will continue to account for its investment in Sherbino under the equity method. NRG s maximum exposure to loss is limited to its equity investment, which is $100 million as of September 30, 2010.

Borrowings of an equity method investment In December 2008, Sherbino entered into a 15-year term loan facility which is non-recourse to NRG. As of September 30, 2010, the outstanding principal balance of the term loan facility was $131 million, and is secured by substantially all of Sherbino s assets and membership interests.

ASU No. 2010-09 In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*, or ASU 2010-09. Under the amendments of ASU 2010-09, an entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. As this guidance provides only disclosure requirements, the adoption of ASU 2010-09 effective January 1, 2010, did not impact the Company s results of operations, financial position or cash flows.

Other The following accounting standards were adopted on January 1, 2010, with no impact on the Company s results of operations, financial position or cash flows:

ASU No. 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*, or ASU 2009-15.

ASU No. 2010-02, *Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary a Scope Clarification,* or ASU 2010-02.

ASU No. 2010-06, *Fair Value Measurement and Disclosures: Improving Disclosures about Fair Value Measurements*, or ASU 2010-06.

Note 3 Comprehensive Income

The following table summarizes the components of the Company s comprehensive income/(loss), net of tax:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Net income	$223	$278	$491	$908
Changes in derivative activity	59	(73)	162	(9)
Foreign currency translation adjustment	36	20	(6)	38
Reclassification adjustment for translation gain realized upon sale of foreign investments				(22)
Unrealized gain/(loss) on available-for-sale securities		1	(1)	3
Other comprehensive income/(loss)	95	(52)	155	10
Less: Comprehensive loss attributable to noncontrolling interest			(1)	(1)

Comprehensive income attributable to NRG Energy, Inc.	$318	$226	$647	$919

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The following table summarizes the changes in the Company s accumulated other comprehensive income, net of tax:

(In millions)	
Accumulated other comprehensive income as of December 31, 2009	$416
Changes in derivative activity	162
Foreign currency translation adjustment	(6)
Unrealized loss on available-for-sale securities	(1)
Accumulated other comprehensive income as of September 30, 2010	$571

Note 4 Business Acquisitions and Dispositions

Acquisitions Closed or Announced in 2010

The following acquisitions were announced during the third quarter of 2010:

Green Mountain On September 16, 2010, NRG agreed to acquire Green Mountain Energy Company, or Green Mountain, for $350 million in cash. Austin-based Green Mountain, a leading retail provider of clean energy products and services, has residential and commercial customers primarily in Texas, Oregon, and the New York metro region. Green Mountain also delivers renewable products and services to select utilities that are better for the environment, as well as providers in New York and New Jersey. Green Mountain, which will be managed and operated as a distinct retail business within NRG, offers cleaner electricity products from renewable sources and a variety of carbon offset products. NRG anticipates funding the transaction with cash on hand. The transaction, which is expected to close in November 2010, has received the required regulatory approvals, but remains subject to customary closing conditions.

Dynegy Plants On August 13, 2010, NRG signed a definitive agreement with an affiliate of The Blackstone Group L.P., or Blackstone, to purchase 3,884 MW of Dynegy Inc., or Dynegy, assets in California and Maine for $1.36 billion in cash. The Dynegy plants in California consist of 1,020 MW of combined cycle, 2,159 MW of steam turbine, and 165 MW of combustion turbine generating capacity, each gas-fired with the exception of an oil-fired combustion turbine. The Maine plant is a 540 MW gas-fired combined cycle facility. Out of the total California capacity to be acquired, 2,159 MW are under tolling agreements with 165 MW under an RMR agreement. The Maine plant dispatches into ISO-NE where it earns capacity revenues. The Company anticipates funding the acquisition with cash on hand. The acquisition is subject to the satisfaction of closing conditions, including the completion of Blackstone s acquisition of Dynegy in a separately announced merger (which, itself, requires a vote by the shareholders of Dynegy), and the receipt of required government approvals. There are no assurances that the conditions to Blackstone s acquisition of Dynegy will be satisfied or that Blackstone s acquisition of Dynegy will be consummated on the terms agreed to, if at all.

Cottonwood On August 12, 2010, NRG agreed to acquire the Cottonwood Generating Station, a 1,279 MW combined cycle natural gas plant in the Entergy zone of east Texas, or Cottonwood, from Kelson Limited Partnership for $525 million in cash. The Company intends to fund the Cottonwood acquisition with cash on hand. The Cottonwood acquisition is expected to close by year end, subject to customary closing conditions and regulatory approvals.

The following acquisitions closed during the second quarter of 2010:

Northwind Phoenix On June 22, 2010, NRG, through its wholly-owned subsidiary, NRG Thermal LLC, or NRG Thermal, acquired Northwind Phoenix, LLC, or Northwind Phoenix, for a total purchase price of $100 million in cash, plus a payment for acquired working capital. Northwind Phoenix owns and operates a district cooling system that provides chilled water to commercial buildings in the Phoenix central business district. In addition, Northwind Phoenix maintains and operates Combined Heat and Power plants that provide chilled water, steam and electricity in metropolitan Tucson and to portions of Arizona State University campuses in Tempe and Mesa. The acquisition was financed by the issuance of $100 million in notes by NRG Thermal. See Note 8, *Long-Term Debt* to this Form 10-Q, for information related to the notes issued.

South Trent On June 14, 2010, NRG acquired South Trent Wind LLC, owner of the South Trent wind farm, or South Trent, a 101 MW wind farm near Sweetwater, Texas, for a total purchase price of $111 million. South Trent commenced operations in January 2009 and consists of 44 turbines producing up to 2.3 MW of power each. The project has a 20-year PPA, which commenced January 2009, for all generation from the site. In connection with the acquisition, NRG paid $32 million in cash and South Trent entered into a financing arrangement that includes a $79 million term loan. See Note 8, *Long-Term Debt* to this Form 10-Q, for information related to this financing arrangement.

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2009 Acquisition of Reliant Energy

As discussed more fully in Note 3 *Business Acquisitions*, to the Company s 2009 Form 10-K, NRG acquired Reliant Energy on May 1, 2009, for total consideration of approximately $401 million. The following measurement period adjustments to the provisional amounts recorded as of December 31, 2009, attributable to refinement of the underlying appraisal assumptions, were recognized during the first quarter of 2010, the end of the measurement period: customer relationships decreased by $6 million and current and non-current liabilities increased by $6 million, resulting in no change to net assets acquired. The accounting for this business combination was completed on March 31, 2010.

Dispositions

Padoma On January 11, 2010, NRG sold its terrestrial wind development company, Padoma Wind Power LLC, or Padoma, to Enel North America, Inc., or Enel. NRG retained its existing ownership interest in its three Texas wind farms: Sherbino, Elbow Creek and Langford. In addition, NRG will maintain a strategic partnership with Enel to evaluate potential opportunities in renewable energy, including the opportunity to participate in wind projects currently in development. NRG recognized a gain on the sale of Padoma of $23 million, which was recorded as a component of operating income in the statement of operations.

MIBRAG On June 10, 2009, NRG sold its 50% ownership interest in Mibrag B.V. whose principal holding was MIBRAG. For its share, NRG received EUR 203 million ($284 million at an exchange rate of 1.40 U.S.$/EUR), net of transaction costs. During the nine months ended September 30, 2009, NRG recognized an after-tax gain of $128 million. Prior to completion of the sale, NRG continued to record its share of MIBRAG s operations to Equity in earnings of unconsolidated affiliates. In connection with the transaction, NRG entered into a foreign currency forward contract to hedge the impact of exchange rate fluctuations on the sale proceeds. For the nine months ended September 30, 2009, NRG recorded an exchange loss of $24 million on the contract within Other income/(expense), net.

Note 5 Fair Value of Financial Instruments

The estimated carrying values and fair values of NRG s recorded financial instruments are as follows:

	Carrying Amount		Fair Value	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
	(In millions)			
Assets:				
Cash and cash equivalents	$3,447	$ 2,304	$3,447	$ 2,304
Funds deposited by counterparties	457	177	457	177
Restricted cash	19	2	19	2
Cash collateral paid in support of energy risk management activities	477	361	477	361
Investment in available-for-sale securities (classified within other non-current assets):				
Debt securities	7	9	7	9
Marketable equity securities	4	5	4	5
Trust fund investments	391	369	391	369
Notes receivable	178	231	192	238
Derivative assets	3,480	2,319	3,480	2,319
Restricted cash supporting funded letter of credit facility	1,301		1,301	
Liabilities:				
Long-term debt, including current portion	9,112	8,295	9,290	8,211
Funded letter of credit	1,300		1,271	

Cash collateral received in support of energy risk management activities	457	177	457	177
Derivative liabilities	$2,572	$ 1,860	$2,572	$ 1,860

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Recurring Fair Value Measurements

The following table presents assets and liabilities measured and recorded at fair value on the Company s condensed consolidated balance sheet on a recurring basis and their level within the fair value hierarchy:

(In millions)	Fair Value			
As of September 30, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$3,447	$	$	$3,447
Funds deposited by counterparties	457			457
Restricted cash	19			19
Cash collateral paid in support of energy risk management activities	477			477
Investment in available-for-sale securities (classified within other non-current assets):				
Debt securities			7	7
Marketable equity securities	4			4
Trust fund investments				
Cash and cash equivalents	12			12
U.S. government and federal agency obligations	31			31
Federal agency mortgage-backed securities		57		57
Commercial mortgage-backed securities		10		10
Corporate debt securities		51		51
Marketable equity securities	191		37	228
Foreign government fixed income securities		2		2
Derivative assets				
Commodity contracts	1,219	2,194	59	3,472
Interest rate contracts			8	8
Restricted cash supporting funded letter of credit facility	1,301			1,301
Total assets	$7,158	$2,314	$111	$9,583
Cash collateral received in support of energy risk management activities	$ 457	$	$	$ 457
Derivative liabilities				
Commodity contracts	1,347	993	112	2,452
Interest rate contracts		120		120
Total liabilities	$1,804	$1,113	$112	$3,029

(In millions)	Fair Value			
As of December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$2,304	$	$	$2,304
Funds deposited by counterparties	177			177
Restricted cash	2			2
	361			361

Cash collateral paid in support of energy risk management activities				
Investment in available-for-sale securities (classified within other non-current assets):				
Debt securities			9	9
Marketable equity securities	5			5
Trust fund investments	214	118	37	369
Derivative assets	489	1,767	63	2,319
Total assets	$3,552	$1,885	$109	$5,546
Cash collateral received in support of energy risk management activities	$ 177	$	$	$ 177
Derivative liabilities	501	1,283	76	1,860
Total liabilities	$ 678	$1,283	$ 76	$2,037

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There have been no transfers during the three months and nine months ended September 30, 2010, between Levels 1 and 2. The following table reconciles the beginning and ending balances for financial instruments that are recognized at fair value in the consolidated financial statements using significant unobservable inputs:

	Three months ended September 30, 2010				Nine months ended September 30, 2010			
(In millions)	**Debt Securities**	**Trust Fund Investments**	**Derivatives[(a)]**	**Total**	**Debt Securities**	**Trust Fund Investments**	**Derivatives[(a)]**	**Total**
Beginning Balance	$10	$ 32	$ (76)	$(34)	$ 9	$ 37	$ (13)	$ 33
Total gains/(losses) (realized and unrealized)								
Included in earnings	3		18	21	3		(13)	(10)
Included in OCI	(1)			(1)				
Included in nuclear decommissioning obligations		5		5				
Purchases			(10)	(10)			(1)	(1)
Sales	(5)			(5)	(5)			(5)
Transfer into Level 3 [(b)]			31	31			(16)	(16)
Transfer out of Level 3 [(b)]			(8)	(8)			(2)	(2)
Ending balance as of September 30, 2010	$ 7	$ 37	$ (45)	$ (1)	$ 7	$ 37	$ (45)	$ (1)
The amount of the total gains for the period included in earnings attributable to the change in unrealized gains relating to assets still held as of September 30, 2010	$	$	$ 12	$ 12	$	$	$ (24)	$ (24)

	Three months ended September 30, 2009				Nine months ended September 30, 2009			
(In millions)	**Debt Securities**	**Trust Fund Investments**	**Derivatives[(a)]**	**Total**	**Debt Securities**	**Trust Fund Investments**	**Derivatives[(a)]**	**Total**
Beginning Balance	$ 7	$ 34	$ 50	$ 91	$ 7	$ 31	$ 49	$ 87
Total gains/(losses) (realized and unrealized)								
Included in earnings			(80)	(80)			(110)	(110)
Included in OCI	1			1	1			1
Included in nuclear decommissioning obligations		6		6		8		8
Purchases/(sales), net			1	1		1	(3)	(2)
			(41)	(41)			(6)	(6)

Transfer in/(out) of Level 3 (b)								
Ending balance as of September 30, 2009	$ 8	$ 40	$ (70)	$(22)	$ 8	$ 40	$ (70)	$ (22)
The amount of the total gains for the period included in earnings attributable to the change in unrealized gains relating to assets still held as of September 30, 2009	$	$	$ (25)	$(25)	$	$	$ 3	$ 3

(a) Consists of derivative assets and liabilities, net.

(b) Transfers in/(out) of Level 3 are related to the availability of external broker quotes, and are valued as of the end of the reporting period. All transfers in/(out) are with Level 2.

Realized and unrealized gains and losses included in earnings that are related to the energy derivatives are recorded in operating revenues and cost of operations.

In determining the fair value of NRG s Level 2 and 3 derivative contracts, NRG applies a credit reserve to reflect credit risk which is calculated based on credit default swaps. As of September 30, 2010, the credit reserve resulted in a $6 million decrease in fair value which is composed of a $3 million loss in OCI and a $3 million loss in operating revenue and cost of operations.

Concentration of Credit Risk

In addition to the credit risk discussion as disclosed in Note 2, *Summary of Significant Accounting Policies*, to the Company s 2009 Form 10-K, the following item is a discussion of the concentration of credit risk for the Company s financial instruments. Credit risk relates to the risk of loss resulting from non-performance or non-payment by counterparties pursuant to the terms of their contractual obligations. NRG is exposed to counterparty credit risk through various activities including wholesale sales, fuel purchases and retail supply and retail customer credit risk through its retail load activities.

Counterparty Credit Risk

The Company monitors and manages counterparty credit risk through credit policies that include: (i) an established credit approval process; (ii) a daily monitoring of counterparties credit limits; (iii) the use of credit mitigation measures such as margin, collateral, prepayment arrangements, or volumetric limits; (iv) the use of payment netting agreements; and (v) the use of master netting agreements that allow for the netting of positive and negative exposures of various contracts associated with a single counterparty. Risks surrounding counterparty performance and credit could ultimately impact the amount and timing of expected cash flows. The Company seeks to mitigate counterparty credit risk with a diversified portfolio of counterparties. The Company also has credit protection within various agreements to call on additional collateral support if and when necessary. Cash margin is collected and held at NRG to cover the credit risk of the counterparty until positions settle.

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As of September 30, 2010, counterparty credit exposure to a significant portion of the Company s counterparties was $1.7 billion and NRG held collateral (cash and letters of credit) against those positions of $461 million, resulting in a net exposure of $1.2 billion. Counterparty credit exposure is discounted at the risk free rate. The following table highlights the counterparty credit quality and the net counterparty credit exposure by industry sector. Net counterparty credit exposure is defined as the aggregate net asset position for NRG with counterparties where netting is permitted under the enabling agreement and includes all cash flow, mark-to-market and Normal Purchase Normal Sale, or NPNS, and non-derivative transactions. The exposure is shown net of collateral held, and includes amounts net of receivables or payables.

Category	Net Exposure (b) (% of Total)
Financial institutions	63%
Utilities, energy, merchants, marketers and other	27
Coal suppliers	6
ISOs	4
Total as of September 30, 2010	100%

Category	Net Exposure (b) (% of Total)
Investment grade	75%
Non-Investment grade	6
Non-rated (a)	19
Total as of September 30, 2010	100%

(a) *For non-rated counterparties, the majority are related to ISO and municipal public power entities, which are considered investment grade equivalent ratings based on NRG s internal credit ratings.*

(b) *Counterparty credit exposure excludes uranium and coal transportation contracts from counterparty credit exposure because of the illiquidity of the reference markets.*

NRG has counterparty credit risk exposure to certain counterparties representing more than 10% of the total net exposure discussed above and the aggregate of such counterparties was $435 million. Approximately 79% of NRG s positions relating to this credit risk roll-off by the end of 2012. Changes in hedge positions and market prices will affect credit exposure and counterparty concentration. Given the credit quality, diversification and term of the exposure in the portfolio, NRG does not anticipate a material impact on the Company s financial results or results of operations from nonperformance by any of NRG s counterparties.

Counterparty credit exposure described above excludes credit risk exposure under California tolling agreements, Northeast and South Central load obligations and a coal supply agreement, which are generally long-term. As external sources or observable market quotes are not available to estimate such exposure, the Company valued these contracts based on various techniques including but not limited to internal models based on a fundamental analysis of the market and extrapolation of observable market data with similar characteristics. Based on these valuation techniques, as of September 30, 2010, credit risk exposure to these counterparties is approximately $550 million. Many of these power contracts are with utilities or public power entities that have strong credit quality and specific public utility commission or other regulatory support. In the case of the coal supply agreement, NRG holds a lien against the underlying asset. These factors significantly reduce the risk of loss.

Retail Customer Credit Risk

NRG is exposed to retail credit risk through the Company s competitive electricity supply business, which serves C&I customers and the Mass market in Texas. Retail credit risk results when a customer fails to pay for services rendered. The losses may result from both nonpayment of customer accounts receivable and the loss of in-the-money forward value. NRG manages retail credit risk through the use of established credit policies that include monitoring of the portfolio, and the use of credit mitigation measures such as deposits or prepayment arrangements.

As of September 30, 2010, the Company s retail customer credit exposure to C&I customers was diversified across many customers and various industries, with a significant portion of the exposure with government entities.

NRG is also exposed to retail customer credit risk relating to its Mass customers, which results in a write-off of bad debt. During 2010, the Company continued to experience improved customer payment behavior, but current economic conditions may affect the ability of the Company s customers to pay bills in a timely manner, which could increase customer delinquencies and may lead to an increase in bad debt expense.

This footnote should be read in conjunction with the complete description under Note 5, *Fair Value of Financial Instruments*, to the Company s 2009 Form 10-K.

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Note 6 Nuclear Decommissioning Trust Fund

NRG s nuclear decommissioning trust fund assets, which are for its portion of the decommissioning of the South Texas Project, or STP, are comprised of securities classified as available-for-sale and recorded at fair value based on actively quoted market prices. NRG accounts for the nuclear decommissioning trust fund in accordance with ASC-980 *Regulated Operations*, or ASC 980. Since the Company is in compliance with the Public Utility Commission of Texas, or PUCT, rules and regulations regarding decommissioning trusts and the cost of decommissioning is the responsibility of the Texas ratepayers, not NRG, all realized and unrealized gains or losses (including other than-temporary-impairments) related to the Nuclear Decommissioning Trust Fund are recorded to the Nuclear Decommissioning Trust Liability to the ratepayers and are not included in net income or accumulated other comprehensive income, consistent with regulatory treatment.

The following table summarizes the aggregate fair values and unrealized gains and losses (including other-than-temporary impairments) for the securities held in the trust funds as of September 30, 2010, and December 31, 2009, as well as information about the contractual maturities of those securities. The cost of securities sold is determined on the specific identification method.

	As of September 30, 2010				As of December 31, 2009			
(In millions, except otherwise noted)	**Fair Value**	**Unrealized gains**	**Unrealized losses**	**Weighted-average maturities (in years)**	**Fair Value**	**Unrealized gains**	**Unrealized losses**	**Weighted-average maturities (in years)**
Cash and cash equivalents	$ 12	$	$		$ 4	$	$	
U.S. government and federal agency obligations	29	2		10	23	1		8
Federal agency mortgage-backed securities	57	2		22	60	2		23
Commercial mortgage-backed securities	10			29	10		1	29
Corporate debt securities	51	4	1	10	48	3	1	10
Marketable equity securities	228	95	1		220	89	2	
Foreign government fixed income securities	2			7	2			6
Total	$389	$103	$ 2		$367	$ 95	$ 4	

The following tables summarize proceeds from sales of available-for-sale securities and the related realized gains and losses from these sales:

	Nine months ended September 30,	
(In millions)	**2010**	**2009**
Realized gains	$ 4	$ 2
Realized losses	2	2
Proceeds from sale of securities	219	218

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Note 7 Accounting for Derivative Instruments and Hedging Activities

This footnote should be read in conjunction with the complete description under Note 6, *Accounting for Derivative Instruments and Hedging Activities*, to the Company s 2009 Form 10-K.

Energy-Related Commodities

As of September 30, 2010, NRG had cash flow hedge energy-related derivative financial instruments extending through December 2013.

Interest Rate Swaps

NRG is exposed to changes in interest rates through the Company s issuance of variable and fixed rate debt. In order to manage the Company s interest rate risk, NRG enters into interest rate swap agreements. As of September 30, 2010, NRG had interest rate derivative instruments extending through June 2028, the majority of which had been designated as either cash flow or fair value hedges.

Volumetric Underlying Derivative Transactions

The following table summarizes the net notional volume buy/(sell) of NRG s open derivative transactions broken out by commodity, excluding those derivatives that qualified for the NPNS exception as of September 30, 2010, and December 31, 2009. Option contracts are reflected using delta volume. Delta volume equals the notional volume of an option adjusted for the probability that the option will be in-the-money at its expiration date.

		Total Volume	
		September 30, 2010	**December 31, 2009**
Commodity	**Units**	**(In millions)**	
Emissions	Short Ton	(7)	(2)
Coal	Short Ton	39	55
Natural Gas	MMBtu	(189)	(484)
Oil	Barrel		1
Power	MWh	1	5
Capacity	MW/Day	(1)	(2)
Interest	Dollars	$3,203	$ 3,291

Fair Value of Derivative Instruments

The following table summarizes the fair value within the derivative instrument valuation on the balance sheet:

	Fair Value			
	Derivative Assets		**Derivative Liabilities**	
(In millions)	**September 30, 2010**	**December 31, 2009**	**September 30, 2010**	**December 31, 2009**
Derivatives Designated as Cash Flow or Fair Value Hedges:				
Interest rate contracts current	$	$	$ 34	$ 2
Interest rate contracts long-term	8	8	85	106
Commodity contracts current	478	300	2	12
Commodity contracts long-term	562	508		6
Total Derivatives Designated as Cash Flow or Fair Value Hedges	1,048	816	121	126

Derivatives Not Designated as Cash Flow or Fair Value Hedges:				
Commodity contracts current	2,001	1,336	2,036	1,459
Commodity contracts long-term	431	167	414	275
Interest rate contracts long-term			1	
Total Derivatives Not Designated as Cash Flow or Fair Value Hedges	2,432	1,503	2,451	1,734
Total Derivatives	$3,480	$ 2,319	$2,572	$ 1,860

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Accumulated Other Comprehensive Income

The following table summarizes the effects of ASC 815 on NRG s Accumulated OCI balance attributable to cash flow hedge derivatives, net of tax:

	Three months ended September 30, 2010			Nine months ended September 30, 2010		
(In millions)	**Energy Commodities**	**Interest Rate**	**Total**	**Energy Commodities**	**Interest Rate**	**Total**
Beginning balance	$ 575	$ (66)	$ 509	$ 461	$ (55)	$ 406
Reclassified from Accumulated OCI to income:						
- Due to realization of previously deferred amounts	(110)		(110)	(344)		(344)
Mark-to-market of cash flow hedge accounting contracts	173	(4)	169	521	(15)	506
Accumulated OCI balance at September 30, 2010, net of $342 tax	$ 638	$ (70)	$ 568	$ 638	$ (70)	$ 568
Gains/(losses) expected to be realized from Accumulated OCI during the next 12 months, net of $224 tax	$ 407	$ (24)	$ 383	$ 407	$ (24)	$ 383
Gains recognized in income from the ineffective portion of cash flow hedges	$ 14	$	$ 14	$	$ 2	$ 2

	Three months ended September 30, 2009			Nine months ended September 30, 2009		
(In millions)	**Energy Commodities**	**Interest Rate**	**Total**	**Energy Commodities**	**Interest Rate**	**Total**
Beginning balance	$ 445	$ (66)	$ 379	$ 406	$ (91)	$ 315
Reclassified from Accumulated OCI to income:						
- Due to realization of previously deferred amounts	(75)		(75)	(263)		(263)
- Due to discontinuation of cash flow hedge accounting				(135)		(135)
Mark-to-market of cash flow hedge accounting contracts	4	(2)	2	366	23	389
Accumulated OCI balance at September 30, 2009, net of $189 tax	$ 374	$ (68)	$ 306	$ 374	$ (68)	$ 306
Gains/(losses) expected to be realized from OCI during the next 12 months, net of $172 tax	$ 288	$ (3)	$ 285	$ 288	$ (3)	$ 285

Gains recognized in income from the ineffective portion of cash flow hedges	$ 16	$ 4	$ 20	$ 17	$ 4	$ 21

Amounts reclassified from Accumulated OCI into income and amounts recognized in income from the ineffective portion of cash flow hedges are recorded to operating revenue for commodity contracts and interest expense for interest rate contracts.

The following table summarizes the amount of gain/(loss) resulting from fair value hedges reflected in interest income/(expense) for interest rate contracts:

	Three months ended September 30,		**Nine months ended September 30,**	
(In millions)	**2010**	**2009**	**2010**	**2009**
Derivative	$ (3)	$ 3	$	$ (5)
Senior Notes (hedged item)	3	(3)		5

Impact of Derivative Instruments on the Statement of Operations

In accordance with ASC 815, unrealized gains and losses associated with changes in the fair value of derivative instruments not accounted for as cash flow hedge derivatives and ineffectiveness of hedge derivatives are reflected in current period earnings.

The following table summarizes the pre-tax effects of economic hedges that did not qualify for cash flow hedge accounting, ineffectiveness on cash flow hedges, and trading activity on NRG s statement of operations. These amounts are included within operating revenues and cost of operations.

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Unrealized mark-to-market results				
Reversal of previously recognized unrealized (gains)/losses on settled positions related to economic hedges	$ (25)	$ 1	$ (116)	$ (33)
Reversal of loss positions acquired as part of the Reliant Energy acquisition as of May 1, 2009	7	238	157	448
Reversal of previously recognized unrealized losses/(gains) on settled positions related to trading activity	20	(21)	46	(125)
Net unrealized (losses)/gains on open positions related to economic hedges	(60)	(240)	(129)	70
Gains on ineffectiveness associated with open positions treated as cash flow hedges	14	16		17
Net unrealized gains/(losses) on open positions related to trading activity	9	(9)	32	(1)
Total unrealized mark-to-market results	$ (35)	$ (15)	$ (10)	$ 376

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Revenue from operations energy commodities	$ 27	$ (217)	$ 13	$ (100)
Cost of operations	(62)	202	(23)	476
Total impact to statement of operations	$ (35)	$ (15)	$ (10)	$ 376

Reliant Energy s loss positions were acquired as of May 1, 2009, and valued using forward prices on that date. The roll-off amounts were offset by realized losses at the settled prices and are reflected in the cost of operations during the same period.

For the nine months ended September 30, 2010, the $129 million loss from economic hedge positions is the result of a decrease in value of forward purchases and sales of natural gas, electricity and fuel due to a decrease in forward power and gas prices.

For the nine months ended September 30, 2009, the $70 million gain from economic hedge positions includes a $217 million gain recognized in earnings from previously deferred amounts in Accumulated OCI as the Company discontinued cash flow hedge accounting for certain 2009 transactions in Texas and New York due to lower expected generation, a $29 million loss from discontinued normal purchase and sales for coal purchases and a $118 million loss in value of forward purchases and sales of electricity and fuel due to a decrease in forward power and gas prices.

Credit Risk Related Contingent Features

Certain of the Company s hedging agreements contain provisions that require the Company to post additional collateral if the counterparty determines that there has been deterioration in credit quality, generally termed adequate assurance under the agreements, or require the Company to post additional collateral if there was a one notch downgrade in the Company s credit rating. The collateral required for contracts that have adequate assurance clauses that are in a net liability position as of September 30, 2010, was $51 million. The collateral required for contracts with credit rating contingent features was $55 million. The Company is also a party to certain marginable agreements where NRG has a net liability position but the counterparty has not called for the collateral due, which is approximately $16 million as of September 30, 2010.

See Note 5, *Fair Value of Financial Instruments*, to this Form 10-Q for discussion regarding concentration of credit risk.

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Note 8 Long-Term Debt

Senior Credit Facility

Prepayment

In March 2010, NRG made a repayment of approximately $229 million to its first lien lenders under the Term Loan Facility. This payment resulted from the mandatory annual offer of a portion of NRG s excess cash flow (as defined in the Senior Credit Facility) for 2009. The Company is contemplating making a prepayment on the 2011 mandatory offer related to 2010 in the fourth quarter of 2010.

Amendment and Extension of Maturity Dates

On June 30, 2010, NRG completed an amendment and extension of the Senior Credit Facility, resulting in the following:

NRG extended the maturity date for approximately $1.0 billion of its $2.0 billion outstanding Term Loan Facility to August 31, 2015, with the remaining amount due on the original maturity date of February 1, 2013. The interest rate for the extended portion of the facility increased from LIBOR+1.75% to LIBOR+3.25%;

Borrowing capacity under the Revolving Credit Facility was reduced from $1.0 billion to $875 million and its maturity was extended to August 31, 2015. The interest rate for the amended Revolving Credit Facility is LIBOR+3.25%;

The existing Synthetic Letter of Credit Facility was converted into a term loan-backed funded letter of credit facility, or Funded Letter of Credit Facility, with the term loan reflected as a non-current liability and the proceeds of the term loan reflected as non-current restricted cash on NRG s balance sheet. Of the total $1.3 billion borrowed under the term loan, $500 million will mature on February 1, 2013 and bear interest at LIBOR+1.75%, while $800 million will mature August 31, 2015, and bear interest at LIBOR+3.25%.

Restricted cash supporting funded letter of credit Pursuant to the letter of credit reimbursement agreements entered into as of September 30, 2010, or the LC Agreements, and the Senior Credit Facility, as amended, NRG made capital contributions to NRG LC Facility Company, or LCFC, a separate, bankruptcy-remote entity that is a wholly-owned subsidiary of NRG. In addition, pursuant to reimbursement agreements related to the LC Agreements, NRG or its subsidiaries is liable for certain reimbursement obligations to LCFC. As of September 30, 2010, LCFC has cash invested in short-term certificates of deposit with an aggregate market value of $1.3 billion. Pursuant to the LC Agreements, which have a maximum committed amount of $1.3 billion, LCFC is liable on various letters of credit issued by Deutsche Bank AG, New York Branch and Citibank, N.A. These letters of credit will be used to support the businesses of NRG and certain of its other subsidiaries and equity investments. LCFC has secured its reimbursement and other obligations under the LC Agreements with a pledge of the cash and cash equivalents that it owns. The LC Agreements require LCFC s assets to be used first and foremost to satisfy claims of creditors of LCFC. Although the cash and cash equivalents held by LCFC are included in the consolidated assets of NRG, such cash and cash equivalents are not available to creditors of NRG.

Expenses of approximately $46 million, including fees to the lenders and other fees, were deferred and will be expensed in part over the original term of maturity through 2013 and in part over the amended maturity through 2015.

As of September 30, 2010, NRG had issued $850 million of letters of credit under the Funded Letter of Credit Facility, leaving $450 million available for future issuances. Under the Revolving Credit Facility as of September 30, 2010, NRG had issued a letter of credit of $36 million, leaving $839 million available.

Issuance of 2020 Senior Notes

On August 20, 2010, NRG issued $1.1 billion aggregate principal amount at par of 8.25% Senior Notes due 2020, or 2020 Senior Notes. The 2020 Senior Notes were issued under an Indenture, dated February 2, 2006, between NRG and Law Debenture Trust Company of New York, as trustee, as amended through Supplemental Indentures, which is discussed in Note 12 *Debt and Capital Leases,* in the Company s 2009 Form 10-K. The Indentures and the form of the notes provide, among other things, that the 2020 Senior Notes will be senior unsecured obligations of NRG.

The net proceeds of $1.086 billion are intended to be used for general corporate purposes, including, without limitation, working capital needs, investment in business initiatives and capital expenditures, and potentially to prepay or repurchase outstanding indebtedness of NRG and/or its subsidiaries or to fund recently announced acquisitions. Interest is payable semi-annually beginning on March 1, 2011, until their maturity date of September 1, 2020. As of September 30, 2010, $1.1 billion in principal was outstanding under the 2020 Senior Notes.

Prior to September 1, 2013, NRG may redeem up to 35% of the aggregate principal amount of the 2020 Senior Notes with the net proceeds of certain equity offerings, at a redemption price of 108.25% of the principal amount. Prior to September 1, 2015, NRG may redeem all or a portion of the 2020 Senior Notes at a price equal to 100% of the principal amount plus a premium and accrued and unpaid 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 104.125% of the note, plus interest payments due on the note from the date of redemption through September 1, 2015, discounted at a Treasury rate plus 0.50%. In addition, on or after September 1, 2015, NRG may redeem some or all of the notes at redemption prices expressed as percentages of principal amount as set forth in the following table, plus accrued and unpaid interest on the notes redeemed to the first applicable redemption date:

Redemption Period	Redemption Percentage
On or after September 1, 2015	104.125%
On or after September 1, 2016	102.750%
On or after September 1, 2017	101.375%
On or after September 1, 2018	100.000%

Indian River Power LLC Tax-Exempt Bonds

On October 12, 2010, NRG executed a $190 million tax-exempt bond financing, or the Indian River bonds, through its wholly-owned subsidiary, Indian River Power LLC. The bonds were issued by the Delaware Economic Development Authority and will be used for construction of emission control equipment on the Indian River Generating Station in Millsboro, DE. The bonds were issued at a rate of 5.375%, have a maturity date of October 1, 2045, and are supported by an NRG guarantee. The proceeds received on October 12, 2010, were $66 million, and the remaining balance will be received over time as construction costs are paid.

Dunkirk Power LLC Tax-Exempt Bonds

On February 1, 2010, the Company fixed the rate on the Dunkirk bonds originally issued in April 2009, at 5.875%. In addition, the $59 million letter of credit issued by NRG in support of the bonds was cancelled and replaced with an NRG guarantee.

Debt Related to Capital Allocation Program

On March 3, 2010, the Company completed the early unwinding of the CSF I Debt by remitting a cash payment to Credit Suisse, or CS, of $242 million to settle the outstanding principal and interest, as compared to $249 million that would have been due at maturity in June 2010. As part of the unwind, CS returned to NRG 6,600,000 shares of NRG common stock borrowed under the Share Lending Agreement, or SLA, between the parties and released all 12,441,973 shares of NRG common stock held as collateral for the CSF I Debt. The 6,600,000 shares of NRG common stock were returned to treasury stock and will no longer be treated as outstanding for corporate law purposes. The Company has now settled all obligations related to the CSF I and II Debt entered into in 2006, as amended from time to time, as well as the SLA entered into in February 2009.

Blythe Credit Agreement

On June 24, 2010, NRG Solar Blythe LLC, or Blythe, entered into a credit agreement with a bank, or the Blythe Credit Agreement, for a $30 million term loan which has an interest rate of LIBOR plus an applicable margin which escalates 0.25% every three years and ranges from 2.5% at closing to 3.75% in year fifteen. The term loan matures in June 2028, amortizes based upon a predetermined schedule, and is secured by all of the assets of Blythe. The bank has also issued two letters of credit on behalf of Blythe totaling approximately $6.4 million. Blythe pays an availability fee of 100% of the applicable margin on these issued letters of credit.

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Also related to the Blythe Credit Agreement, on June 25, 2010, Blythe entered into a fixed for floating interest rate swap for 75% of the outstanding term loan amount, intended to hedge the risks associated with floating interest rates. Blythe will pay its counterparty the equivalent of a 3.563% fixed interest payment on a predetermined notional value, and Blythe will receive quarterly the equivalent of a floating interest payment based on a three month LIBOR calculated on the same notional value. All interest rate swap payments by Blythe and its counterparty are made quarterly and the LIBOR is determined in advance of each interest period. The notional amount of the swap, which matures on June 25, 2028, is $22 million and amortizes in proportion to the loan.

South Trent Financing Agreement

On June 14, 2010, NRG completed the acquisition of South Trent, as discussed in Note 4, *Business Acquisitions and Dispositions* to this Form 10-Q. As part of the purchase price consideration, South Trent entered into the Amended and Restated Financing Agreement, or Financing Agreement, with a group of lenders, which matures on June 14, 2020. The Financing Agreement includes a $79 million term loan, as well as a $10 million letter of credit facility in support of the PPA, for which the full amount had been issued as of September 30, 2010. The Financing Agreement also provides for up to $8 million in additional letter of credit facilities, none of which are utilized as of September 30, 2010. The term loan accrues interest at LIBOR plus a margin based upon a grid, which is initially 2.50% and increases every two years by 12.5 basis points. The term loan amortizes quarterly based upon a predetermined schedule with the unamortized portion due at maturity.

Under the terms of the Financing Agreement, South Trent was required to enter into interest rate protection agreements that would fix the interest rate for a minimum of 75% of the outstanding principal amount. Accordingly, on June 14, 2010, South Trent entered into five interest rate swaps, intended to hedge the risks associated with floating interest rates. For each of the interest rate swaps, South Trent will pay its counterparty the equivalent of a 3.265% fixed interest payment on a predetermined notional value, and South Trent will receive the quarterly equivalent of a floating interest payment based on a three month LIBOR calculated on the same notional value. All interest rate swap payments by South Trent and its counterparties are made quarterly and the LIBOR is determined in advance of each interest period. The total notional amount of these swaps, which mature on June 14, 2020, is $59 million. The swaps amortize in proportion to the loan.

South Trent also entered into a series of forward-starting interest rate swaps that will become effective June 14, 2020, and are effective for eight years. The swaps are intended to hedge the risks associated with floating interest rates. For each of the interest rate swaps, South Trent will pay its counterparty the equivalent of a 4.95% fixed interest payment on a predetermined notional value, and receive the quarterly equivalent of a floating interest payment based on a three month LIBOR calculated on the same notional value. All interest rate swap payments by South Trent and its counterparties will be made quarterly and the LIBOR is determined in advance of each interest period. The total notional amount of these swaps, which will mature on June 14, 2028, is $21 million.

NRG Thermal Financing

On June 22, 2010, NRG Thermal s largest subsidiary, NRG Energy Center Minneapolis LLC, or NRG Thermal Minneapolis, issued $100 million of 5.95% Series C notes due June 23, 2025, or the Series C Notes. The Series C Notes are secured by substantially all of the assets of NRG Energy Center Minneapolis. NRG Thermal has guaranteed the indebtedness and its guarantee is secured by a pledge of the equity interest in all of NRG Thermal s subsidiaries. At the same time, NRG Thermal amended agreements for its other outstanding notes to conform to the covenants of the Series C Notes. The proceeds of the loan were used to finance the acquisition of Northwind Phoenix, as discussed in Note 4, *Business Acquisitions and Dispositions* to this Form 10-Q.

GenConn Energy LLC Related Financings

NRG Connecticut Peaking Development LLC, or NRG Connecticut Peaking, made funding requests under the equity bridge loan, or EBL, during the quarter. The EBL is backed by a letter of credit issued by NRG under its Funded Letter of Credit Facility equal to at least 104% of the amount outstanding. On September 29, 2010, the Devon project reached its commercial operations date, or COD, in accordance with the financing documents. Accordingly, NRG Connecticut Peaking repaid the $55 million portion of the EBL used to fund the Devon project, and converted $56 million of a promissory note from GenConn into equity. As of September 30, 2010, $61 million was outstanding under the EBL for the Middletown project and the remaining amounts will be drawn as necessary.

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Borrowings of an equity method investment In April 2009, GenConn secured financing for 50% of the Devon and Middletown project construction costs through a seven-year term loan facility, and also entered into a five-year revolving working capital loan and letter of credit facility, which collectively with the term loan is referred to as the GenConn Facility. The aggregate credit amount secured under the GenConn Facility, which is non-recourse to NRG, is $291 million, including $48 million for the revolving facility. GenConn began to draw under the GenConn Facility to cover costs related to the Devon project in August 2009, and the Middletown project in June 2010. As of September 30, 2010, $164 million had been drawn.

NINA Financing

As of September 30, 2010, NINA had $7 million outstanding under the TANE Facility. On June 1, 2010, NINA repaid $20 million outstanding under its revolving credit facility, and the facility was terminated.

Note 9 Changes in Capital Structure

The following table reflects the changes in NRG s common stock issued and outstanding:

	Authorized	Issued	Treasury	Outstanding
Balance as of December 31, 2009	500,000,000	295,861,759	(41,866,451)	253,995,308
Shares issued under LTIP		440,517		440,517
Shares issued under NRG Employee Stock Purchase Plan, or ESPP			120,990	120,990
Capital Allocation Plan			(5,422,292)	(5,422,292)
Shares returned by affiliates of CS			(6,600,000)	(6,600,000)
4% Preferred Stock conversion		7,701,450		7,701,450
Balance as of September 30, 2010	500,000,000	304,003,726	(53,767,753)	250,235,973

2010 Capital Allocation Plan

As part of the Company s 2010 Capital Allocation Plan, the Company repurchased $50 million of NRG s common stock through open market purchases in the second quarter of 2010. On August 26, 2010, the Company entered into an accelerated share repurchase agreement, or ASR Agreement, with a financial institution to repurchase a total of $130 million of NRG common stock, based on a volume weighted average price less a specified discount. On August 27, 2010, under the ASR Agreement, the Company remitted $130 million to the financial institution, and received 3,208,292 shares of NRG common stock with a fair value of $65 million, with the remaining shares to be delivered at settlement. The ASR Agreement was accounted for as two separate transactions: a $65 million purchase of NRG common stock at cost; and a $65 million forward contract indexed to the Company s own stock. Both transactions were recorded as treasury stock on August 27, 2010. The ASR Agreement settled on October 22, 2010, and the Company received an additional 3,040,919 shares of NRG common stock. The shares repurchased under the ASR Agreement complete the Company s previously announced $180 million share buyback program for 2010.

Share Lending Agreements

As part of the CSF I Debt unwind on March 3, 2010, CS returned to NRG 6,600,000 shares of NRG common stock borrowed under the SLA between the parties. The 6,600,000 shares of NRG common stock were returned to treasury stock and will no longer be treated as outstanding for corporate law purposes. See Note 8, *Long-Term Debt*, to this Form 10-Q for more information.

4% Preferred Stock

As of January 21, 2010, the Company completed the redemption of all remaining outstanding shares of 4% Preferred Stock, with holders converting 154,029 Preferred Stock shares into 7,701,450 shares of common stock and the Company redeeming 28 Preferred Stock shares for $28 thousand in cash.

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Note 10   Equity Compensation

Non-Qualified Stock Options, or NQSOs

The following table summarizes the Company s NQSO activity, and changes during the nine months then ended:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (In millions)
Outstanding as of December 31, 2009	4,793,585	$ 25.07	
Granted	754,200	23.79	
Exercised	(111,331)	22.12	
Forfeited	(367,702)	29.97	
Outstanding at September 30, 2010	5,068,752	24.59	$ 10
Exercisable at September 30, 2010	3,355,564	$ 23.70	$ 10

The weighted average grant date fair value of NQSOs granted for the nine months ended September 30, 2010, was $10.67.

Restricted Stock Units, or RSUs

The following table summarizes the Company s non-vested RSU awards, and changes during the nine months then ended:

	Units	Weighted Average Grant-Date Fair Value Per Unit
Non-vested as of December 31, 2009	1,614,769	$ 30.78
Granted	352,600	23.66
Vested	(469,650)	37.00
Forfeited	(133,350)	29.65
Non-vested as of September 30, 2010	1,364,369	$ 26.90

Performance Units, or PUs

The following table summarizes the Company s non-vested PU awards, and changes during the nine months then ended:

	Units	Weighted Average Grant-Date Fair Value Per Unit
Non-vested as of December 31, 2009	617,300	$ 24.27
Granted	348,500	23.81

Forfeited	(209,800)		23.02
Non-vested as of September 30, 2010	756,000	$	24.40

In the nine months ended September 30, 2010, there were no performance unit payouts in accordance with the terms of the performance units.

Deferral Stock Units, or DSUs

The following table summarizes the Company s outstanding DSU awards, and changes during the nine months then ended:

	Units	**Weighted Average Grant-Date Fair Value Per Unit**
Outstanding as of December 31, 2009	304,049	$ 19.34
Granted	59,067	22.18
Conversions	(28,395)	21.77
Outstanding as of September 30, 2010	334,721	$ 19.63

On July 29, 2010, the Company s stockholders approved the Amended and Restated Long Term Incentive Plan, which included an increase in the shares authorized for issuance under the plan from 16 million shares to 22 million shares.

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Note 11 Earnings Per Share

Basic earnings per share attributable to NRG common stockholders is computed by dividing net income attributable to NRG Energy Inc. adjusted for 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 attributable to NRG common stockholders 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.

On March 3, 2010, as part of the CSF I Debt unwind, CS returned 6,600,000 shares of NRG common stock borrowed under the SLA between the parties. These shares had not been treated as outstanding for earnings per share purposes because CS was required to return all borrowed shares (or identical shares) upon termination of the SLA. See Note 8, *Long-Term Debt*, to this Form 10-Q, for more information on the SLA.

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

	Three months ended September 30,		**Nine months ended September 30,**	
(In millions, except per share data)	**2010**	**2009**	**2010**	**2009**
Basic earnings per share attributable to NRG common stockholders				
Numerator:				
Net income attributable to NRG Energy, Inc.	$ 223	$ 278	$ 492	$ 909
Preferred stock dividends	(2)	(6)	(7)	(27)
Net income attributable to NRG Energy, Inc. available to common stockholders	$ 221	$ 272	$ 485	$ 882
Denominator:				
Weighted average number of common shares outstanding	252	249	254	247
Basic earnings per share:				
Net income attributable to NRG Energy, Inc.	$0.88	$1.09	$1.91	$3.58
Diluted earnings per share attributable to NRG common stockholders				
Numerator:				
Net income available to common stockholders	$ 221	$ 272	$ 485	$ 882
Add preferred stock dividends for dilutive preferred stock		4		19
Net income attributable to NRG Energy, Inc. available to common stockholders	$ 221	$ 276	$ 485	$ 901
Denominator:				
Weighted average number of common shares outstanding	252	249	254	247
Incremental shares attributable to the issuance of equity compensation (treasury stock method)	1	2	1	1
		21		26

Incremental shares attributable to assumed conversion features of outstanding preferred stock (if-converted method)				
Total dilutive shares	253	272	255	274
Diluted earnings per share:				
Net income attributable to NRG Energy, Inc.	$0.87	$1.02	$1.90	$3.29

The following table summarizes NRG s outstanding equity instruments that were anti-dilutive and not included in the computation of the Company s diluted earnings per share:

	Three months ended September 30,		**Nine months ended September 30,**	
(In millions of shares)	**2010**	**2009**	**2010**	**2009**
Equity compensation NQSOs and PUs	6	5	6	6
Embedded derivative of 3.625% redeemable perpetual preferred stock	16	16	16	16
Embedded derivative of CSF II Debt		7		8
Total	22	28	22	30

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Note 12 Segment Reporting

NRG s segment structure reflects the Company s core areas of operation, which are primarily Reliant Energy, the geographic regions of the Company s wholesale power generation, thermal and chilled water business, and corporate activities. Within NRG s wholesale power generation operations, there are distinct components with separate operating results and management structures for the following regions: Texas, Northeast, South Central, West and International.

(In millions) Three months ended September 30, 2010	Reliant Energy	Wholesale Power Generation Texas (a)	Northeast	South Central	West	International	Thermal	Corporate	Elimination	Total
Operating revenues	$1,562	$ 1,040	$ 353	$166	$ 43	$ 30	$ 40	$ (1)	$ (548)	$ 2,685
Depreciation and amortization	32	124	29	17	2		3	3		210
Equity in earnings of unconsolidated affiliates		8			4	4				16
Income/(loss) before income taxes	(20)	439	23	8	20	10	3	(171)		312
Net income/(loss) attributable to NRG Energy, Inc.	$ (20)	$ 439	$ 23	$ 8	$ 20	$ 7	$ 3	$ (257)	$	$ 223
Total assets	$1,854	$13,887	$1,857	$840	$366	$766	$340	$29,886	$(22,377)	$27,419

(a) Includes inter-segment sales of $547 million to Reliant Energy.

(In millions) Three months ended September 30, 2009	Reliant Energy	Wholesale Power Generation Texas (b)	Northeast	South Central	West	International	Thermal	Corporate	Elimination	Total
Operating revenues	$1,790	$760	$270	$143	$40	$ 38	$33	$ (3)	$ (155)	$2,916
Depreciation and amortization	42	119	29	16	2		2	2		212
Equity in earnings of unconsolidated affiliates					4	2				6
Income/(loss) before income taxes	393	196	50	(34)	16	7	2	(186)		444
Net income/(loss) attributable to NRG Energy, Inc.	$ 393	$196	$ 50	$ (34)	$16	$ 6	$ 2	$(351)	$	$ 278

(b) Includes inter-segment sales of $162 million to Reliant Energy.

(In millions) Nine months ended September 30, 2010	Reliant Energy	Wholesale Power Generation Texas [c]	Northeast	South Central	West	International	Thermal	Corporate	Elimination	Total
Operating revenues	$4,020	$2,602	$837	$461	$110	$95	$103	$(3)	$(1,192)	$7,033
Depreciation and amortization	91	365	92	49	8		8	7		620
Equity in earnings/(losses) of unconsolidated affiliates		19	(1)		5	19		(1)		41
Income/(loss) before income taxes	69	971	73	8	34	51	5	(449)		762
Net loss attributable to non-controlling interest		(1)								(1)
Net income/(loss) attributable to NRG Energy, Inc.	$ 69	$ 972	$ 73	$ 8	$ 34	$ 36	$ 5	$(705)	$	$ 492

(c) Includes inter-segment sales of $1,187 million to Reliant Energy.

(In millions) Nine months ended September 30, 2009	Reliant Energy [d]	Wholesale Power Generation Texas [e]	Northeast	South Central	West	International	Thermal	Corporate	Elimination	Total
Operating revenues	$2,965	$2,304	$971	$444	$110	$106	$103	$33	$(225)	$6,811
Depreciation and amortization	85	353	88	50	6		7	5		594
Equity in earnings/(losses) of unconsolidated affiliates		(3)			8	28				33
Income/(loss) before income taxes	807	681	303	(42)	32	149	6	(414)		1,522
Net loss attributable to non-controlling interest		(1)								(1)
Net income/(loss) attributable to NRG Energy, Inc.	$ 807	$ 511	$303	$(42)	$ 32	$ 143	$ 6	$(851)	$	$ 909

(d) Reliant Energy results are for the period May 1, 2009, to September 30, 2009.

(e) Includes inter-segment sales of $228 million to Reliant Energy.

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Note 13 Income Taxes

Effective Tax Rate

The Company s income tax provision consisted of the following:

(In millions except otherwise noted)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Income tax expense	$ 89	$ 166	$ 271	$ 614
Effective tax rate	28.5%	37.4%	35.6%	40.3%

For the three months ended September 30, 2010, NRG s overall effective tax rate was lower than the statutory rate of 35% primarily due to the reduction in the valuation allowance resulting from the generation of capital gains during the quarter. For the three months ended September 30, 2009, NRG s effective tax rate was higher than the statutory rate of 35% primarily due to state and local income taxes and the U.S. taxation of foreign earnings.

For the nine months ended September 30, 2010, NRG s overall effective tax rate was higher than the statutory rate of 35% primarily due to the state and local income taxes and the U.S. taxation of foreign earnings. The rate was reduced due to the reduction in the valuation allowance resulting from the generation of overall capital gains during the year. For the nine months ended September 30, 2009, NRG s overall effective tax rate was higher than the statutory rate of 35% primarily due to an increase in the valuation allowance as a result of capital losses generated in the nine month period for which there were no projected capital gains or available tax planning strategies.

Uncertain tax benefits

As of September 30, 2010, NRG has recorded a $557 million non-current tax liability for uncertain tax benefits, primarily resulting from taxable earnings for the period for which there are no net operating losses available to offset for financial statement purposes. NRG has accrued interest related to these uncertain tax benefits of approximately $10 million for the nine months ended September 30, 2010, and has accrued approximately $36 million since adoption. The Company recognizes interest and penalties related to uncertain tax benefits in income tax expense.

The examination by the Internal Revenue Service for the years 2004 through 2006 is currently in Joint Committee review and is not considered effectively settled in accordance with ASC 740. The Company anticipates conclusion of the audit by March 31, 2011. Upon effective settlement of the audit, the result may be a reduction of the liability for uncertain tax benefits. The Company continues to be under examination for various state jurisdictions for multiple years.

Tax Receivable and Payable

As of September 30, 2010, NRG recorded a current tax payable of $28 million that represents a tax liability due for domestic state taxes of $18 million, as well as foreign taxes payable of $10 million. In addition, as of September 30, 2010, NRG had a domestic tax receivable of $74 million for property tax refunds primarily due to the New York State Empire Zone program. On October 15, 2010, the Empire Zone Designation Board upheld the previous decertification of the Company s Oswego facility from participating in the Empire Zone program. This decertification is effective from January 1, 2008 and prevents the facility from further participation in certain tax benefits provided by this program and associated with property taxes paid. The Company is considering its avenues of appeal, but believes it has adequately reserved for the outcome of this decision.

Note 14 Benefit Plans and Other Postretirement Benefits

NRG Defined Benefit Plans

NRG sponsors and operates three defined benefit pension and other postretirement plans. The NRG Plan for Bargained Employees and the NRG Plan for Non-Bargained Employees are maintained solely for eligible legacy NRG participants. A third plan, the Texas Genco Retirement Plan, is maintained for participation solely by eligible employees. The total amount of employer contributions paid for the nine months ended September 30, 2010, was $15 million. NRG expects to make approximately $3 million in additional contributions for the remainder of 2010.

The net periodic pension cost related to all of the Company s defined benefit pension plans includes the following components:

	Defined Benefit Pension Plans			
	Three months ended September 30,		Nine months ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Service cost benefits earned	$ 3	$ 4	$ 10	$ 11
Interest cost on benefit obligation	6	5	16	15
Prior service cost				1
Expected return on plan assets	(5)	(4)	(15)	(12)
Net periodic benefit cost	$ 4	$ 5	$ 11	$ 15

The net periodic cost related to all of the Company s other postretirement benefits plans includes the following components:

	Other Postretirement Benefits Plans			
	Three months ended September 30,		Nine months ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Service cost benefits earned	$1	$	$ 2	$ 2
Interest cost on benefit obligation	2	3	5	5
Net periodic benefit cost	$3	$3	$ 7	$ 7

STP Defined Benefit Plans

NRG has a 44% undivided ownership interest in South Texas Project, or STP. South Texas Project Nuclear Operating Company, or STPNOC, which operates and maintains STP, provides its employees a defined benefit pension plan as well as postretirement health and welfare benefits. Although NRG does not sponsor the STP plan, it reimburses STPNOC for 44% of the contributions made towards its retirement plan obligations. The total amount of employer contributions reimbursed to STPNOC for the nine months ended September 30, 2010, was $3 million.

The Company recognized net periodic costs related to its 44% interest in STP defined benefits as follows:

	Three months ended September 30,		Nine months ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Net periodic benefit costs	$ 2	$ 3	$ 6	$ 8

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Note 15 Commitments and Contingencies

First and Second Lien Structure

NRG has granted first and second liens to certain counterparties on substantially all of the Company s assets to reduce the amount of cash collateral and letters of credit that it would otherwise be required to post from time to time to support its obligations under out-of-the-money hedge agreements for forward sales of power or MWh equivalents. The Company s lien counterparties may have a claim on NRG s assets to the extent market prices exceed the hedged price. As of September 30, 2010, all hedges under the first and second liens were in-the-money on a counterparty aggregate basis.

Nuclear Innovation North America, LLC

CPS Settlement On March 1, 2010, an agreement was reached with CPS for NINA to acquire a controlling interest in the STP Units 3 and 4 Project through a settlement of litigation between the parties. As part of the agreement, NINA increased its ownership in the STP Units 3 and 4 Project from 50% to 92.375% and assumed full management control of the project. NRG also will pay $80 million to CPS, subject to the United States Department of Energy s, or U.S. DOE, approval of a fully executed term sheet for a conditional U.S. DOE loan guarantee. The first $40 million would be promptly paid after acceptance of the guarantee with the remaining $40 million paid six months later. NRG also agreed to donate an additional $10 million, unconditionally, over four years in annual payments of $2.5 million to the Residential Energy Assistance Partnership, or REAP, in San Antonio. The first $2.5 million payment to REAP was made on March 17, 2010. In connection with the agreement, the Company capitalized $90 million to construction in progress within property, plant and equipment, and as of September 30, 2010, $87.5 million in liabilities remains on the condensed consolidated balance sheet for the obligations to CPS and REAP. As part of the agreement with CPS, all litigation was dismissed with prejudice.

NINA Investment and Option Agreement On May 10, 2010, NINA and TEPCO Nuclear Energy America LLC, or TNEA, a wholly-owned subsidiary of The Tokyo Electric Power Company of Japan, signed an Investment and Option Agreement whereby TNEA agreed to acquire up to a 20% interest in NINA Investments Holdings LLC, or Holdings, a wholly-owned subsidiary of NINA, which indirectly holds NINA s ownership interest in the STP Units 3 and 4 Project. TNEA will initially invest $155 million for a 10% share of Holdings, which includes a $30 million option premium payment to Holdings. This option, which expires approximately one year from the date of signing the Investment and Option Agreement, will enable TNEA to buy an additional 10% of Holdings for another payment of $125 million. Pursuant to the terms of the Agreement, the closing is contingent upon NINA s acceptance of a fully executed term sheet for a conditional U.S. DOE loan guarantee. Upon its initial investment, TNEA will hold a 9.238% interest in the STP Units 3 and 4 Project, diluting NINA s investment to 83.137% (75.2% for NRG). If TNEA exercises its option to increase its ownership of Holdings another 10%, it will own 18.475% of the STP Units 3 and 4 Project, diluting NINA s investment to 73.90% (66.8% for NRG).

U.S. DOE Loan Guarantee In early 2010, NRG announced that if the STP Units 3 and 4 Project did not receive a loan guarantee from the U.S. DOE in a timely fashion, it was the intention of the Company both to reduce substantially its commitment to fund on-going project expenditures as well as to reduce development spending on the project overall while the outcome of the loan guarantee was uncertain. When the loan guarantee was not received and Congress went into its summer recess, NRG, after consultation with its partners, dramatically reduced its ongoing equity contributions into NINA for project development, but did so in a manner that allowed the project to stay on its current schedule. Should NRG and its partners unanimously agree to withdraw support from the project, this would result in a reassessment of the probability of success of the project and an impairment and permanent write-down of some or all of the value of the capitalized assets for STP Units 3 and 4. Through September 30, 2010, NRG has made equity contributions of $315 million into NINA. NINA has capitalized $624 million of construction-in-progress, of which $157 million was funded by Toshiba equity contributions and the TANE Facility, and $162 million is an accounts payable balance that NINA intends to primarily fund in the fourth quarter with the TANE Facility upon completion of amendments to that credit facility. The likelihood of NINA receiving a loan guarantee is largely dependent upon additional appropriations for nuclear development by Congress or other means of properly securing the necessary funding for additional nuclear loan guarantee volume.

Contingencies

Set forth below is a description of the Company s material legal proceedings. The Company believes that it has valid defenses to these legal proceedings and intends to defend them vigorously. NRG records reserves for estimated losses from contingencies when information available indicates that a loss is probable and the amount of the loss, or range of loss, can be reasonably estimated. In addition, legal costs are expensed as incurred. Management has assessed each of the following 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. Unless specified below, the Company is unable to predict the outcome of these legal proceedings or reasonably estimate the scope or amount of any associated costs and potential liabilities. As additional information becomes available, management adjusts its assessment and estimates of such contingencies accordingly. Because litigation is subject to inherent uncertainties and unfavorable rulings or developments, it is possible that the ultimate resolution of the Company s liabilities and contingencies could be at amounts that are different from its currently recorded reserves and that such difference could be material.

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.

California Department of Water Resources

This matter concerns, among other contracts and other defendants, the California Department of Water Resources, or CDWR and its wholesale power contract with subsidiaries of WCP (Generation) Holdings, Inc., or WCP. The case originated with a February 2002 complaint filed by the State of California alleging that many parties, including WCP subsidiaries, overcharged the State of California. For WCP, the alleged overcharges totaled approximately $940 million for 2001 and 2002. The complaint demanded that the Federal Energy Regulatory Commission, or FERC abrogate the CDWR contract and sought refunds associated with revenues collected under the contract. In 2003, the FERC rejected this complaint, denied rehearing, and the case was appealed to the U.S. Court of Appeals for the Ninth Circuit where oral argument was held on December 8, 2004. On December 19, 2006, the Ninth Circuit decided that in the FERC s review of the contracts at issue, the FERC could not rely on the *Mobile-Sierra* standard presumption of just and reasonable rates, where such contracts were not reviewed by the FERC with full knowledge of the then existing market conditions. WCP and others sought review by the U.S. Supreme Court. WCP s appeal was not selected, but instead held by the Supreme Court. In the appeal that was selected by the Supreme Court, on June 26, 2008, the Supreme Court ruled: (i) that the *Mobile-Sierra* public interest standard of review applied to contracts made under a seller s market-based rate authority; (ii) that the public interest bar required to set aside a contract remains a very high one to overcome; and (iii) that the *Mobile-Sierra* presumption of contract reasonableness applies when a contract is formed during a period of market dysfunction unless (a) such market conditions were caused by the illegal actions of one of the parties or (b) the contract negotiations were tainted by fraud or duress. In this related case, the U.S. Supreme Court affirmed the Ninth Circuit s decision agreeing that the case should be remanded to the FERC to clarify the FERC s 2003 reasoning regarding its rejection of the original complaint relating to the financial burdens under the contracts at issue and to alleged market manipulation at the time these contracts were formed. As a result, the U.S. Supreme Court then reversed and remanded the WCP CDWR case to the Ninth Circuit for treatment consistent with its June 26, 2008, decision in the related case. On October 20, 2008, the Ninth Circuit asked the parties in the remanded CDWR case, including WCP and the FERC, whether that Court should answer a question the U.S. Supreme Court did not address in its June 26, 2008, decision; whether the *Mobile-Sierra* doctrine applies to a third-party that was not a signatory to any of the wholesale power contracts, including the CDWR contract, at issue in that case. Without answering that reserved question, on December 4, 2008, the Ninth Circuit vacated its prior opinion and remanded the WCP CDWR case back to the FERC for proceedings consistent with the U.S. Supreme Court s June 26, 2008, decision. On December 15, 2008, WCP and the other seller-defendants filed with the FERC a Motion for Order Governing Proceedings on Remand. On January 14, 2009, the Public Utilities Commission of the State of California filed an Answer and Cross Motion for an Order Governing Procedures on Remand and on January 28, 2009, WCP and the other seller-defendants filed their reply.

At this time, while NRG cannot predict with certainty whether WCP will be required to make refunds for rates collected under the CDWR contract or estimate the range of any such possible refunds, a reconsideration of the CDWR contract by the FERC with a resulting order mandating significant refunds could have a material adverse impact on NRG s financial position, statement of operations, and statement of cash flows. As part of the 2006 acquisition of Dynegy s 50% ownership interest in WCP, WCP and NRG assumed responsibility for any risk of loss arising from this case, unless any such loss was deemed to have resulted from certain acts of gross negligence or willful misconduct on the part of Dynegy, in which case any such loss would be shared equally between WCP and Dynegy.

On January 14, 2010, the U.S. Supreme Court issued its decision in an unrelated proceeding involving the *Mobile-Sierra* doctrine that will affect the standard of review applied to the CDWR contract on remand before the FERC. In *NRG Power Marketing v. Maine Public Utilities Commission*, the Supreme Court held that the *Mobile-Sierra* presumption regarding the reasonableness of contract rates does not depend on the identity of the complainant who seeks a FERC investigation/refund.

Louisiana Generating, LLC

On February 11, 2009, the U.S. Department of Justice, or U.S. DOJ, acting at the request of the U.S. Environmental Protection Agency, or U.S. EPA, commenced a lawsuit against Louisiana Generating, LLC, or LaGen, in federal district court in the Middle District of Louisiana alleging violations of the Clean Air Act, or CAA, at the Big Cajun II power plant. This is the same matter for which Notices of Violation, or NOVs, were issued to LaGen on February 15, 2005, and on December 8, 2006. Specifically, it is alleged that in the late 1990 s, several years prior to NRG s acquisition of the Big Cajun II power plant from the Cajun Electric bankruptcy and several years prior to the NRG bankruptcy, modifications were made to Big Cajun II Units 1 and 2 by the prior owners without appropriate or adequate permits and without installing and employing the best available control technology, or BACT, to control emissions of nitrogen oxides and/or sulfur dioxides. The relief sought in the complaint includes a request for an injunction to: (i) preclude the operation of Units 1 and 2 except in accordance with the CAA; (ii) order the installation of BACT on Units 1 and 2 for each pollutant subject to regulation under the CAA; (iii) obtain all necessary permits for Units 1 and 2; (iv) order the surrender of emission allowances or credits; (v) conduct audits to determine if any additional modifications have been made which would require compliance with the CAA s Prevention of Significant Deterioration program; (vi) award to the Department of Justice its costs in prosecuting this litigation; and (vii) assess civil penalties of up to $27,500 per day for each CAA violation found to have occurred between January 31, 1997, and March 15, 2004, up to $32,500 for each CAA violation found to have occurred between March 15, 2004, and January 12, 2009, and up to $37,500 for each CAA violation found to have occurred after January 12, 2009.

On April 27, 2009, LaGen made several filings. LaGen filed an objection in the Cajun Electric Cooperative Power, Inc. s bankruptcy proceeding in the U.S. Bankruptcy Court for the Middle District of Louisiana to seek to prevent the bankruptcy from closing. LaGen also filed a complaint, or adversary proceeding, in the same bankruptcy proceeding, seeking a judgment that: (i) it did not assume liability from Cajun Electric for any claims or other liabilities under environmental laws with respect to Big Cajun II that arose, or are based on activities that were undertaken, prior to the closing date of the acquisition; (ii) it is not otherwise the successor to Cajun Electric with respect to environment liabilities arising prior to the acquisition; and (iii) Cajun Electric and/or the Bankruptcy Trustee are exclusively liable for any of the violations alleged in the February 11, 2009, lawsuit to the extent that such claims are determined to have merit. On April 15, 2010, the bankruptcy court signed an order granting LaGen s stipulation of voluntary dismissal without prejudice of the adversary proceeding. The bankruptcy proceeding has since closed.

On June 8, 2009, the parties filed a joint status report in the U.S. DOJ lawsuit setting forth their views of the case and proposing a trial schedule. On April 28, 2010, the district court entered a Joint Case Management Order, in which the district court tentatively scheduled trial on a liability phase for mid-2011 and, if necessary, trial on the damages (remedy) phase for mid-2012. These dates are subject to change.

On August 24, 2009, LaGen filed a motion to dismiss this lawsuit, and on September 25, 2009, the U.S. DOJ filed its opposition to the motion. Thereafter, on February 18, 2010, the Louisiana Department of Environmental Quality, or LDEQ, filed a motion to intervene in the above lawsuit and a complaint against LaGen for alleged violations of Louisiana s Prevention of Significant Deterioration, or PSD regulations and Louisiana s Title V operating permit program. LDEQ seeks substantially similar relief to that requested by the U.S. DOJ. On February 19, 2010, the district court granted LDEQ s motion to intervene. LDEQ is subject to the April 28, 2010 Joint Case Management Order in this matter. Also on April 26, 2010, LaGen filed a motion to dismiss the LDEQ complaint. On July 21, 2010, LaGen argued its motions to dismiss the U.S. DOJ and LDEQ complaints to the district court, while the U.S. DOJ and LDEQ argued in opposition to the motions. On August 20, 2010, the parties submitted proposed findings of fact and conclusions of law, and both parties have submitted additional briefing on emerging jurisprudence from other jurisdictions touching on the issues at stake in the U.S. DOJ lawsuit.

Dunkirk Construction Litigation

In 2005, NRG entered into a Consent Decree with the New York State Department of Environmental Conservation whereby it agreed to reduce certain emissions generated by its Huntley and Dunkirk power plants. Pursuant to the Consent Decree, on November 21, 2007, Clyde Bergemann EEC, or CBEEC, and NRG entered into a firm fixed price contract for the supply of equipment, material and services for six fabric filters for NRG s Dunkirk Electric Power Generating Station. Subsequent to contracting with NRG, CBEEC subcontracted with Hohl Industrial Services, Inc., or Hohl, to perform steel erection and equipment installation at Dunkirk.

On August 28, 2009, Hohl filed its original complaint against NRG, its subsidiary Dunkirk Power LLC, or Dunkirk Power, and CBEEC among others for claims of breach of contract, quantum meruit, unjust enrichment and foreclosure of mechanics liens. As part of CBEEC s contractual obligation to NRG, CBEEC agreed to defend NRG, under a reservation of rights. CBEEC filed an answer to the above complaint on behalf of itself, NRG, and Dunkirk Power on October 5, 2009. On December 16, 2009, CBEEC filed a Motion for Summary Judgment on behalf of itself, NRG, and Dunkirk Power. On February 1, 2010, NRG and Dunkirk Power filed a Motion for Leave to file an Amended Answer with Cross-Claims against CBEEC. NRG asserted breach of contract claims seeking liquidated damages for the delays caused by CBEEC. NRG also retained its own counsel to represent its interest in the cross-claims and reserved its rights to seek reimbursement from CBEEC. On February 17, 2010, CBEEC filed an Amended Answer with Affirmative Defenses, Counterclaims and Cross-Claims against NRG, in which it sought $30 million alleging breach of contract, quantum meruit, unjust enrichment, and foreclosure of two mechanic s liens, as a result of alleged delays caused by NRG and Dunkirk Power. On March 5, 2010, CBEEC and NRG resolved their disputed cross-claims. In April 2010, the other parties to this litigation settled their disputes. A final dismissal order is expected shortly.

Excess Mitigation Credits

From January 2002 to April 2005, CenterPoint Energy applied excess mitigation credits, or EMCs, to its monthly charges to retail electric providers as ordered by the PUCT. The PUCT imposed these credits to facilitate the transition to competition in Texas, which had the effect of lowering the retail electric providers monthly charges payable to CenterPoint Energy. As indicated in its Petition for Review filed with the Supreme Court of Texas on June 2, 2008, CenterPoint Energy has claimed that the portion of those EMCs credited to Reliant Energy Retail Services, LLC, or RERS, a retail electric provider and NRG subsidiary acquired from RRI, totaled $385 million for RERS s Price to Beat Customers. It is unclear what the actual number may be. Price to Beat was the rate RERS was required by state law to charge residential and small commercial customers that were transitioned to RERS from the incumbent integrated utility company commencing in 2002. In its original stranded cost case brought before the PUCT on March 31, 2004, CenterPoint Energy sought recovery of all EMCs that were credited to all retail electric providers, including RERS, and the PUCT ordered that relief in its Order on Rehearing in Docket No. 29526, on December 17, 2004. After an appeal to state district court, the court entered a final judgment on August 26, 2005, affirming the PUCT s order with regard to EMCs credited to RERS. Various parties filed appeals of that judgment with the Court of Appeals for the Third District of Texas with the first such appeal filed on the same date as the state district court judgment and the last such appeal filed on October 10, 2005. On April 17, 2008, the Court of Appeals for the Third District reversed the lower court s decision ruling that CenterPoint Energy s stranded cost recovery should exclude only EMCs credited to RERS for its Price to Beat customers. On June 2, 2008, CenterPoint Energy filed a Petition for Review with the Supreme Court of Texas and on June 19, 2009, the Court agreed to consider the CenterPoint Energy appeal as well as two related petitions for review filed by other entities. Oral argument occurred on October 6, 2009.

In November 2008, CenterPoint Energy and Reliant Energy Inc., or REI, on behalf of itself and affiliates including RERS, agreed to suspend unexpired deadlines, if any, related to limitations periods that might exist for possible claims against REI and its affiliates if CenterPoint Energy is ultimately not allowed to include in its stranded cost calculation those EMCs previously credited to RERS. Regardless of the outcome of the Texas Supreme Court proceeding, NRG believes that any possible future CenterPoint Energy claim against RERS for EMCs credited to RERS would lack legal merit. No such claim has been filed.

Note 16 Regulatory Matters

NRG operates in a highly regulated industry and is subject to regulation by various federal and state agencies. As such, NRG is affected by regulatory developments at both the federal and state levels and in the regions in which NRG operates. In addition, NRG is subject to the market rules, procedures and protocols of the various ISO markets in which NRG participates. These power markets are subject to ongoing legislative and regulatory changes that may impact NRG s wholesale and retail businesses.

In addition to the regulatory proceedings noted below, NRG and its subsidiaries are a party to other regulatory proceedings arising in the ordinary course of business or have other regulatory exposure. 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.

PJM On June 18, 2009, FERC denied rehearing of its order dated September 19, 2008, dismissing a complaint filed by the Maryland Public Service Commission, or MDPSC, together with other load interests, against PJM challenging the results of the Reliability Pricing Model, or RPM transition Base Residual Auctions for installed capacity, held between April 2007 and January 2008. The complaint had sought to replace the auction-determined results for installed capacity for the 2008/2009, 2009/2010, and 2010/2011 delivery years with administratively-determined prices. On August 14, 2009, the MDPSC and the New Jersey Board of Public Utilities filed an appeal of FERC s orders to the U.S. Court of Appeals for the Fourth Circuit, and a successful appeal could disrupt the auction-determined results and create a refund obligation for market participants. The case has been transferred to the U.S. Court of Appeals for the D.C. Circuit. Oral argument is scheduled for November 15, 2010.

Midwest ISO v. PJM On March 8, 2010, Midwest ISO filed a complaint against PJM seeking payments from PJM related to inter-market operations and settlements for congestion costs between the systems for the period from April 2005 to the present. If the Midwest ISO s allegations are true, PJM may have significant liability. If PJM makes any payments to the Midwest ISO related to these claims, PJM is expected to seek to recover the payments from entities that served load and held transmission congestion rights on PJM during the period in dispute, including NRG, which provided basic generation service and thus effectively served load. At this time, NRG s share of any payment by PJM is not expected to be material.

Retail (Replacement Reserve) On November 14, 2006, Constellation Energy Commodities Group, or Constellation, filed a complaint with the PUCT alleging that ERCOT misapplied the Replacement Reserve Settlement, or RPRS, Formula contained in the ERCOT protocols from April 10, 2006, through September 27, 2006. Specifically, Constellation disputed approximately $4 million in under-scheduling charges for capacity insufficiency asserting that ERCOT applied the wrong protocol. REPS, other market participants, ERCOT, and PUCT staff opposed Constellation s complaint. On January 25, 2008, the PUCT entered an order finding that ERCOT correctly settled the capacity insufficiency charges for the disputed dates in accordance with ERCOT protocols and denied Constellation s complaint. On April 9, 2008, Constellation appealed the PUCT order to the Civil District Court of Travis County, Texas and on June 19, 2009, the court issued a judgment reversing the PUCT order, finding that the ERCOT protocols were in irreconcilable conflict with each other. On July 20, 2009, REPS filed an appeal to the Third Court of Appeals in Travis County, Texas, thereby staying the effect of the trial court s decision. If all appeals are unsuccessful, on remand to the PUCT, it would determine the appropriate methodology for giving effect to the trial court s decision. It is not known at this time whether only Constellation s under-scheduling charges, the under-scheduling charges of all other QSEs that disputed REPS charges for the same time frame, the entire market, or some other approach would be used for any resettlement. On October 6, 2010, the parties argued the appeal before the Court of Appeals for the Third District in Austin, Texas.

Under the PUCT ordered formula, Qualified Scheduling Entities, or QSEs, who under-scheduled capacity within any of ERCOT s four congestion zones were assessed under-scheduling charges which defrayed the costs incurred by ERCOT for RPRS that would otherwise be spread among all load-serving QSEs. Under the Court s decision, all RPRS costs would be assigned to all load-serving QSEs based upon their load ratio share without assessing any separate charge to those QSEs who under-scheduled capacity. If under-scheduling charges for capacity insufficient QSEs were not used to defray RPRS costs, REPS s share of the total RPRS costs allocated to QSEs would increase.

California On May 4, 2010, in *Southern California Edison Company v. FERC,* the U.S. Court of Appeals for the D.C. Circuit vacated FERC s acceptance of station power rules for the CAISO market, and remanded the case for further proceedings at FERC. On August 30, 2010, FERC issued an Order on Remand effectively disclaiming jurisdiction over how the states impose retail station power charges. Due to reservation-of-rights language in the California utilities state-jurisdictional station power tariffs, FERC s ruling effectively requires California generators to pay state-imposed retail charges back to the date of enrollment by the facilities in the CAISO s station period program (February 1, 2009 for the Company s Encina and El Segundo facilities; March 1, 2009 for the Company s Long Beach facility). Although requests for rehearing have been submitted, the Company has established an appropriate reserve.

Note 17 Environmental Matters

The construction and operation of power projects are subject to stringent environmental and safety protection and land use laws and regulation in the U.S. If such laws and regulations become more stringent, or new laws, interpretations or compliance policies apply and NRG s facilities are not exempt from coverage, the Company could be required to make modifications to further reduce potential environmental impacts. In general, the effect of such future laws or regulations is expected to require the addition of pollution control equipment or the imposition of restrictions or additional costs on the Company s operations.

Environmental Capital Expenditures

Based on current rules, technology and plans, NRG has estimated that environmental capital expenditures from 2010 through 2014 to meet NRG s environmental commitments will be approximately $0.9 billion and are primarily associated with controls on the Company s Big Cajun and Indian River facilities. These capital expenditures, in general, are related to installation of particulate, sulfur dioxide, or SO_2, nitrogen oxide, or NO_x, and mercury controls to comply with federal and state air quality rules and consent orders, as well as installation of Best Technology Available under a section of the Clean Water Act regulating cooling water intake structures, or Phase II 316(b) Rule. NRG continues to explore cost effective compliance alternatives. This estimate reflects anticipated schedules and controls related to the Clean Air Interstate Rule, or CAIR, the proposed Clean Air Transport Rule, or CATR, Maximum Achievable Control Technology, or MACT for mercury, and the Phase II 316(b) Rule which are under remand to the U.S. EPA, and, as such, the full impact on the scope and timing of environmental retrofits from any new or revised regulations cannot be determined at this time.

NRG s current contracts with the Company s rural electrical customers in the South Central region allow for recovery of a portion of the regions capital costs once in operation, along with a capital return incurred by complying with any change in law, including interest over the asset life of the required expenditures. The actual recoveries will depend, among other things, on the timing of the completion of the capital project and the remaining duration of the contracts.

Northeast Region

In January 2006, NRG s 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 Burton Island Old Ash Landfill, a historic captive landfill located at the Indian River facility. On October 1, 2007, NRG signed an agreement with DNREC to investigate the site through the Voluntary Clean-up Program. On February 4, 2008, DNREC issued findings that no further action is required in relation to surface water and that a previously planned shoreline stabilization project would satisfactorily address shoreline erosion. The landfill itself will require a further Remedial Investigation and Feasibility Study to determine the type and scope of any additional work required. Until the Remedial Investigation and Feasibility Study is completed, the Company is unable to predict the impact of any required remediation. On May 29, 2008, DNREC requested that NRG s Indian River Operations, Inc. participate in the development and performance of a Natural Resource Damage Assessment, or NRDA, at the Burton Island Old Ash Landfill. NRG is currently working with DNREC and other trustees to close out the assessment phase.

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Pursuant to a consent order dated September 25, 2007, between NRG and DNREC, NRG agreed to operate the four units at the Indian River plant in a manner that would limit the emissions of NO_x and SO_2, and to mothball Units 1 and 2 on May 1, 2011, and May 1, 2010, respectively. In addition, Units 3 and 4, with a combined generating capacity of approximately 565 MW, could not operate beyond December 31, 2011, unless appropriate control technology was installed on each unit. Unit 2 was mothballed as planned on May 1, 2010. On July 21, 2010, the court approved an amended consent order, pursuant to which NRG will retire Unit 3 (155 MW) by December 31, 2013, thereby extending the operable period of the unit by two years without installing additional control technology. Units 1, 2 and 4 are not affected by the amended consent order.

South Central Region

On February 11, 2009, the U.S. DOJ acting at the request of the U.S. EPA commenced a lawsuit against LaGen in federal district court in the Middle District of Louisiana alleging violations of the CAA at the Big Cajun II power plant. This is the same matter for which NOVs were issued to LaGen on February 15, 2005, and on December 8, 2006. Further discussion on this matter can be found in Note 15, *Commitments and Contingencies,* to this Form 10-Q, *Louisiana Generating, LLC.*

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Note 18 Condensed Consolidating Financial Information

As of September 30, 2010, the Company had outstanding $1.2 billion of 7.25% Senior Notes due 2014, $2.4 billion of 7.375% Senior Notes due 2016, $1.1 billion of 7.375% Senior Notes due 2017, $700 million of 8.50% Senior Notes due 2019, and $1.1 billion of 8.25% Senior Notes due 2020. These notes are guaranteed by certain of NRG s current and future wholly-owned domestic subsidiaries, or guarantor subsidiaries.

Unless otherwise noted below, each of the following guarantor subsidiaries fully and unconditionally guaranteed the Senior Notes as of September 30, 2010:

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
Carbon Management Solutions LLC
Clean Edge Energy LLC
Conemaugh Power LLC
Connecticut Jet Power LLC
Devon Power LLC
Dunkirk Power LLC
Eastern Sierra Energy Company
Elbow Creek Wind Project LLC
El Segundo Power, LLC
El Segundo Power II LLC
GCP Funding Company LLC
Huntley IGCC LLC
Huntley Power LLC
Indian River IGCC LLC
Indian River Operations Inc.
Indian River Power LLC
James River Power LLC
Keystone Power LLC
Langford Wind Power, LLC
Louisiana Generating LLC
Middletown Power LLC
Montville IGCC LLC
Montville Power LLC
NEO Corporation
NEO Freehold-Gen LLC
NEO Power Services Inc.
New Genco GP LLC
Norwalk Power LLC
NRG Affiliate Services Inc.
NRG Arthur Kill Operations Inc.
NRG Artesian Energy LLC
NRG Astoria Gas Turbine Operations Inc.
NRG Bayou Cove LLC
NRG Cabrillo Power Operations Inc.
NRG California Peaker Operations LLC
NRG Generation Holdings, Inc.
NRG Huntley Operations Inc.
NRG International LLC
NRG MidAtlantic Affiliate Services Inc.
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 LLC
NRG Retail 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 Texas LLC
NRG Texas C & I Supply LLC
NRG Texas Holding Inc.
NRG Texas Power LLC
NRG West Coast LLC
NRG Western Affiliate Services Inc.
Oswego Harbor Power LLC
Pennywise Power LLC
Reliant Energy Power Supply, LLC
Reliant Energy Retail Holdings, LLC
Reliant Energy Retail Services, LLC
RE Retail Receivables, LLC
RERH Holdings, LLC
Reliant Energy Texas Retail 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

NRG Cedar Bayou Development Company LLC
NRG Connecticut Affiliate Services Inc.
NRG Construction LLC
NRG Devon Operations Inc.
NRG Dunkirk Operations, Inc.
NRG Energy Services LLC
NRG El Segundo Operations Inc.
Texas Genco Operating Services, LLC
Texas Genco Services, LP
Vienna Operations, Inc.
Vienna Power LLC
WCP (Generation) Holdings LLC
West Coast Power LLC

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

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

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Three Months Ended September 30, 2010

(In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	NRG Energy, Inc. (Note Issuer)	Eliminations (a)	Consolidated Balance
Operating Revenues					
Total operating revenues	$2,589	$ 101	$	$ (5)	$ 2,685
Operating Costs and Expenses					
Cost of operations	1,775	65		(5)	1,835
Depreciation and amortization	198	9	3		210
Selling, general and administrative	99	5	68		172
Development costs		2	12		14
Total operating costs and expenses	2,072	81	83	(5)	2,231
Operating Income/(Loss)	517	20	(83)		454
Other Income/(Expense)					
Equity in earnings of consolidated subsidiaries	8		365	(373)	
Equity in earnings of unconsolidated affiliates	4	12			16
Other income, net	1	6	4		11
Interest income/(expense)	1	(14)	(156)		(169)
Total other income/(expense)	14	4	213	(373)	(142)
Income/(Loss) Before Income Taxes	531	24	130	(373)	312
Income tax expense/(benefit)	178	4	(93)		89
Net income/(loss) attributable to NRG Energy, Inc.	$ 353	$ 20	$ 223	$ (373)	$ 223

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

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NRG ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
For the Nine Months Ended September 30, 2010