UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

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

For Quarter Ended September 30, 1998   Commission File Number 333-33397

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.)
1221 Nicollet Mall, Minneapolis, Minnesota	55403
(Address of principal executive officers)	(Zip Code)

Registrant's telephone number, including area code (612) 373-5300

None
Former name, former address and former fiscal year, if changed since last report

Indicated by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

Class	Outstanding at November 1, 1998
Common Stock, $1.00 par value	1,000 Shares

All outstanding common stock of NRG Energy, Inc., is owned beneficially and of record by Northern States Power Company, a Minnesota corporation.

The Registrant meets the conditions set forth in general instruction H (1) (a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format.

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PART I
ITEM 1 - CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED STATEMENTS OF INCOME
NRG ENERGY, INC. AND SUBSIDIARIES
(UNAUDITED)*

(Thousands of Dollars)	THREE MONTHS ENDED SEPTEMBER 30, 1998	THREE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1998	NINE MONTHS ENDED SEPTEMBER 30, 1997
OPERATING REVENUES				
Revenues from wholly-owned operations	$ 25,047	$ 22,396	$ 74,829	$ 65,081
Equity in earnings of unconsolidated affiliates	29,249	3,913	58,432	17,759
Total operating revenues	54,296	26,309	133,261	82,840
OPERATING COSTS AND EXPENSES				
Cost of wholly-owned operations	13,079	10,167	39,384	32,863
Depreciation and amortization	4,511	2,552	12,560	7,096
General, administrative, and development	15,201	10,363	39,581	28,402

Total operating costs and expenses	32,791	23,082	91,525	68,361
OPERATING INCOME	21,505	3,227	41,736	14,479
OTHER INCOME (EXPENSE)				
Minority interest in earnings of consolidated subsidiary	(492)	-	(1,652)	-
Write-down of investment in projects	(23,410)	-	(23,410)	-
Other income, net	1,206	2,343	3,105	8,610
Interest expense	(13,598)	(8,633)	(37,849)	(19,815)
Total other expense	(36,294)	(6,290)	(59,806)	(11,205)
INCOME (LOSS) BEFORE INCOME TAXES	(14,789)	(3,063)	(18,070)	3,274
INCOME TAXES - BENEFIT	(10,014)	(5,488)	(26,353)	(11,140)
NET INCOME (LOSS)	$ (4,775)	$ 2,425	$ 8,283	$ 14,414

* See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
NRG ENERGY, INC. AND SUBSIDIARIES
(UNAUDITED)*

(Thousands of Dollars)	SEPTEMBER 30, 1998	DECEMBER 31, 1997
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 13,972	$ 11,986
Restricted cash	3,929	1,588
Accounts receivable-trade, less allowance for doubtful accounts of $100	15,717	15,520
Accounts receivable-affiliates	15,047	29,162
Current portion of notes receivable - affiliates	19,359	48,816
Current portion of notes receivable	3,537	3,729
Inventory	2,757	2,619
Prepayments and other current assets	7,907	5,002
Total current assets	82,225	118,422
PROPERTY, PLANT AND EQUIPMENT, AT ORIGINAL COST		
In service	279,335	255,433
Under construction	9,121	9,758
	288,456	265,191
Less accumulated depreciation	(89,185)	(79,300)
Net property, plant and equipment	199,271	185,891
OTHER ASSETS		
Investments in projects	793,500	694,655
Capitalized project costs	17,341	17,791
Notes receivable, less current portion - affiliates	74,264	71,759
Notes receivable, less current portion	3,744	4,624
Intangible assets, net of accumulated amortization of $2,806 and $2,012	20,144	21,414
Debt issuance costs, net of accumulated amortization of $1,414 and $779	6,044	6,569
Other assets, net of accumulated amortization of $6,338 and $4,782	45,421	46,977
Total other assets	960,458	863,789
TOTAL ASSETS	$ 1,241,954	$ 1,168,102

* See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
NRG ENERGY, INC. AND SUBSIDIARIES
(UNAUDITED)*

	SEPTEMBER 30, 1998	DECEMBER 31, 1997
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 5,957	$ 7,676
Revolving line of credit	225,000	122,000
Accounts payable-trade	7,465	16,101
Accrued income taxes	-	3,692
Accrued property and sales taxes	3,292	3,804
Accrued salaries, benefits and related costs	12,272	10,998
Accrued interest	11,028	6,310
Other current liabilities	12,250	10,508
Total current liabilities	277,264	181,089
LONG-TERM DEBT, LESS CURRENT PORTION	497,480	491,179
DEFERRED REVENUES	9,637	9,577
DEFERRED INCOME TAXES	4,558	11,968
DEFERRED INVESTMENT TAX CREDITS	1,407	1,598
DEFERRED COMPENSATION	2,472	2,175
MINORITY INTEREST IN SUBSIDIARY	13,305	19,818
Total liabilities	806,123	717,404
STOCKHOLDER'S EQUITY		
Common stock; $1 par value; 1,000 shares authorized; 1,000 shares issued and outstanding	1	1
Additional paid-in capital	431,913	431,913
Retained earnings	96,566	88,283
Accumulated other comprehensive income	(92,649)	(69,499)
Total Stockholder's Equity	435,831	450,698
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 1,241,954	$ 1,168,102

* See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
NRG ENERGY, INC. AND SUBSIDIARIES
(UNAUDITED)*

Accumulated

(Thousands of Dollars)	Common Stock	Additional Paid-in Capital	Retained Earnings	Other Comprehensive Income	Total Stockholder's Equity
BALANCES AT JANUARY 1, 1997	$ 1	$ 351,013	$ 66,301	$ 4,599	$ 421,914
Net Income			14,414		14,414
Foreign currency translation adjustments				(35,410)	(35,410)
Comprehensive income					(20,996)
Capital contributions from parent		80,361			80,361
BALANCES AT SEPTEMBER 30, 1997	$ 1	$ 431,374	$ 80,715	$ (30,811)	$ 481,279
BALANCES AT JANUARY 1, 1998	$ 1	$ 431,913	$ 88,283	$ (69,499)	$ 450,698
Net Income			8,283		8,283
Foreign currency translation adjustments				(23,150)	(23,150)
Comprehensive income					(14,867)
BALANCES AT SEPTEMBER 30, 1998	$ 1	$ 431,913	$ 96,566	$ (92,649)	$ 435,831

* See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
NRG ENERGY, INC. AND SUBSIDIARIES
(UNAUDITED)*

(Thousands of Dollars)	NINE MONTHS ENDED SEPTEMBER 30, 1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,283	$ 14,414
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Undistributed equity earnings of unconsolidated affiliates	(29,873)	(2,662)
Depreciation and amortization	12,560	7,096
Deferred income taxes and investment tax credits	(7,601)	7,245
Write-down of investment in projects	23,410	-
Cash provided (used) by changes in certain working capital items, net of divestiture and write-down effects		
Accounts receivable	(197)	(14,138)
Accounts receivable-affiliates	13,934	7,105
Accrued income taxes	(3,692)	1,777
Prepayments and other current assets	(3,043)	(640)
Accounts payable-trade	(8,636)	(1,602)
Accrued property and sales taxes	(512)	802
Accrued salaried, benefits and related costs	1,274	2,432
Accrued interest	4,430	745
Other current liabilities	1,742	1,163
Cash provided by changes in other assets and liabilities	2,808	3,711
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,887	27,448
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in projects	(124,903)	(326,288)
Divestiture of projects	9,219	6,655
Changes in notes receivable (net)	20,918	(59,195)
Capital expenditures	(23,265)	(41,062)
(Increase) decrease in restricted cash	(2,341)	17,341
NET CASH USED BY INVESTING ACTIVITIES	(120,372)	(402,549)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions from parent	-	80,361
Revolving line of credit borrowings (net)	103,000	-
Proceeds from issuance of long-term debt	22,658	303,511
Principal payments on long-term debt	(18,187)	(1,915)
NET CASH PROVIDED BY FINANCING ACTIVITIES	107,471	381,957
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,986	6,856
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,986	12,438

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 13,972	$ 19,294

* See notes to consolidated financial statements.

NRG ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

NRG Energy, Inc., (the Company) is a wholly owned subsidiary of Northern States Power Company (NSP), a Minnesota corporation. Additional information regarding the Company can be found in NSP's Form 10-Q for the nine months ended September 30, 1998.

The accompanying unaudited consolidated financial statements have been prepared in accordance with SEC regulations for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accounting policies followed by the Company are set forth in Note 1 to the Company's financial statements in its Annual Report on Form 10-K for the year ended December 31, 1997 (Form 10-K). The following notes should be read in conjunction with such policies and other disclosures in the Form 10-K. Interim results are not necessarily indicative of results for a full year.

In the opinion of management, the accompanying unaudited interim financial statements contain all material adjustments necessary to present fairly the consolidated financial position of the Company as of September 30, 1998 and December 31, 1997, the results of its operations for the three months and nine months ended September 30, 1998 and 1997, and its cash flows and shareholders' equity for the nine months ended September 30, 1998 and 1997.

1. BUSINESS DEVELOPMENTS

In April, the Company along with its 50% partner, Dynegy, acquired the El Segundo Generating Station from Southern California Edison Company for $87.8 million. The El Segundo Generating Station is a gas-fired plant with a capacity rating of 1,020 MW.

Also during April, the Company exercised its option to acquire 16.8 million convertible, non-voting preference shares of Energy Development Limited (EDL) for $24.8 million, bringing the Company's total investment in EDL to $48.8 million or approximately a 35 percent ownership interest. EDL is a listed Australian company that owns 189 MW and operates 238 MW of generation throughout Australia and the United Kingdom.

In June, the Company sold two affiliates, Wind Power Partners 1987 LP and Wind Power Partners 1988 LP, for $9.2 million. These companies were acquired as part of the Pacific Generation acquisition. There was no gain or loss recorded from the sale.

In 1996, the Company formed a joint venture with Ansaldo Energia SpA, a major Italian industrial company ("Ansaldo"), and P.T. Kiani Metra, an Indonesian industrial company ("PTKM") to develop a 400-megawatt coal-fired power generation facility in West Java, Indonesia, through P.T. Dayslistrik Pratama (PTDP"), a limited liability company created by the joint venturers. The Company and Ansaldo each have an ownership interest of 45 percent in PTDP, with the remaining 10% held by PTKM. During the third quarter of 1998, the Company recorded a $20 million write-down of its investment in the West Java project due to the continuing political and economic instability in Indonesia.

During October 1998, the Company executed a binding agreement to purchase the Somerset power station for approximately $55 million from Eastern Utilities Association (EUA). The Somerset station, located in Somerset, Massachusetts, includes two coal-fired generating facilities supplying a total of 181 megawatts and two aeroderivative combustion turbine peaking units supplying a total of 48 megawatts. In addition, a total of 69 megawatts is on deactivated reserve. The Company will hold a 100 percent interest in the project and will own, operate and maintain the units. The project's financial close is expected to occur in the first quarter of 1999.

During October 1998, the Company sold its interest in the Mid-Continent Power Company facility (MCPC) to Cogeneration Corporation of American (CogenAmerica). Pursuant to the Co-investment Agreement the Company loaned CogenAmerica approximately $24 million to finance the transaction. The MCPC facility is a 110-megwatt,

gas-fired power generation station located near Pryor, Oklahoma. NRG is the beneficial owner of approximately 47 percent of the outstanding stock of CogenAmerica.

In September 1998, Enron Capital & Trade Corp. (Enron) withdrew from the Cajun Electric Power Cooperative, Inc. (Cajun) bankruptcy proceedings. Enron's withdrawal leaves the bankruptcy court with two competing plans offered by Louisiana Generating LLC, which includes NRG and two other partners, and Southwestern Electric Power Co. In March 1998, Louisiana Generating LLC filed its final proposal for acquiring the fossil generating assets of Cajun. The final offer increased the acquisition price to $1.2 billion while keeping proposed electricity prices 10 percent below Cajun's current prices. Under the plan, the Company would hold a 30 percent equity interest in the partnership, which would own Cajun's 1,706 megawatts, excluding nuclear generating assets.

In September 1998, the Company filed preliminary proxy materials and a revised schedule 13D with the Securities and Exchange Commission to seek a special meeting of the shareholders of CogenAmerica for the purpose of removing Robert T. Sherman, president and chief executive officer of CogenAmerica, from his position as a director of CogenAmerica. In October 1998, the Company delivered to CogenAmerica written consents from a majority of CogenAmerica's shareholders in favor of the removal of Robert Sherman as a director of CogenAmerica. At a regularly scheduled board meeting, following the delivery of the consents, the board of directors of CogenAmerica terminated Robert Sherman's employment agreement and appointed Julie A. Jorgenson, senior counsel and corporate secretary of NRG and a director of CogenAmerica, interim president and chief executive officer of CogenAmerica. The Company is continuing to actively solicit proxies for the Nov. 12, 1998 special meeting of CogenAmerica's shareholders. The Company expects that it will be necessary to proceed with the special meeting, since Robert Sherman continues to challenge the ability of a majority of shareholders to act via written consent.

In September 1998, the Company announced plans to start direct negotiations with the government of Estonia to form a joint venture with Eesti Energia for ownership of two of Estonia's largest power plants (Narva Power). Eesti Energia is Estonia's national electricity generator and distributor.

In August 1998, the Collinsville Power Station entered into commercial operation. The Collinsville Power Station, located in Queensland, Australia, has been idle since 1988. In 1996, the Company acquired 50% of the plant from the Queensland State government. The remaining 50% is owned by Transfield Collinsville Pty. Ltd.

2. COMMITMENTS AND CONTINGENT LIABILITIES

In late October, 1998, Robert Sherman sued the Company and several individual employees of the Company who are on the board of CogenAmerica in Federal District Court in Minnesota. Sherman's suit requests an order enjoining his removal from the board of CogenAmerica, enjoining his termination as President and CEO of CogenAmerica, enjoining the November 12, 1998 CogenAmerica shareholder's meeting and enjoining NRG from voting the proxies it received with respect to such meeting. In addition, Sherman sought a preliminary injunction on these claims and on November 10, 1998, the Federal District Court denied Sherman's motion for a preliminary injunction in its entirety.

3. SUMMARIZED INCOME STATEMENT INFORMATION OF AFFILIATES

The Company has 20-50% investments in three companies that are considered significant subsidiaries, as defined by applicable SEC regulations, and accounts for those investments using the equity method. The following summarizes the income statements of these unconsolidated entities:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
(Thousands of Dollars)	1998	1997	1998	1997
Net sales	$ 137,334	$ 154,802	$ 421,005	$ 510,160
Other income (expense)	632	(116)	123	2,816
Costs and expenses:				
Cost of sales	120,563	128,664	350,516	415,875
General and administrative	5,194	2,412	17,514	22,448
	125,757	131,076	368,030	438,323
Income before income taxes	12,209	23,610	53,098	74,653
Income taxes	1,988	3,876	7,600	17,139
Net income	$ 10,221	$ 19,734	$ 45,498	$ 57,514
Company's share of net income	$ 4,219	$ 8,089	$ 17,614	$ 22,423

4. PENSION COSTS

During 1998 NSP changed its method of allocating pension trust assets to its individual subsidiaries as part of the calculation of pension costs under SFAS No. 87. The new method was adopted to better match pension plan assets with the individual participants' benefit obligations for which funding has been established. The effect of this change is a decrease in the Company's pension costs of approximately $2.9 million for the full year 1998, including $1.3 million related to periods prior to the change.

5. SUBSEQUENT EVENTS

On October 30, 1998, the Company received a $100 million equity contribution from NSP. These funds were used to partially pay down the outstanding balance on the Company's revolving line of credit.

6. NEW ACCOUNTING PRONOUNCEMENTS

In 1998, the Company adopted Financial Accounting Standard Statement (SFAS) No. 130, "Reporting Comprehensive Income." This statement establishes rules for reporting comprehensive income and its components. Comprehensive income consists of net income and foreign currency translation adjustments and is presented in the Consolidated Statement of Stockholder's Equity. Accumulated Other Comprehensive Income, as presented therein and on the Balance Sheet, consists solely of foreign currency translation adjustments. The adoption of SFAS No. 130 had no impact on total stockholder's equity. Certain reclassifications to prior year financial statements have been made in order to conform to the SFAS No. 130 requirements.

In 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This Statement establishes standards for reporting information about operating segments in annual financial statements and requires that companies report selected information by operating segments in interim financial reports. The Company will be required to adopt this statement in its December 31, 1998 financial reports. The Company has not yet determined its reportable segments under the statement.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivatives be recognized at fair value in the Balance Sheet, and that changes in fair value be recognized either currently in earnings or deferred as a component of Other Comprehensive Income, depending on the intended use of derivative and the resulting designation (e.g., as a qualifying hedge). The Company will be required to adopt this statement in 2000, but can elect to adopt it in 1998 or 1999. The Company has not yet determined the potential impacts of implementing this statement or the expected adoption date.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Management's Discussion and Analysis of Financial Condition is omitted per conditions as set forth in General Instructions H (1) (a) and (b) of Form 10-Q for wholly owned subsidiaries. It is replaced with management's narrative analysis of the results of operations set forth in General Instructions H (2) (a) of Form 10-Q for wholly owned subsidiaries (reduced disclosure format). This analysis will primarily compare the Company's revenue and expense items for the nine months ended September 30, 1998 with the nine months ended September 30, 1997.

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1997

Net income for the nine months ended September 30, 1998, was $8.3 million compared to $14.4 million for the same period in 1997. The decrease in net income of $6.1 million was due mainly to a $15.3 million after tax write-down of investment in projects. Without this nonrecurring charge, net income would have been $23.6 million, an increase of 64% (or $9.2 million) for the nine month period. The increase in net income from on-going operations (excluding the non-recurring charge) was due to new projects and increased tax benefits, partially offset by increased interest expense on corporate debt.

OPERATING REVENUES

For the nine months ended September 30, 1998, the Company had total revenues of $133.3 million, compared to $82.8 million for the nine months ended September 30, 1997, an increase of 61%.

The Company's operating revenues from wholly owned operations for the nine months ended September 30, 1998 were $74.8 million, an increase of $9.7 million, or 15%, over the same period in 1997. The increase in revenues was due primarily to new projects, including San Diego Power and Cooling and certain Pacific Generation operations. This increase was partially offset by lower revenues from heating and cooling subsidiaries due to the unusually mild weather. For the nine months ended September 30, 1998, revenues from wholly owned operations consisted of revenue from heating, cooling and thermal activities (46%), electrical generation (47%) and technical services (7%).

Equity in earnings of unconsolidated affiliates was $58.4 million for the nine months ended September 30, 1998, compared to $17.8 million for the nine months ended September 30, 1997, an increase of 229%. The increase was due to new projects including El Segundo, Long Beach and certain Pacific Generation operations, an increase in the Company's holdings in EDL as well as higher earnings from MIBRAG.

OPERATING COSTS AND EXPENSES

Operating costs and expenses for the nine months ended September 30, 1998, were $91.5 million, an increase of $23.1 million or 33.9%, compared to $68.4 million for the same period in 1997. As a percent of revenue, operating costs and expenses for the nine months were 68.7% as compared to 82.5% during the same period one year earlier.

Cost of wholly owned operations was $39.4 million for the nine months ended September 30. This is an increase of $6.5 million or 20% over the same period in 1997. The increase was due primarily to new projects. Cost of operations, as a percentage of revenues from wholly owned operations for the nine month period, was 53% which is 2% higher than the same period in 1997. The increase in cost of operations was due to new NEO projects.

Depreciation and amortization costs were $12.6 million for the nine months ended September 30, 1998, compared to $7.1 million for the nine months ended September 30, 1997. The depreciation and amortization increase

was due primarily to increased amortization of intangible assets related to the Pacific Generation acquisition and additional NEO project depreciation.

General, administrative and development costs were $39.6 million for the nine months ended September 30, 1998, compared to $28.4 million for the nine months ended September 30, 1997. The increase was due primarily to increased business development activities and increased legal, technical, and accounting expenses resulting from expanded operations. As a percent of revenues, administrative and general expenses declined to 30% from 34% during the same period one year earlier.

OTHER INCOME (EXPENSE)

Other expense for the nine months ended September 30, 1998, was $59.8 million, an increase of $48.6 million, compared to $11.2 million for the same period in 1997. Other expense before the write-down of investments was $36.4 million in 1998. As a percent of revenue, other expenses (net) before the write-down of investments were 27.3% for the nine months ended September 30, 1998, as compared to 13.5% during the same period one year earlier.

Minority interest in projects was $1.7 million for the nine months period compared to zero for the same period in 1997. Minority interest relates to one of the Pacific Generation projects acquired during the fourth quarter of 1997.

Write down of investments was $23.4 million ($15.3 million after tax). The Company wrote down its accumulated project development expenditures of $20.1 million for the West Java, Indonesia, project due to the uncertainties surrounding all infrastructure projects in Indonesia. The Company also reviewed all international projects in development and has created a reserve of $3.3 million for other project write-downs that may be required. As of the end of September 1998, the Company's investment portfolio was weighted as follows: United States 39%, Australia 36%, Germany 12%, South America 10%, Canada 1%, the Czech Republic 1% and Other Countries 1%.

Other income was $3.1 million for the nine months ended September 30, 1998 compared with $8.6 million for the nine months ended September 30, 1997. The decline was due primarily to a lower amount of short-term investments in 1998.

Interest expense was $37.8 million for the nine months ended September 30, 1998 compared with $19.8 million for the nine months ended September 30, 1997. The increase in interest expense was due primarily to the issuance of the $250 million Senior Notes at the end of June 1997, interest on the Company's revolving line of credit, new debt obtained for certain NEO projects and debt from the purchase of Pacific Generation.

INCOME TAX

The Company has recorded an income tax benefit due to domestic tax losses and the recognition of certain tax credits. The net income tax benefit for the nine months ended September 30, 1998, increased by $15.2 million to $26.4 million as compared to the same period one year earlier. The increase in tax benefits for the nine month period reflects tax effects of increased interest expense on corporate debt and investment write downs as well as an increase in Section 29 credits.

YEAR 2000 ISSUE

NRG is in the process of examining year 2000 issues and is partnering with its parent, NSP, in employing a systematic approach to deal with the Year 2000 issue. NRG's year 2000 program covers not only NRG's corporate computer applications but also the hardware and embedded system components in use throughout NRG operations. Embedded systems perform mission-critical functions in all parts of operations including power generation, distribution, communications and business operations. The Company expects to be well along in the process of completing its analysis by the end of 1998 and 1999. A committee made up of senior management is leading NRG's initiatives to identify year 2000 related issues and remediate business processes as necessary in 1998. As part of the process, the Company is verifying that all critical hardware and software systems within the corporate, subsidiary and affiliate operations will not be subject to year 2000 issues. Additionally, the Company, in conjunction with NSP, is working with its significant suppliers to identify and minimize any business interruptions due to year 2000 issues in the suppliers' business processes. The cost to address the Year 2000 issue has not yet been fully determined, but, based on the analysis to date, is not expected to materially effect the Company's earnings or financial condition. Despite these efforts, there can be no assurances that every material year 2000 related issue will be identified and addressed beforehand. An unexpected failure regarding a year 2000 issue could result in an interruption in certain normal business activities or operations. However, NRG believes that with the completion of its year 2000 project, significant interruptions are unlikely.

FORWARD-LOOKING STATEMENTS

In addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements, factors that could cause the Company's actual results to differ materially from those contemplated in any forward-looking statements include, among others, the following:

- Economic conditions including inflation rates and monetary fluctuations;
- Trade, monetary, fiscal, taxation, and environmental policies of governments, agencies and similar organizations in geographic areas where the Company has a financial interest;
- Customer business conditions including demand for their products or services and supply of labor and materials used in creating their products and services;
- Financial or regulatory accounting principles or policies imposed by the Financial Accounting Standards Board, the Securities and Exchange Commission, the Federal Energy Regulatory Commission and similar entities with regulatory oversight;
- Availability or cost of capital such as changes in: interest rates; market perceptions of the power generation industry, the Company or any of its subsidiaries; or security ratings;
- Factors affecting power generation operations such as unusual weather conditions; catastrophic weather-related damage; unscheduled generation outages, maintenance or repairs; unanticipated changes to fossil fuel, or gas supply costs or availability due to higher demand, shortages, transportation problems or other developments; environmental incidents; or electric transmission or gas pipeline system constraints;
- Employee workforce factors including loss or retirement of key executives, collective bargaining agreements with union employees, or work stoppages;
- Increased competition in the power generation industry;
- Cost and other effects of legal and administrative proceedings, settlements, investigations and claims;
- Technological developments that result in competitive disadvantages and create the potential for impairment of existing assets;
- Factors associated with various investments including conditions of final legal closing, foreign government actions, foreign economic and currency risks, political instability in foreign countries, partnership actions, competition, operating risks, dependence on certain suppliers and customers, domestic and foreign environmental and energy regulations;
- Limitations on the Company's ability to control the development or operation of projects in which the Company has less than 100% interest;
- Other business or investment considerations that may be disclosed from time to time in the Company's Securities and Exchange Commission filings or in other publicly disseminated written documents, including the Company's Registration Statement No. 333-33397, as amended.

The Company 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 pursuant to the Act should not be construed as exhaustive.

PART II
ITEM 1 - LEGAL PROCEEDINGS
- --

On July 31, 1998, an arbitration panel ordered the Company to offer its interest in the Mid-Continent Power Company ("MCPC") facility to the Company's 45% owned affiliate Cogeneration Corporation of America ("CogenAmerica") (formerly known as NRG Generating (U.S.) Inc.) and enjoined the Company's pending sale of the MCPC facility to a wholly-owned subsidiary of OGE Energy Corp. The arbitration panel's order ultimately led to a negotiated sale of the MCPC facility to CogenAmerica which closed on October 9, 1998. As a result, the arbitration has concluded.

Other legal proceedings are set forth in Part I, Item 3 of the Company's Form 10-K for the year ended December 31, 1997 and in Part II, Item 1 of the Company's Form 10-Q for the quarter ended March 31, 1998.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K
- ---

(a) EXHIBITS
27 FINANCIAL DATA SCHEDULE FOR THE PERIOD ENDED SEPTEMBER 30, 1998.

(b) Reports on Form 8-K

The following reports on Form 8-K were filed either during the three months ended Sept. 30, 1998, or between Sept. 30, 1998 and the date of this report.

Oct. 6, 1998 (Filed Oct. 6, 1998) - Item 5 Other Events. Re: Disclosure of NRG's $23 million pretax write-down of investments in Indonesia and other projects against third quarter 1998 earnings.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NRG ENERGY, INC.

(REGISTRANT)

LEONARD A. BLUHM
EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL OFFICER)

DAVID RIPKA
CONTROLLER
(PRINCIPAL ACCOUNTING OFFICER)

DATE: NOVEMBER 11, 1998

<ARTICLE> 5
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This schedule contains summary financial information extracted from the September 30, 1998 Financial Statements included in the Company's Form 10-Q and is qualified in its entirety by reference to such Form 10-Q.
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