NRG Affirms Sound Business Model and Practices

December 12, 2001

MINNEAPOLIS, Dec 12, 2001 (BUSINESS WIRE) --Today, NRG Energy commented on the current market situation within the competitive power sector. NRG noted the market's concern regarding recent developments in the sector following the Enron bankruptcy and high profile news articles questioning the business models of leading companies in the sector. In a press release, NRG addressed these concerns within the context of its own business model:

"While NRG's long-term business model is growth-based, we cannot ignore the current market situation," commented David H. Peterson, chairman, president and CEO. "NRG will continue to intensify our focus on cash flow generation. In that regard, NRG still expects sound earnings performance in 2001. More importantly we expect our funds from operations in 2001 will be approximately $500 million, and for 2002 approximately $750 million, not including expected cash flows from the FirstEnergy signed acquisition. These numbers are consistent with projections we communicated at our October 2001 Investor Conference, i.e. funds from operations of approximately $4.5 to $5 billion for the period through 2005."

"NRG is positioned to do well even in today's volatile market," Peterson added. "We believe NRG has the most diverse portfolio of generating assets in the sector, and we manage risk conservatively."

NRG provided further information and comment with respect to liquidity, accounting practices, its Enron exposure, FirstEnergy acquisition, rating agency views, and the California Department of Water Resources contract.

Liquidity

NRG's liquidity position remains strong. Currently NRG has approximately $400 million of capacity available under its corporate revolving line of credit facility and, in addition, approximately $1.2 billion under its construction revolver facility.

In addition, Xcel Energy management has committed, subject to various approvals, contingent equity of $300 million in the event it is needed for the FirstEnergy transaction.

As referenced above, NRG is forecasting strong cash flow performance over the next several years.

Accounting Practices

The industry's application of SFAS 133 continues to cause uncertainty and misunderstanding. Since adoption of SFAS 133 on January 1, 2001, NRG has taken a conservative approach to its application and has maintained a consistent valuation methodology. NRG has elected hedge accounting treatment on a very limited number of transactions, resulting in an unrealized after-tax gain of $35.9 million as of September 30, 2001. This gain has been deferred on the balance sheet and will reverse through the profit and loss accounts when the underlying transactions are executed. These transactions consist of long-term energy contracts, fuel contracts and interest rate swap agreements. NRG's Power Marketing Group manages these energy and fuel contracts and enters into other short-term transactions to manage risk and maximize returns on NRG's physical assets. All other trading activities have been marked-to-market through the profit and loss accounts. As of September 30, 2001, NRG has recorded a year-to-date after-tax loss of $17.8 million from the mark-to-market of these activities.

Enron Exposure NRG actively manages its exposure to counter party risk. The NRG Board of Directors has approved NRG's counter party credit risk matrix and counter party credit risk guidelines are managed through an active credit group located within the Treasury organization. NRG reaffirms its previous assessment that the Enron bankruptcy will not have a material adverse impact on NRG earnings, and NRG reiterates its exposure to Enron as a result of global trading activities at less than $10 million at this time. This estimate varies depending on the mark-to-market treatment of these transactions. It also assumes NRG's ability to offset a net payable balance due to Enron of approximately $5-8 million.

In addition, an Enron subsidiary, NEPCO, is serving as the construction contractor for two of its new projects, Kendall and Nelson. NEPCO has not filed for bankruptcy and has told NRG that it has no current plans to do so, but Enron guaranteed its obligations under the construction agreements. To date, the actual construction and engineering work on both projects has continued without disruption and is on schedule. NRG is working with NEPCO and other contractors and subcontractors to ensure that construction is completed as planned. Even if the construction of these projects were to be delayed or disrupted, NRG believes that it is unlikely that this would have a material adverse effect on its operations or financial results for 2002. Finally, two syndicates of banks financed the construction costs for Kendall and for Nelson, and the bankruptcy of Enron raises issues under those loan agreements. NRG has not requested any draws under those agreements since the Enron bankruptcy, and is keeping the lenders fully informed of our discussions with NEPCO and the other contractors and subcontractors.

FirstEnergy At least 90 percent of the output from the assets NRG expects to acquire from FirstEnergy is under contract through 2005. Pricing approximates current market price as indicated on the conference call announcing the acquisition.

Rating Agency Views On December 5, Standard and Poor's affirmed NRG's BBB- rating on senior unsecured notes. S&P indicated a stable ratings outlook for NRG "based on a diversified portfolio of projects and a continued record of adequate cash flow from the projects."

Moody's Investors Service's placed NRG's corporate securities under review for possible downgrade following the announcement of the FirstEnergy acquisition. Moody's indicated that the review is likely to continue until permanent acquisition funding for the FirstEnergy transaction is completed.

NRG plans on maintaining its investment grade ratings and will work closely with the rating agencies regarding the strength of its plan and quality of cash flow.

California Department of Water Resources NRG's California generation assets consist of our interests in the Crockett and Mt. Poso facilities and a 50 percent interest in West Coast Power LLC, formed in 1999 with Dynegy, Inc.

In March 2001, certain affiliates of West Coast Power entered into a four-year contract with the California Department of Water Resources (CDWR) pursuant to which the affiliates agreed to sell up to 1,000 MW to the CDWR for the remainder of 2001 and up to 2,300 MW from January 1, 2002 through December 31, 2004. These contracts are relatively short-term in nature, versus various long-term contracts entered into by the CDWR for baseload generation with other generators.

The press has reported proposals to renegotiate the CDWR's long-term contracts. These reports focus primarily on contacts negotiated with others. As a normal matter of business practice, however, management is open to discussions regarding mutually beneficial changes.

Summary "It is obvious that the market has concerns regarding aggressive growth programs and continued access to capital. NRG understands these market issues and has intensified NRG's process of evaluating our growth plans with respect to planned acquisitions and construction projects," commented Peterson. "NRG will not compromise our quality of earnings and cash flow for growth's sake. NRG intends to maintain our investment grade ratings and continue to demonstrate our quality earnings and cash flow. As we have done in the past, NRG will communicate our plans on an on-going basis through effective communications channels such as conference calls and investor conferences."

NRG will hold a conference call to discuss the issues outlined in this release on Friday, December 14 at 9:00 a.m. (eastern). The U.S. toll free number is 888.972.9676 and the international number is 212.519.0812. Callers will need to name the leader (Rick Huckle) and passcode (investors) to gain access to the call. The call may also be accessed by going to the "Investor Relations" section of the NRG website at www.nrgenergy.com. The call will be available for replay after 1:00 p.m.(eastern) on December 14th by dialing 800.294.6360 (U.S.) or 402.220.9790 (international number). The passcode is 9800.

NRG is a leading global energy company engaged primarily in the development, construction, acquisition, ownership and operation of power generation facilities. NRG owns 24,352 MW of generating assets in operation and under construction. The company's operations utilize such diverse fuel sources as natural gas, oil, coal and coal seam methane, biomass, landfill gas, and hydro, as well as refuse-derived fuel.

Certain statements included in this news release are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements above include, but are not limited to, expected earnings and future growth and financial performance. Although NRG believes that its expectations are reasonable, it can give no assurance that these expectations will prove to have been correct. Factors that could cause NRG's actual results to differ materially from those contemplated in the forward-looking statements above include, among others, changes in government regulation or the implementation of government regulations, which could result in NRG's failure to obtain regulatory approvals required to close project acquisitions, market and economic conditions and the outcome of legal proceedings, and factors affecting the availability or cost of capital, such as changes in interest rates and market perceptions of the independent power generation industry, NRG or any of its subsidiaries. While the beliefs and expectations set forth above in respect of NRG's exposure to Enron are based on information currently available to us, the entire Enron situation is developing rapidly and we are unable to predict precisely at this time the ultimate effect of this situation on the energy industry or our business.

NRG undertakes no obligation to 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 the forward-looking statements included in this news release should not be construed as exhaustive. For more information regarding risks and uncertainties that may affect NRG's future results, review NRG's filings with the Securities and Exchange Commission.

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