

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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 the quarterly period ended: September 30, 2004

Commission File Number: 001-15891

NRG Energy, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

41-1724239
(I.R.S. Employer
Identification No.)

901 Marquette Avenue, Suite 2300
Minneapolis, Minnesota
(Address of principal executive offices)

55402
(Zip Code)

(612) 373-5300

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12 b-2 of the Exchange Act).

Yes No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

As of November 2, 2004, there were 100,008,053 shares of common stock outstanding.

TABLE OF CONTENTS

Index

Page No.

Part I — FINANCIAL INFORMATION

Item 1 Consolidated Financial Statements and Notes

<u>Consolidated Statements of Operations</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Stockholders' Equity/(Deficit) and Comprehensive Income/(Loss)</u>	6
<u>Consolidated Statements of Cash Flows</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	56
<u>Item 4 Controls and Procedures</u>	58
<u>Part II — OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	59
<u>Item 3 Defaults Upon Senior Securities</u>	59
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	59
<u>Item 5 Other Information</u>	59
<u>Item 6 Exhibits and Reports on Form 8-K</u>	59
<u>Cautionary Statement Regarding Forward Looking Information</u>	60
<u>SIGNATURES</u>	61
<u>Exhibit Index</u>	62
<u>Form of Long-Term Incentive Plan Non-Qualified Stock Option Agreement</u>	
<u>Form of Long-Term Incentive Plan Restricted Stock Unit Agreement</u>	
<u>Certification of CEO Pursuant to Section 302</u>	
<u>Certification of CFO Pursuant to Section 302</u>	
<u>Certification of Controller Pursuant to Section 302</u>	
<u>Certification of CEO, CFO and Controller Pursuant to Section 906</u>	

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

	Reorganized NRG	Predecessor Company	Reorganized NRG	Predecessor Company
	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
(In thousands, except for per share amounts)				
Operating Revenues				
Revenues from majority-owned operations	\$ 606,663	\$ 570,701	\$ 1,780,551	\$ 1,507,186
Operating Costs and Expenses				
Cost of majority-owned operations	381,010	384,386	1,116,021	1,142,976
Depreciation and amortization	51,373	56,510	159,547	179,225
General, administrative and development	54,307	34,420	136,445	122,052
Other charges				
Legal settlement	—	396,000	—	396,000
Corporate relocation charges	5,713	—	12,474	—
Reorganization items	(5,245)	20,698	(1,656)	27,032
Restructuring and impairment charges	40,507	6,252	42,183	298,019
Total operating costs and expenses	527,665	898,266	1,465,014	2,165,304
Operating Income/(Loss)	<u>78,998</u>	<u>(327,565)</u>	<u>315,537</u>	<u>(658,118)</u>
Other Income (Expense)				
Minority interest in (earnings) losses of consolidated subsidiaries	128	—	(581)	—
Equity in earnings of unconsolidated affiliates	53,373	63,272	117,187	155,758
Write downs and gains/(losses) on sales of equity method investments	(13,524)	12,310	(14,057)	(136,717)
Other income, net	5,502	7,300	17,210	10,118
Interest expense	(66,883)	(34,424)	(226,254)	(294,460)
Total other income (expense)	(21,404)	48,458	(106,495)	(265,301)
Income/(Loss) From Continuing Operations Before Income Taxes	57,594	(279,107)	209,042	(923,419)
Income Tax Expense	14,264	5,437	64,866	42,779
Income/(Loss) From Continuing Operations	43,330	(284,544)	144,176	(966,198)
Income/(Loss) From Discontinued Operations, net of Income Taxes	10,891	(250)	23,304	60,371
Net Income/(Loss)	<u>\$ 54,221</u>	<u>\$ (284,794)</u>	<u>\$ 167,480</u>	<u>\$ (905,827)</u>
Weighted Average Number of Common Shares Outstanding — Basic	100,101		100,066	
Income From Continuing Operations per Weighted Average Common Share — Basic	\$ 0.43		\$ 1.44	
Income From Discontinued Operations per Weighted Average Common Share — Basic	0.11		0.23	
Net Income per Weighted Average Common Share — Basic	<u>\$ 0.54</u>		<u>\$ 1.67</u>	
Weighted Average Number of Common Shares Outstanding — Diluted	100,616		100,328	
Income From Continuing Operations per Weighted Average Common Share — Diluted	\$ 0.43		\$ 1.44	
Income From Discontinued Operations per Weighted Average Common Share — Diluted	0.11		0.23	
Net Income per Weighted Average Common Share — Diluted	<u>\$ 0.54</u>		<u>\$ 1.67</u>	

See notes to consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (REORGANIZED COMPANY)
(Unaudited)

	September 30, 2004	December 31, 2003
	(In thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,104,783	\$ 551,223
Restricted cash	148,919	116,067
Accounts receivable — trade, less allowance for doubtful accounts of \$908 and \$0	242,245	201,921
Xcel Energy settlement receivable	—	640,000
Current portion of notes receivable — affiliates	—	200
Current portion of notes receivable	121,599	65,141
Taxes receivable	30,931	—
Inventory	214,980	194,926
Derivative instruments valuation	5,516	772
Prepayments and other current assets	196,078	222,138
Current deferred income taxes	989	1,850
Current assets — held for sale	43,851	—
Current assets — discontinued operations	3,042	119,601
Total current assets	<u>2,112,933</u>	<u>2,113,839</u>
Property, Plant and Equipment		
In service	3,439,499	3,885,465
Under construction	68,135	139,171
Total property, plant and equipment	3,507,634	4,024,636
Less accumulated depreciation	(156,643)	(11,800)
Net property, plant and equipment	<u>3,350,991</u>	<u>4,012,836</u>
Other Assets		
Equity investments in affiliates	689,974	737,998
Notes receivable, less current portion — affiliates	118,200	130,152
Notes receivable, less current portion	612,443	691,444
Intangible assets, net of accumulated amortization of \$45,593 and \$5,212	326,030	432,361
Debt issuance costs, net of accumulated amortization of \$7,372 and \$454	60,658	74,337
Derivative instruments valuation	48,928	59,907
Funded letter of credit	250,000	250,000
Other assets	95,441	118,940
Non-current assets — held for sale	519,986	—
Non-current assets — discontinued operations	—	623,173
Total other assets	<u>2,721,660</u>	<u>3,118,312</u>
Total Assets	<u>\$8,185,584</u>	<u>\$9,244,987</u>

See notes to consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (REORGANIZED COMPANY)
(Unaudited)

	September 30, 2004	December 31, 2003
	(In thousands, except for share data)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt and capital leases	\$ 100,105	\$ 801,229
Short-term debt	—	19,019
Accounts payable — trade	115,270	158,646
Accounts payable — affiliates	5,301	3,092
Accrued taxes	—	16,095
Accrued property, sales and other taxes	13,672	22,301
Accrued salaries, benefits and related costs	33,362	19,330
Accrued interest	65,011	8,982
Derivative instruments valuation	18,038	429
Creditor pool obligation	25,000	540,000
Other bankruptcy settlement	220,492	220,000
Other current liabilities	127,073	102,860
Current liabilities — held for sale	6,855	—
Current liabilities — discontinued operations	1,752	114,198
Total current liabilities	<u>731,931</u>	<u>2,026,181</u>
Other Liabilities		
Long-term debt and capital leases	3,511,231	3,327,782
Deferred income taxes	143,129	149,493
Postretirement and other benefit obligations	113,640	105,946
Derivative instruments valuation	140,787	153,503
Other long-term obligations	385,496	480,937
Non-current liabilities — held for sale	555,546	—
Non-current liabilities — discontinued operations	1,081	558,885
Total non-current liabilities	<u>4,850,910</u>	<u>4,776,546</u>
Total Liabilities	<u>5,582,841</u>	<u>6,802,727</u>
Minority Interest	5,592	5,004
Commitments and Contingencies		
Stockholders' Equity		
Serial Preferred Stock; 10,000,000 shares authorized, none issued and outstanding at September 30, 2004 and December 31, 2003	—	—
Common stock; \$.01 par value; 500,000,000 shares authorized; 100,008,053 shares at September 30, 2004 and 100,000,000 shares at December 31, 2003 issued and outstanding	1,000	1,000
Additional paid-in capital	2,413,962	2,403,429
Retained earnings	178,505	11,025
Accumulated other comprehensive income	3,684	21,802
Total stockholders' equity	<u>2,597,151</u>	<u>2,437,256</u>
Total Liabilities and Stockholders' Equity	<u>\$ 8,185,584</u>	<u>\$ 9,244,987</u>

See notes to consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY/(DEFICIT)
AND COMPREHENSIVE INCOME/(LOSS)
Three Months Ended September 30, 2004 and 2003
(Unaudited)

	Common		Additional Paid-in Capital	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity/(Deficit)
	Stock	Shares				
(In thousands)						
Balances at June 30, 2003						
(Predecessor Company)	\$ —	—	\$ 2,227,692	\$ (3,449,966)	\$ (56,072)	\$ (1,278,346)
Net loss				(284,794)		(284,794)
Foreign currency translation adjustments and other					(3,133)	(3,133)
Deferred unrealized gain on derivatives, net					35,056	35,056
Comprehensive loss for the three months ended September 30, 2003						(252,871)
Balances at September 30, 2003						
(Predecessor Company)	\$ —	—	\$ 2,227,692	\$ (3,734,760)	\$ (24,149)	\$ (1,531,217)
Balances at June 30, 2004						
(Reorganized NRG)	\$ 1,000	100,007	\$ 2,410,751	\$ 124,284	\$ 43	\$ 2,536,078
Net income				54,221		54,221
Foreign currency translation adjustments and other					22,434	22,434
Deferred unrealized loss on derivatives, net					(18,793)	(18,793)
Comprehensive income for the three months ended September 30, 2004						57,862
Equity based compensation		1	3,211			3,211
Balances at September 30, 2004						
(Reorganized NRG)	\$ 1,000	100,008	\$ 2,413,962	\$ 178,505	\$ 3,684	\$ 2,597,151

See notes to consolidated financial statements.

NRG ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY/(DEFICIT)
AND COMPREHENSIVE INCOME/(LOSS)
Nine Months Ended September 30, 2004 and 2003
(Unaudited)

	Common		Additional Paid-in Capital	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity/(Deficit)
	Stock	Shares				
(In thousands)						
Balances at December 31, 2002						
(Predecessor Company)	\$ —	—	\$ 2,227,692	\$ (2,828,933)	\$ (94,958)	\$ (696,199)
Net loss				(905,827)		(905,827)
Foreign currency translation adjustments and other					87,734	87,734
Deferred unrealized loss on derivatives, net					(16,925)	(16,925)
Comprehensive loss for the nine months ended September 30, 2003						(835,018)
Balances at September 30, 2003						
(Predecessor Company)	\$ —	—	\$ 2,227,692	\$ (3,734,760)	\$ (24,149)	\$ (1,531,217)
Balances at December 31, 2003						
(Reorganized NRG)	\$ 1,000	100,000	\$ 2,403,429	\$ 11,025	\$ 21,802	\$ 2,437,256
Net income				167,480		167,480
Foreign currency translation adjustments and other					(13,499)	(13,499)
Deferred unrealized loss on derivatives, net					(4,619)	(4,619)
Comprehensive income for the nine months ended September 30, 2004						149,362
Equity based compensation		8	10,533			10,533
Balances at September 30, 2004						
(Reorganized NRG)	\$ 1,000	100,008	\$ 2,413,962	\$ 178,505	\$ 3,684	\$ 2,597,151

See notes to consolidated financial statements.

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

	Reorganized NRG	Predecessor Company
	Nine Months Ended September 30,	
	2004	2003
	(In thousands)	
Cash Flows from Operating Activities		
Net income/(loss)	\$ 167,480	\$(905,827)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities		
Distributions less than equity in earnings of unconsolidated affiliates	(13,703)	(47,500)
Depreciation and amortization	164,872	211,201
Amortization of debt issuance costs	22,440	14,306
Amortization of debt discount	15,685	—
Deferred income taxes	67,655	18,502
Minority interest	1,961	2,010
Unrealized gains on derivatives	(33,232)	(12,500)
Asset impairment	42,183	353,871
Write downs and losses on sales of equity method investments	14,057	136,531
Gain on sale of discontinued operations	(29,924)	(217,920)
Amortization of power contracts and emission credits	42,822	—
Reserve for note and interest receivable	4,572	—
Cash provided (used) by changes in certain working capital items		
Accounts receivable	(29,480)	(103,377)
Xcel Energy settlement receivable	640,000	—
Accrued taxes	(45,555)	(16,495)
Inventory	(27,586)	12,314
Prepayments and other current assets	24,436	(28,748)
Accounts payable	(54,611)	618,099
Accounts payable — affiliates	4,271	36,571
Accrued property, sales and other taxes	(6,415)	1,733
Accrued salaries, benefits and related costs	22,291	(10,605)
Accrued interest	45,625	129,585
Other current liabilities	(486,084)	(118,365)
Cash provided by changes in other assets and liabilities	41,661	47,929
Net Cash Provided by Operating Activities	<u>595,421</u>	<u>121,315</u>
Cash Flows from Investing Activities		
Proceeds on sale of equity method investments	29,693	102,546
Proceeds on sale of discontinued operations	246,498	1,011
Proceeds on sales of subsidiaries	—	1,000
Investments in equity method investments and projects	(672)	(369)
Decrease in notes receivable, net	36,609	9,450
Capital expenditures	(78,293)	(85,635)
Increase in restricted cash and trust funds	(23,029)	(188,127)
Net Cash Provided (Used) by Investing Activities	<u>210,806</u>	<u>(160,124)</u>
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt, net	531,207	43,797
Deferred debt issuance costs	(8,497)	(17,843)
Principal payments on short and long-term debt	(750,343)	(50,073)
Net Cash Used by Financing Activities	<u>(227,633)</u>	<u>(24,119)</u>
Change in Cash from Discontinued Operations	<u>(22,527)</u>	<u>31,309</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	<u>(2,507)</u>	<u>(52,537)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	553,560	(84,156)
Cash and Cash Equivalents at Beginning of Period	<u>551,223</u>	<u>360,860</u>
Cash and Cash Equivalents at End of Period	<u>\$1,104,783</u>	<u>\$ 276,704</u>

See notes to consolidated financial statements.



NRG ENERGY, INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

Note 1 — Organization

General

NRG Energy, Inc., or NRG Energy, the “Company”, “we”, “our”, or “us”, is a wholesale power generation company, primarily engaged in the ownership and operation of power generation facilities, the procurement of fuel and transportation services and the marketing of energy, capacity and related products in the United States and internationally. NRG Energy has a diverse portfolio of electric generation facilities in terms of geography, fuel type and dispatch levels. NRG Energy seeks to maximize operating income through the effective procurement and trading of fuel supplies and transportation related services, and the marketing and trading of energy, capacity and ancillary services into spot, intermediate and long-term markets.

From May 14 to December 23, 2003, we and a number of our subsidiaries undertook a comprehensive reorganization and restructuring under Chapter 11 of the United States Bankruptcy Code. With the exception of the subsidiaries that remain in bankruptcy to effect their liquidation, we have completed our Chapter 11 process.

As of September 30, 2004, we owned interests in 53 power projects in five countries having an aggregate net generation capacity of approximately 16,800 MW. Approximately 7,900 MW of our capacity consists of merchant power plants in the Northeast region of the United States. Certain of these assets are located in transmission constrained areas, including approximately 1,400 MW of “in-city” New York City generation capacity, approximately 750 MW of southwest Connecticut generation capacity and 575 MW of capacity in southern California. We also own approximately 2,500 MW of capacity in the South Central region of the United States, with approximately 1,900 MW of that capacity supported by long-term power purchase agreements. Our assets in the West Coast region of the United States consist of approximately 1,300 MW of capacity with the majority of such capacity owned via our 50% interest in West Coast Power LLC, or West Coast Power. Our assets in the West Coast region are supported by a power purchase agreement with the California Department of Water Resources that expires on December 31, 2004. One-year term “reliability must-run contracts” with the California Independent System Operator for approximately 575 MW in the San Diego area have been renewed for 2005. Approximately 265 MW of capacity at the Long Beach generating facility will be retired at year-end 2004.

Our principal domestic generation assets consist of a diversified mix of natural gas-, coal- and oil-fired facilities, representing approximately 43%, 29% and 28% of our total domestic generation capacity, respectively. In addition, 45% of our generating facilities have some capability to combust dual fuels. We also own interests in plants having a net generation capacity of approximately 2,100 MW in various international markets, including Australia, Europe and Brazil. We operate substantially all of our generating assets, including the West Coast Power plants.

We perform our own power marketing which is focused on maximizing the value of our North American assets through the pursuit of asset-focused power and fuel marketing and trading activities in the spot, intermediate and long-term markets. Our principal objectives are the management and mitigation of commodity market risk, the reduction of cash flow volatility over time, the protection and acquisition of the full market value of the asset base and adding incremental value by using market knowledge to effectively trade our natural positions. Additionally, we work with markets, independent system operators and regulators to design markets that provide adequate long-term compensation for existing generation assets and attract the investment required to meet growth needs. West Coast Power has arranged for power marketing and fuel management with affiliates of our partner, Dynegy, Inc.

We were incorporated as a Delaware corporation on May 29, 1992. Our headquarters and principal executive offices are located at 901 Marquette Avenue, Suite 2300, Minneapolis, Minnesota, 55402. Our telephone number is (612) 373-5300. We are in the process of moving our corporate headquarters to Princeton, New Jersey. Our Internet website is <http://www.nrgenergy.com>. Our recent annual reports, quarterly reports, current reports and other periodic filings are available free of charge through our Internet website.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

As used in this Quarterly Report, Predecessor Company refers to the Company prior to its emergence from bankruptcy. Reorganized NRG refers to the Company after its emergence from bankruptcy.

[Table of Contents](#)

Between May 14, 2003 and December 5, 2003, we operated as a debtor in possession under the supervision of the Bankruptcy Court. Our financial statements for reporting periods within that timeframe were prepared in accordance with the provisions of AICPA Statement of Position 90-7, “*Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*”, or SOP 90-7.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the Securities and Exchange Commission’s regulations for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accounting policies we follow are set forth in Note 2 to the Company’s financial statements in our Annual Report on Form 10-K as amended for the year ended December 31, 2003. The following notes should be read in conjunction with such policies and other disclosures in the Form 10-K as amended. Interim results are not necessarily indicative of results for a full year.

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all material adjustments (consisting of normal, recurring accruals) necessary to present fairly our consolidated financial position as of September 30, 2004, the results of our operations and stockholders’ equity/(deficit) for the three and nine months ended September 30, 2004 and 2003, and our cash flows for the nine months ended September 30, 2004 and 2003. Certain prior-year amounts have been reclassified for comparative purposes.

In connection with our emergence from bankruptcy, we adopted Fresh Start Reporting on December 5, 2003, in accordance with the requirements of SOP 90-7. The application of SOP 90-7 resulted in the creation of a new reporting entity. Under Fresh Start, our reorganization value was allocated to our assets and liabilities on a basis substantially consistent with purchase accounting in accordance with Statement of Financial Accounting Standards, or SFAS No. 141, “*Business Combinations*.”

Comparability of Financial Information

Due to the adoption of Fresh Start as of December 5, 2003, the Reorganized NRG Energy balance sheet, statement of operations and statement of cash flows have not been prepared on a consistent basis with the Predecessor Company’s financial statements and are not comparable in certain respects to the financial statements prior to the application of Fresh Start. A black line has been drawn on the accompanying Consolidated Financial Statements to separate and distinguish between Reorganized NRG Energy and the Predecessor Company.

Note 3 — Discontinued Operations

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

SFAS No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets*” requires that discontinued operations be valued on an asset-by-asset basis at the lower of carrying amount or fair value less costs to sell. In applying those provisions, our management considered cash flow analyses and offers related to the assets and businesses. This amount is included in income/(loss) from discontinued operations, net of income taxes in the accompanying consolidated statements of operations. In accordance with SFAS No. 144, assets held for sale will not be depreciated commencing with their classification as such.

For the three and nine months ended September 30, 2004, discontinued operations included our NRG McClain LLC; Penobscot Energy Recovery Company, or PERC; Compania Boliviana De Energia Electrica S.A. Bolivian Power Company Limited, or Cobee; Hsin Yu, LSP Energy (Batesville) and four NEO Corporation projects (NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha and NEO Tajiguas LLC). For the three and nine months ended September 30, 2003, discontinued operations included our NRG McClain, PERC, Cobee, Killingholme Power Limited, NEO Landfill Gas, Inc., or NLGI; seven NEO Corporation projects (NEO Fort Smith LLC, NEO Woodville LLC, NEO Phoenix LLC, NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha and NEO Tajiguas LLC), Timber Energy Resources, Inc., or TERI; Cahua and Energia Pacasmayo, Hsin Yu and LSP Energy (Batesville) projects.

[Table of Contents](#)

Summarized results of operations of discontinued operations were as follows:

	Reorganized NRG	Predecessor Company	Reorganized NRG	Predecessor Company
	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(In thousands)			
Operating revenues	\$ 6,243	\$ 76,127	\$ 108,428	\$ 212,627
Operating and other expenses	5,843	75,869	106,527	338,689
Pretax income/(loss) from operations of discontinued components	400	258	1,901	(126,062)
Income tax expense (benefit)	—	(116)	986	1,671
Income/(loss) from operations of discontinued components	400	374	915	(127,733)
Disposal of discontinued components — pre-tax gain/(loss), net	16,916	(624)	30,223	188,104
Income tax expense	6,425	—	7,834	—
Disposal of discontinued components — gain/(loss), net	10,491	(624)	22,389	188,104
Income/(loss) from discontinued operations, net of income taxes	\$ 10,891	\$ (250)	\$ 23,304	\$ 60,371

The assets and liabilities of the discontinued operations are reported in the balance sheets as of September 30, 2004 and December 31, 2003 as discontinued operations. The major classes of assets and liabilities are presented by geographic area in the following table. As of September 30, 2004, the NRG McClain project is included in the Wholesale Power Generation-Other North America classification and NEO Corporation is included in the All Other classification under the Alternative Energy category; all other projects have been sold as of September 30, 2004. As of December 31, 2003, the PERC, NRG McClain and LSP Energy (Batesville) projects are included in the Wholesale Power Generation — Other North America classification, the Cobee and Hsin Yu projects are included in the All Other classification under the Other International category and the NEO Corporation is included in the All Other classification under the Alternative Energy category.

September 30, 2004	Wholesale Power Generation	All Other	Total
	Other North America	Alternative Energy	
	(In thousands)		
Cash	\$ 1,692	\$ —	\$ 1,692
Restricted cash	1,350	—	1,350
Receivables, net	—	—	—
Inventory	—	—	—
Prepays and other current assets	—	—	—
Current assets — discontinued operations	\$ 3,042	\$ —	\$ 3,042
PP&E, net	\$ —	\$ —	\$ —
Other non-current assets	—	—	—
Non-current assets — discontinued operations	\$ —	\$ —	\$ —
Current portion of long-term debt	\$ —	\$ —	\$ —
Accounts payable — trade	1,085	37	1,122
Accrued liabilities	630	—	630
Other current liabilities	—	—	—
Current liabilities — discontinued operations	\$ 1,715	\$ 37	\$ 1,752
Long-term debt	\$ —	\$ —	\$ —
Other non-current liabilities	1,081	—	1,081
Non-current liabilities — discontinued operations	\$ 1,081	\$ —	\$ 1,081

December 31, 2003	Wholesale Power Generation	All Other		Total
	Other North America	Wholesale Power Generation Other International	Alternative Energy	
	(In thousands)			
Cash	\$ 4,292	\$ 8,264	\$ —	\$ 12,556
Restricted cash	60,292	—	—	60,292
Receivables, net	12,676	11,259	—	23,935
Inventory	8,722	3,538	—	12,260
Prepays and other current assets	3,730	6,785	43	10,558
Current assets — discontinued operations	\$ 89,712	\$ 29,846	\$ 43	\$ 119,601
PP&E, net	\$ 487,753	\$ 75,250	\$ —	\$ 563,003
Non-current deferred tax asset	—	31,469	—	31,469
Other non-current assets	14,764	9,730	4,207	28,701
Non-current assets — discontinued operations	\$ 502,517	\$ 116,449	\$ 4,207	\$ 623,173
Current portion of long-term debt	\$ 6,206	\$ 49,744	\$ —	\$ 55,950
Accounts payable — trade	3,057	23,037	3,998	30,092
Accrued liabilities	13,182	757	—	13,939
Other current liabilities	8,248	5,947	22	14,217
Current liabilities — discontinued operations	\$ 30,693	\$ 79,485	\$ 4,020	\$ 114,198
Long-term debt	\$ 313,738	\$ 19,779	\$ —	\$ 333,517
Minority interest	31,879	406	—	32,285
Other non-current liabilities	184,972	8,111	—	193,083
Non-current liabilities — discontinued operations	\$ 530,589	\$ 28,296	\$ —	\$ 558,885

NEO Corporation — On September 30, 2004, we completed the sale of NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha and NEO Tajiguas LLC to Algonquin Power of Canada. We received cash proceeds of \$5.8 million for these wholly owned entities. The sale also included several equity investments (see Note 4). The sale resulted in a gain of approximately \$6.0 million associated with the four wholly owned entities sold.

LSP Energy (Batesville) — On August 24, 2004, we completed the sale of our 100 percent interest in an 837 megawatt generating plant in Batesville, Mississippi to CEP Batesville Acquisition, LLC. CEP Batesville Acquisition, LLC assumed approximately \$300 million of outstanding project debt. The transaction results in the elimination of \$289 million in consolidated debt from NRG Energy's balance sheet. In exchange for the sale, we received cash proceeds of \$27.6 million. We recorded a gain of \$11.0 million in the third quarter.

NRG McClain — On July 9, 2004, NRG McClain completed the sale of its 77% interest in the McClain Generating Station to Oklahoma Gas & Electric Company. The Oklahoma Municipal Power Authority will continue to own the remaining 23% interest in the facility. The proceeds of \$160.2 million from the sale were used to repay outstanding project debt under the secured term loan and working capital facility. A loss of \$3.0 million was recognized based upon the final terms of the sale.

PERC — During the first quarter of 2004, we received board authorization to proceed with the sale of our interest in PERC to SET PERC Investment LLC, which reached financial closing in April 2004. Upon completion of the transaction, we received net proceeds of \$18.4 million, resulting in a gain of \$3.2 million.

Cobee — During the first quarter of 2004, we entered into an agreement for the sale of our interest in our Cobee project to Globeleq Holdings Limited, which reached financial closing in April 2004. Upon completion of the transaction, we received net proceeds of approximately \$50.0 million, resulting in a gain of \$2.8 million.

Hsin Yu — During the second quarter of 2004, we entered into an agreement for the sale of our interest in our Hsin Yu project to a minority interest shareholder, Asia Pacific Energy Development Company Ltd., which reached financial closing in May 2004. Upon completion of the transaction, we received net proceeds of \$1.0 million, resulting in a gain of approximately \$10.0 million, due to our negative equity in the project. In addition, although we have no continuing involvement in the project, we retained the prospect of receiving an additional \$1.0 million in additional proceeds upon final closing of Phase II of the project.

[Table of Contents](#)

Killingholme — During third quarter 2002, we recorded an impairment charge of \$477.9 million. In January 2003, we completed the sale of our interest in the Killingholme project to our lenders for a nominal value and forgiveness of outstanding debt with a carrying value of approximately \$360.1 million at December 31, 2002. The sale of our interest in the Killingholme project and the release of debt obligations resulted in a gain on sale in the first quarter of 2003 of approximately \$191.2 million. The gain results from the write-down of the project's assets in the third quarter of 2002 below the carrying value of the related debt.

NLGI — During 2002, we recorded an impairment charge of \$12.4 million related to subsidiaries of NLGI, an indirect wholly owned subsidiary of NRG Energy. The charge was related largely to asset impairments based on a revised project outlook. During the quarter ended March 31, 2003, we recorded impairment charges of \$23.6 million related to subsidiaries of NLGI and a charge of \$14.5 million to write off our 50% investment in Minnesota Methane LLC. Through April 30, 2003, NRG Energy and NLGI failed to make certain payments causing a default under NLGI's term loan agreements. In May 2003, the project lenders to the wholly owned subsidiaries of NLGI and Minnesota Methane foreclosed on our membership interest in the NLGI subsidiaries and our equity interest in Minnesota Methane. Together with a \$2.2 million gain recorded upon completion of the foreclosures of the related equity investees (see Note 4), there was no material net gain or loss recognized as a result of these foreclosures.

Note 4 — Write Downs and Gains/(Losses) on Sales of Equity Method Investments

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

	Reorganized NRG	Predecessor Company	Reorganized NRG	Predecessor Company
	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(In thousands)			
Commonwealth Atlantic Limited Partnership	\$ (3,686)	\$ —	\$ (3,686)	\$ —
James River Power LLC	(6,008)	—	(6,008)	—
NEO Corporation — 2004	(3,830)	—	(3,830)	—
Calpine Cogeneration	—	—	735	—
Loy Yang	—	—	(1,268)	(139,972)
NEO Corporation — Minnesota Methane	—	—	—	(12,257)
Kondapalli	—	—	—	519
ECKG	—	—	—	2,869
Mustang	—	12,310	—	12,124
Total write downs and gains/(losses) on sales of equity method investments	<u>\$ (13,524)</u>	<u>\$ 12,310</u>	<u>\$ (14,057)</u>	<u>\$ (136,717)</u>

Commonwealth Atlantic Limited Partnership (CALP) — In June 2004, we executed a sales agreement with Virginia Electric Power Company (VEPCO) to sell our 50% interest in CALP. During the third quarter of 2004, we recorded an impairment charge of approximately \$3.7 million to write down the value of our investment in CALP to its fair value. We expect the sale to close in the fourth quarter of 2004.

James River Power LLC — In September 2004, we executed an agreement with Colonial Power Company LLC to sell all of our outstanding shares of stock in Capistrano Cogeneration Company, a wholly-owned subsidiary of NRG Energy which owns a 50% interest in James River Cogeneration Company. During the third quarter of 2004, we recorded an impairment charge of approximately \$6.0 million to write down the value of our investment in James River to its fair value. The sale is expected to close in the fourth quarter of 2004.

NEO Corporation — 2004 — On September 30, 2004, we completed the sale of several NEO investments – Four Hills LLC, Minnesota Methane II LLC, NEO Montauk Genco LLC and NEO Montauk Gasco LLC to Algonquin Power of Canada. The sale also included four wholly owned NEO subsidiaries (see Note 3). We received cash proceeds of \$6.1 million. The sale resulted in a loss of approximately \$3.8 million attributable to the equity investment entities sold.

Calpine Cogeneration — In January 2004, we executed an agreement to sell our 20% interest in Calpine Cogeneration Corporation to Calpine Power Company. The transaction closed in March 2004 and resulted in net cash proceeds of \$2.5 million and a net gain of \$0.2 million. During the second quarter of 2004, we received additional consideration on the sale of \$0.5 million, resulting in an adjusted net gain of \$0.7 million.

[Table of Contents](#)

Loy Yang — We recorded an impairment charge of \$111.4 million during 2002 and an additional impairment charge of \$140.0 million during the second quarter of 2003 based on a third party market evaluation and bids received in response to marketing Loy Yang for possible sale. During the first quarter of 2004, we wrote down our investment in Loy Yang by \$2.0 million due to recent estimates of the expected sales proceeds. In April 2004, we completed the sale of our 25.4% interest in Loy Yang to Great Energy Alliance Corporation, which resulted in net cash proceeds of \$26.7 million and a gain of \$0.7 million. This resulted in an adjusted loss of \$1.3 million for the nine months ended September 30, 2004.

NEO Corporation — 2003 (Minnesota Methane) — We recorded an impairment charge of \$12.3 million during 2002 to write-down our 50% investment in Minnesota Methane. We recorded an additional impairment charge of \$14.5 million during the first quarter of 2003. These charges were related to a revised project outlook and management's belief that the decline in fair value was other than temporary. In May 2003, the project lenders to the wholly owned subsidiaries of NEO Landfill Gas, Inc. and Minnesota Methane foreclosed on our membership interest in the NEO Landfill Gas, Inc. subsidiaries and our equity interest in Minnesota Methane. Upon completion of the foreclosure, we recorded a gain of \$2.2 million on the related equity investments resulting from the legal release of certain obligations. This resulted in an adjusted loss of \$12.3 million for the nine months ended September 30, 2003.

Lanco Kondapalli Power Pvt Ltd, or Kondapalli — In the fourth quarter of 2002, we wrote down our investment in Kondapalli by \$12.7 million due to recent estimates of sales value, which indicated an impairment of our book value that was considered to be other than temporary. On January 30, 2003, we signed a sales agreement with the Genting Group of Malaysia to sell our 30% interest in Kondapalli and a 74% interest in Eastern Generation Services (India) Pvt Ltd. Kondapalli is based in Hyderabad, Andhra Pradesh, India, and is the owner of a 368 MW natural gas fired combined cycle gas turbine. In the first quarter of 2003, we wrote down our investment in Kondapalli by \$1.3 million based on the final sales agreement. The sale closed on May 30, 2003, resulting in net cash proceeds of approximately \$24 million and a gain of approximately \$1.8 million, resulting in a net gain of \$0.5 million. The gain resulted from incurring lower selling costs than estimated as part of the first quarter impairment.

ECKG — In September 2002, we announced that we had reached agreement to sell our 44.5% interest in the ECKG power station in connection with our Csepel power generating facilities, and our interest in Entrade, an electricity trading business, to Atel, an independent energy group headquartered in Switzerland. The transaction closed in January 2003 and resulted in cash proceeds of \$65.3 million and a net gain of \$2.9 million.

Mustang Station — On July 7, 2003, NRG Energy completed the sale of its 50% interest in Mustang Station, a 483 MW gas-fired combined cycle power generating plant located in Denver City, Texas, to EIF Mustang Holdings I, LLC. The sale resulted in net cash proceeds of approximately \$13.3 million and a net gain of approximately \$12.1 million.

Note 5 — Assets Held for Sale

Kendall — On September 13, 2004, we reached an agreement for the sale of our Kendall generating plant to an affiliate of LS Power Associates, L.P. We have the right to reacquire a 40% interest in the plant within a 10-year period, for a nominal amount. The transaction will result in the deconsolidation of the plant and the debt associated with the project at that time. Approximately \$446.6 million of Kendall project debt has been reclassified from long-term debt to non-current liabilities held for sale on the accompanying balance sheet as of September 30, 2004. In addition, NRG Energy will receive \$1 million in cash proceeds. The transaction is expected to close in the fourth quarter of 2004. We have reclassified the assets and liabilities of Kendall to the held for sale category on the accompanying balance sheet as of September 30, 2004. Given our right to reacquire a 40% interest in the project, the transaction is being treated as a partial sale for accounting purposes. The transaction resulted in a third quarter non-cash loss of \$24.5 million recorded in the restructuring and impairment charges line on the consolidated statement of operations.

Note 6 — Corporate Relocation Charges

On March 16, 2004, we announced plans to implement a new regional business strategy and structure. The new structure calls for a reorganized leadership team and a corporate headquarters relocation to Princeton, New Jersey. The corporate headquarters staff will be streamlined as part of the relocation, as functions are shifted to the regions. The transition of our corporate headquarters has commenced and is expected to run through March 2005.

We expect to incur \$25.2 million of expenses in connection with corporate relocation charges. Relocating, recruiting and other employee-related transition costs are expected to be approximately \$11.8 million and will be expensed as incurred. These costs and cash payments are expected to be incurred through first quarter of 2005. Severance and termination benefits of \$8.3 million are expected to be incurred through first quarter of 2005 with cash payments being made through fourth quarter of 2005. Building lease termination costs are expected to be \$5.1 million. These costs are expected to be incurred through first quarter of 2005 with cash

[Table of Contents](#)

payments being made through fourth quarter of 2006. A summary of the significant components of the restructuring liability is as follows:

	Balance at December 31, 2003	Restructuring Related Charges	Cash Payments	Balance at September 30, 2004
(In thousands)				
Employee related transition costs	\$ —	\$ 5,295	\$(5,295)	\$ —
Severance and termination benefits	—	6,112	(1,420)	4,692
Lease termination costs	—	1,067	(163)	904
Total	<u>\$ —</u>	<u>\$ 12,474</u>	<u>\$ (6,878)</u>	<u>\$ 5,596</u>

As of September 30, 2004, the restructuring liability was \$5.6 million and is included in other current liabilities on the consolidated balance sheet. Charges related to the employee related transition costs, severance and termination benefits and lease termination costs are recorded at our corporate level within our All Other — Other segment, in the corporate relocation charges line on the consolidated statement of operations.

Note 7—Other Charges

Other charges included in operating expenses in the consolidated statements of operations include the following:

	Reorganized NRG	Predecessor Company	Reorganized NRG	Predecessor Company
	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
(In thousands)				
Legal settlement	\$ —	\$ 396,000	\$ —	\$ 396,000
Reorganization items	(5,245)	20,698	(1,656)	27,032
Restructuring charges	—	294	—	68,455
Impairment charges	40,507	5,958	42,183	229,564
Total	<u>\$ 35,262</u>	<u>\$ 422,950</u>	<u>\$ 40,527</u>	<u>\$ 721,051</u>

Legal settlement – During the third quarter of 2003, we recorded \$396.0 million in connection with the resolution of an arbitration claim asserted by FirstEnergy Corp. As a result of this resolution, FirstEnergy retained ownership of the Lake Plant Assets and received an allowed general unsecured claim of \$396.0 million under NRG Energy’s Plan of Reorganization.

Reorganization items – We recorded a net credit of \$5.2 million and \$1.7 million related to reorganization items for the three and nine months ended September 30, 2004, respectively. These items relate primarily to the settlement of obligations recorded under Fresh Start. We incurred total reorganization expenses of approximately \$20.7 million and \$27.0 million for the three and nine months ended September 30, 2003, respectively. All reorganization costs have been incurred since we filed for bankruptcy in May 2003. These costs consist of bankruptcy related charges primarily related to professional fees.

Restructuring charges - We incurred total restructuring charges of approximately \$0.3 million and \$68.5 million for the three and nine months ended September 30, 2003, respectively. These costs consist of employee separation costs and advisor fees.

Impairment charges – In accordance with the guidelines of SFAS No. 144, certain events lead to the review of the recoverability of some of our long-lived assets. As a result of this review, we recorded \$40.5 million and \$42.2 million in impairment charges for the three and nine months ended September 30, 2004, respectively, and \$6.0 million and \$229.6 million for the three and nine months ended September 30, 2003, respectively, which included the following:

[Table of Contents](#)

Project Name	Project Status	Reorganized NRG	Predecessor Company	Reorganized NRG	Predecessor Company	Fair Value Basis
		Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	
(In thousands)						
New Roads Holding LLC (turbine)	Non-operating asset - abandoned	\$ 740	\$ —	\$ 2,416	\$ —	Projected cash flows
Devon Power LLC	Operating at a loss	247	—	247	64,198	Projected cash flows
Kendall Energy LLC	Held for sale	24,520	—	24,520	—	Projected cash flows
Meriden (turbine only)	Non-operating asset – indicative market valuation	15,000	—	15,000	—	Projected cash flows
Middletown Power LLC	Operating at a loss	—	—	—	157,323	Projected cash flows
Arthur Kill Power, LLC	Terminated construction project	—	9,049	—	9,049	Projected cash flows
Langage (UK)	Sold	—	(3,091)	—	(3,091)	Realized gain
Other	Terminated	—	—	—	2,085	
Total impairment charges		\$ 40,507	\$ 5,958	\$ 42,183	\$ 229,564	

Note 8 — Inventory

Inventory, which is stated at the lower of weighted average cost or market, consisted of:

	September 30, 2004	December 31, 2003
(In thousands)		
Fuel oil	\$ 103,411	\$ 75,272
Coal	53,678	59,555
Natural gas	695	856
Other fuels	86	75
Spare parts	52,378	54,522
Emission credits	4,263	4,478
Other	469	168
Total inventory	\$ 214,980	\$ 194,926

Note 9 — Property, Plant and Equipment

The major classes of property, plant and equipment were as follows:

	September 30, 2004	December 31, 2003
	(In thousands)	
Facilities and equipment	\$ 3,289,590	\$ 3,732,391
Land and improvements	130,053	134,888
Office furnishings and equipment	19,856	18,186
Construction in progress	68,135	139,171
Total property, plant and equipment	3,507,634	4,024,636
Accumulated depreciation	(156,643)	(11,800)
Net property, plant and equipment	\$ 3,350,991	\$ 4,012,836

Note 10 — Intangible Assets***Reorganized NRG***

Upon the adoption of Fresh Start, we established certain intangible assets for power sales agreements and plant emission allowances. These intangible assets will be amortized over their respective lives based on a straight-line or units of production basis to resemble our realization of such assets.

Power sale agreements will be amortized as a reduction to revenue over the terms and conditions of each contract. The weighted average remaining amortization period is two years for the power sale agreements. Emission allowances will be amortized as additional fuel expense based upon the actual level of emissions from the respective plants through 2023. Aggregate amortization recognized for the three and nine months ended September 30, 2004 was approximately \$10.9 million and \$40.4 million, respectively. The annual aggregate amortization for each of the five succeeding years, starting with 2004, is expected to approximate \$49.1 million in 2004, \$31.2 million in year two, \$25.3 million in each of years three and four, and \$19.2 million in year five for both the power sale agreements and emission allowances. The expected annual amortization of these amounts is expected to change as we relieve our tax valuation allowance, as explained below.

For the nine months ended September 30, 2004, we reduced our deferred tax valuation allowance by \$65.1 million (see Note 17) and recorded a corresponding reduction of \$56.3 million related to our intangible assets at our wholly owned subsidiaries. The remaining \$8.8 million was recorded as a reduction to our intangible asset related to our equity investments (see Note 12). In accordance with SOP 90-7, any future benefits from reducing the valuation allowance should first reduce intangible assets until exhausted, and thereafter be recorded as a direct addition to paid-in-capital. Intangible assets were also reduced by \$9.7 million in connection with the recognition of certain tax credits to be claimed on our New York state franchise tax return.

Intangible assets consisted of the following:

	Power Sale Agreements	Emission Allowances	Total
	(In thousands)		
Original balance as of December 6, 2003	\$ 64,055	\$ 373,518	\$ 437,573
Amortization	(5,212)	—	(5,212)
Balance as of December 31, 2003	58,843	373,518	432,361
Tax valuation adjustment	(5,362)	(50,894)	(56,256)
Other adjustments	—	(9,694)	(9,694)
Amortization	(25,544)	(14,837)	(40,381)
Balance as of September 30, 2004	\$ 27,937	\$ 298,093	\$ 326,030

Predecessor Company

We had intangible assets of \$26.8 million at September 30, 2003, that were not amortized and consisted of goodwill. We also had intangible assets of \$44.2 million at September 30, 2003, that were amortized and consisted of service contracts. Aggregate amortization expense recognized for the three and nine months ended September 30, 2003 was approximately \$1.0 million and \$3.0 million, respectively.

Note 11 — Asset Retirement Obligation

Effective January 1, 2003, we adopted SFAS No. 143, “Accounting for Asset Retirement Obligations”. SFAS No. 143 requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. Upon initial recognition of a liability for an asset retirement obligation, an entity shall capitalize an asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability. Over time, the liability is accreted to its present value, and the capitalized cost is depreciated over the useful life of the related asset. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes or written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

We identified certain retirement obligations within our Wholesale Power Generation segments related to our North America projects in the South Central region, the Northeast region, Australia, and within our All Other segment, our Non-Generation and Alternative Energy operations. These asset retirement obligations are related primarily to the future dismantlement of equipment on leased property and environmental obligations related to ash disposal site closures. We also identified other asset retirement obligations that could not be calculated because the assets associated with the retirement obligations were determined to have an indeterminate life.

The following represents the balances of the asset retirement obligation as of December 31, 2003 and the additions and accretion of the asset retirement obligation for the nine months ended September 30, 2004, which is included in other long-term obligations in the consolidated balance sheet.

Description	Beginning Balance December 31, 2003	Accretion for the Nine Months Ended September 30, 2004	Ending Balance September 30, 2004
		(In thousands)	
South Central Region	\$ 2,638	\$ 137	\$ 2,775
Northeast Region	11,750	604	12,354
Australia	9,438	1,142	10,580
Non-Generation	1,334	69	1,403
Alternative Energy	834	44	878
Total	<u>\$ 25,994</u>	<u>\$ 1,996</u>	<u>\$ 27,990</u>

Note 12 — Summarized Financial Information of Affiliates

We have a 50% interest in one company, West Coast Power, which was considered significant, as defined by applicable SEC regulations, which is accounted for as an equity method investment.

West Coast Power LLC Summarized Financial Information

For the three and nine months ended September 30, 2004, we recorded equity earnings of \$17.2 million and \$45.1 million, respectively, for West Coast Power after adjustments for the reversal of \$3.7 million and \$11.3 million, respectively, of project level depreciation expense, offset by a decrease in earnings related to \$28.1 million and \$89.7 million, respectively, of amortization of the intangible asset for the California Department of Water Resources, or CDWR contract. As a result of pushing down the impact of Fresh Start to the project’s balance sheet, we established a contract-based intangible asset with a one-year remaining life, consisting of the value of West Coast Power’s CDWR energy sales contract. In accordance with SOP 90-7, the carrying value of this intangible asset was reduced by \$8.8 million as a result of allocating the reduction of our tax valuation allowance to our intangible assets (see Notes 10 and 17). The following table summarizes financial information for West Coast Power, including interests owned by us and other parties for the periods shown below:

Results of Operations

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2004	2003	2004	2003
			(In millions)	
Operating revenues	\$ 364	\$ 308	\$ 962	\$ 834
Operating income	\$ 83	\$ 67	\$ 247	\$ 204
Net income (pre-tax)	\$ 83	\$ 74	\$ 247	\$ 205

Financial Position

	September 30,	December 31,
	2004	2003
	(In millions)	
Current assets	\$ 366	\$ 257
Other assets	430	454
Total assets	<u>\$ 796</u>	<u>\$ 711</u>
Current liabilities	\$ 73	\$ 55
Other liabilities	8	8
Equity	715	648
Total liabilities and equity	<u>\$ 796</u>	<u>\$ 711</u>

For several years, the Federal Energy Regulatory Commission, or FERC, has been engaged in investigations regarding potential manipulation of electrical and natural gas prices, and earlier this year, Dynegy, we and the West Coast Power entities commenced extensive settlement negotiations with FERC staff; the People of the State of California *ex rel.* Bill Lockyer, Attorney General; the California Public Utility Commission, or CPUC staff; the California Department of Water Resources acting through its Electric Power Fund, the California Electricity Oversight Board; PG&E; Southern California Edison Company; and San Diego Gas and Electric Company. The parties have entered into a definitive, comprehensive settlement which FERC approved on October 25, 2004.

As part of the settlement agreement, West Coast Power will place into escrow for distribution to various California energy consumers a total of \$22.5 million, which includes the \$3 million settlement with FERC announced on January 20, 2004. In addition, West Coast Power will forego: (1) past due receivables from the California Independent System Operator, or ISO, and the California Power Exchange related to the settlement period; and (2) natural gas cost recovery claims against the settling parties related to the settlement period. In exchange, the various California settling parties will forego: (1) all claims relating to refunds or other monetary damages for sales of electricity during the settlement period; (2) claims alleging that West Coast Power received unjust or unreasonable rates for the sale of electricity during the settlement period; and (3) FERC will dismiss numerous investigations respecting market transactions. For a two year period following FERC's acceptance of the Settlement Agreement, West Coast Power will retain an independent engineering company to perform semi-annual audits of the technical and economic basis, justification and rationale for outages that occurred at its California generating plants during the previous six month period, and to have the results of such audits provided to the FERC Office of Market Oversight and Investigation without prior review by West Coast Power.

West Coast Power and NRG Energy are fully reserved for both the past due receivables and the cash settlement as of September 30, 2004. West Coast Power is also subject to other legal matters and litigation. Other litigation and investigations respecting West Coast Power are set forth in detail in Note 18.

Note 13 — Derivative Instruments and Hedging Activities

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, requires us to record all derivatives on the balance sheet as assets or liabilities at fair value. For derivatives designated as cash flow hedges, the effective portion of the changes in fair value of the derivatives are recorded in Accumulated Other Comprehensive Income (OCI) and subsequently recognized in earnings when the hedged items impact income. For derivatives designated as hedges of the fair value of assets or liabilities, the changes in fair value of both the derivatives and the hedged items are recorded in current earnings. Changes in the fair value of non-hedge derivatives will be immediately recognized in earnings. Additionally, many of our commodity sales and purchase agreements that otherwise would be required to follow derivative accounting qualify as normal purchases and sales under SFAS No. 133, and are therefore exempt from fair value accounting treatment.

SFAS No. 133 applies to our long-term power sales contracts, long-term gas purchase contracts and other energy related commodities' financial instruments used to mitigate variability in earnings due to fluctuations in spot market prices, hedge fuel requirements at generation facilities and protect investments in fuel inventories. SFAS No. 133 also applies to various interest rate financial instruments used to mitigate the risks associated with movements in interest rates, foreign exchange contracts used to reduce the effect of fluctuating foreign currencies on foreign denominated investments and other transactions.

[Table of Contents](#)

Accumulated Other Comprehensive Income (OCI)

The following table summarizes the effects of SFAS No. 133 on our OCI balance attributable to hedged derivatives for the three months ended September 30, 2004 before income taxes:

	Energy Commodities	Interest Rate	Foreign Currency	Total
(In thousands)				
Accumulated OCI balance at June 30, 2004	\$ (8,942)	\$ 22,593	\$ —	\$ 13,651
Unwound from OCI during period:				
— Due to unwinding of previously deferred amounts	972	(3,307)	—	(2,335)
Fair value of hedge contracts	(1,920)	(14,538)	—	(16,458)
Accumulated OCI balance at September 30, 2004	\$ (9,890)	\$ 4,748	\$ —	\$ (5,142)
Losses expected to unwind from OCI during next 12 months	\$ (13,130)	\$ (2,910)	\$ —	\$(16,040)

The following table summarizes the effects of SFAS No. 133 on our OCI balance attributable to hedged derivatives for the nine months ended September 30, 2004:

	Energy Commodities	Interest Rate	Foreign Currency	Total
(In thousands)				
Accumulated OCI balance at December 31, 2003	\$ (1,953)	\$ 1,600	\$ (170)	\$ (523)
Unwound from OCI during period:				
— Due to unwinding of previously deferred amounts	9,756	3,751	170	13,677
Fair value of hedge contracts	(17,693)	(603)	—	(18,296)
Accumulated OCI balance at September 30, 2004	\$ (9,890)	\$ 4,748	\$ —	\$ (5,142)
Losses expected to unwind from OCI during next 12 months	\$ (13,130)	\$ (2,910)	\$ —	\$(16,040)

Gains of \$2.3 million and losses of \$13.7 million were reclassified from OCI to current period earnings during the three and nine months ended September 30, 2004 due to the unwinding of previously deferred amounts. These amounts are recorded on the same line in the statement of operations in which the hedged items are recorded. Also during the three and nine months ended September 30, 2004 we recorded losses in OCI of \$16.5 million and \$18.3 million, respectively, related to changes in the fair values of derivatives accounted for as hedges. The net balance in OCI relating to SFAS No. 133 as of September 30, 2004 was an unrecognized loss of approximately \$5.1 million. We expect \$16.0 million of deferred net losses on derivative instruments accumulated in OCI to be recognized in earnings during the next twelve months.

Statement of Operations

The following tables summarize the pre-tax effects of non-hedge derivatives and derivatives that no longer qualify as hedges on our statement of operations for the three months ended September 30, 2004:

	Reorganized NRG			
	Energy Commodities	Interest Rate	Foreign Currency	Total
(In thousands)				
Revenue from majority-owned subsidiaries	\$ (3,809)	\$ —	\$ —	\$ (3,809)
Equity in earnings of unconsolidated affiliates	14,095	(215)	—	13,880
Cost of operations	2,097	—	—	2,097
Total statement of operations impact before tax	\$ 12,383	\$ (215)	\$ —	\$ 12,168

[Table of Contents](#)

The following tables summarize the pre-tax effects of non-hedge derivatives and derivatives that no longer qualify as hedges on our statement of operations for the nine months ended September 30, 2004:

Reorganized NRG				
	Energy Commodities	Interest Rate	Foreign Currency	Total
	(In thousands)			
Revenue from majority-owned subsidiaries	\$ 3,659	\$ —	\$ —	\$ 3,659
Equity in earnings of unconsolidated affiliates	22,601	414	—	23,015
Cost of operations	465	—	—	465
Interest expense	—	411	—	411
Total statement of operations impact before tax	<u>\$ 26,725</u>	<u>\$ 825</u>	<u>\$ —</u>	<u>\$ 27,550</u>

The following tables summarize the pre-tax effects of non-hedge derivatives and derivatives that no longer qualify as hedges on our statement of operations for the three months ended September 30, 2003:

Predecessor NRG				
	Energy Commodities	Interest Rate	Foreign Currency	Total
	(In thousands)			
Revenue from majority-owned subsidiaries	\$ (3,448)	\$ —	\$ —	\$ (3,448)
Equity in earnings of unconsolidated affiliates	1,440	6,461	—	7,901
Cost of operations	1,769	—	—	1,769
Interest expense	—	24,638	—	24,638
Total statement of operations impact before tax	<u>\$ (239)</u>	<u>\$ 31,099</u>	<u>\$ —</u>	<u>\$ 30,860</u>

The following tables summarize the pre-tax effects of non-hedge derivatives and derivatives that no longer qualify as hedges on our statement of operations for the nine months ended September 30, 2003:

Predecessor NRG				
	Energy Commodities	Interest Rate	Foreign Currency	Total
	(In thousands)			
Revenue from majority-owned subsidiaries	\$ 29,845	\$ —	\$ —	\$ 29,845
Equity in earnings of unconsolidated affiliates	5,173	6,172	—	11,345
Cost of operations	(7,386)	—	—	(7,386)
Other income	—	—	92	92
Interest expense	—	(20,970)	—	(20,970)
Total statement of operations impact before tax	<u>\$ 27,632</u>	<u>\$ (14,798)</u>	<u>\$ 92</u>	<u>\$ 12,926</u>

Energy Related Commodities

We are exposed to commodity price variability in electricity, emission allowances and natural gas, oil and coal used to meet fuel requirements. In order to manage these commodity price risks, we entered into financial instruments, which may take the form of fixed price, floating price or indexed sales or purchases, and options, such as puts, calls, basis transactions and swaps. Certain of these transactions have been designated as cash flow hedges. We have accounted for these derivatives by recording the effective portion of the cumulative gain or loss on the derivative instrument as a component of OCI in stockholders' equity. We recognize deferred gains and losses into earnings in the same period or periods during which the hedged transaction affects earnings. Such reclassifications are included on the same line of the statement of operations in which the hedged item is recorded.

No ineffectiveness occurred on commodity cash flow hedges during the three and nine months ended September 30, 2004 and 2003.

During the three and nine months ended September 30, 2004, our pre-tax earnings were increased by an unrealized gain of \$12.4 million and \$26.7 million, respectively, associated with changes in the fair value of energy related derivative instruments not accounted for as hedges in accordance with SFAS No. 133.

[Table of Contents](#)

During the three and nine months ended September 30, 2003, our pre-tax earnings were decreased by an unrealized loss of \$0.2 million and increased by an unrealized gain of \$27.6 million, respectively, associated with changes in the fair value of energy related derivative instruments not accounted for as hedges in accordance with SFAS No. 133.

During the three and nine months ended September 30, 2004, we reclassified losses of \$1.0 million and \$9.8 million, respectively, from OCI to current period earnings and expect to reclassify approximately \$13.1 million of deferred losses to earnings during the next twelve months on energy related derivative instruments accounted for as hedges.

At September 30, 2004, we had hedge and non-hedge energy related commodities financial instruments extending through December 2018.

Interest Rates

To manage interest rate risk, we have entered into interest-rate swap agreements that fix the interest payments or the fair value of selected debt issuances. The qualifying swap agreements are accounted for as cash flow or fair value hedges. The effective portion of the cash flow hedges' cumulative gains/losses are reported as a component of OCI in stockholders' equity. These gains/losses are recognized in earnings as the hedged interest expense is incurred. The reclassification from OCI is included on the same line of the statement of operations in which the hedged item appears. The entire amount of the change in fair value hedges is recorded in the statement of operations along with the change in value of the hedged item.

No ineffectiveness occurred on interest rate swaps that qualify as hedges during the three and nine months ended September 30, 2004.

During the three and nine months ended September 30, 2004, pre-tax earnings were decreased by an unrealized loss of \$0.2 million and increased by an unrealized gain of \$0.8 million, respectively, associated with changes in the fair value of interest rate derivative instruments not accounted for as hedges in accordance with SFAS No. 133. One of these instruments is a \$400 million swap to pay fixed, which was not designated as a hedge of the expected cash flows at March 31, 2004. As of April 1, 2004, this instrument was designated as a cash flow hedge under SFAS No. 133. As a result, changes in value subsequent to April 1, 2004 are deferred and recorded as part of OCI. The remainder of the impact to the statement of operations from interest rate related derivative instruments is the result of changes in fair value of a non-hedge designated portion of one interest rate swap.

During the three and nine months ended September 30, 2003, pre-tax earnings were increased by an unrealized gain of \$31.1 million and decreased by an unrealized loss of \$14.8 million, respectively, associated with changes in the fair value of interest rate derivative instruments not accounted for as hedges in accordance with SFAS No. 133.

During the three and nine months ended September 30, 2004, we reclassified gains of \$3.3 million and losses of \$3.8 million, respectively, from OCI to current period earnings and expect to reclassify approximately \$2.9 million of deferred losses to earnings during the next twelve months associated with interest rate swaps accounted for as hedges.

At September 30, 2004, we had interest rate derivatives instruments extending through June 2019.

Foreign Currency Exchange Rates

To preserve the U.S. dollar value of projected foreign currency cash flows, we may hedge, or protect those cash flows if appropriate foreign hedging instruments are available.

No ineffectiveness occurred on foreign currency cash flow hedges during the three and nine months ended September 30, 2004 and 2003.

During the three and nine months ended September 30, 2004, our pre-tax earnings were not affected by any gain or loss associated with foreign currency hedging instruments not accounted for as hedges in accordance with SFAS No. 133.

During the three and nine months ended September 30, 2003, our pre-tax earnings were increased by unrealized gains of \$0 and \$92,000 associated with foreign currency hedging instruments not accounted for as hedges in accordance with SFAS No. 133.

During the three months ended September 30, 2004, no amounts were reclassified from OCI to current period earnings related to foreign currency hedging. During the nine months ended September 30, 2004, we reclassified losses of \$0.2 million from OCI to

[Table of Contents](#)

current period earnings and we do not expect to reclassify any deferred gains/losses to earnings during the next twelve months on foreign currency swaps accounted for as hedges.

Note 14 — Short Term Debt and Long Term Debt

As part of and concurrent with our emergence from bankruptcy on December 5, 2003, certain senior unsecured credit facilities were terminated and defaults related to those facilities were eliminated.

As of September 30, 2004, we have made timely scheduled payments on interest and/or principal on all of our recourse debt and were not in default under any of our related recourse debt instruments. Additionally, we are not in default of any obligations to post collateral.

NRG Energy Corporate Debt

On December 5, 2003, we entered into a \$10.0 million promissory note with Xcel Energy. The note accrues interest at a rate of 3% per year, payable quarterly in arrears. All principal is due at maturity on June 5, 2006.

On December 23, 2003, we and NRG Power Marketing, Inc., or PMI, entered into a Senior Secured Credit Facility for up to \$1.45 billion, which is comprised of both long-term and short-term debt. Long-term debt included a \$950.0 million, six and a half-year senior secured term loan and a \$250.0 million letter of credit facility, funded with proceeds from the senior secured lenders. Principal and interest on the term loan is payable quarterly on March 31, June 30, September 30 and December 31 of each year. As of September 30, 2004, the interest rate on the term loan was 5.93%, based on the London Interbank Offering Rate, or LIBOR, plus a credit spread. The LIBOR portion is subject to a floor of 1.5%.

As of September 30, 2004, the \$250.0 million letter of credit facility was fully funded and reflected as a funded letter of credit on the September 30, 2004 balance sheet. As of September 30, 2004, \$152.5 million in letters of credit had been issued under this facility, leaving \$97.5 million available for future issuances. Expenses associated with the funded letter of credit include commitment fees on the undrawn portion of the letter of credit facility, participation fees for the credit-linked deposit and other fees.

The short-term debt component of the Senior Secured Credit Facility is a four-year, \$250.0 million revolving line of credit, or the Corporate Revolver. Portions of the Corporate Revolver are available as a swing-line facility and as a revolving letter of credit sub-facility. As of September 30, 2004, the Corporate Revolver was undrawn. We pay a commitment fee of 1% on any undrawn portion of the Corporate Revolver, and interest on any borrowed amounts.

On December 23, 2003, we issued \$1.25 billion in 8% Second Priority Notes, due and payable on December 15, 2013. The 8% Second Priority Notes are general obligations of ours. They are secured on a second-priority basis by security interests in all of our assets, subject to the liens securing our obligations under the Senior Secured Credit Facility and any other priority lien obligations, which will be secured on a first-priority basis by the same assets that secure the 8% Second Priority Notes. The 8% Second Priority Notes will be senior in right of payment to any future subordinated indebtedness. Interest on the 8% Second Priority Notes accrues at the rate of 8.0% per annum and is payable semi-annually in arrears on June 15 and December 15, commencing June 15, 2004.

On January 28, 2004, we issued, at a premium, an additional \$475.0 million in 8% Second Priority Notes under the same terms and indenture as the December 23, 2003 offering. Proceeds of the additional offering were used to prepay \$503.5 million of the term loan under the Senior Secured Credit Facility, reducing the outstanding principal of the term loan from \$950.0 million to \$446.5 million. In January 2004 we wrote-off \$15.0 million of deferred financing costs (included in interest expense) related to the term loans which were repaid. In addition, we deferred an additional \$7.2 million of financing costs related to the newly issued notes.

On February 25, 2004, we amended our Senior Secured Credit Facility to remove an interest rate hedge mandate. The amendment provides us with additional flexibility in how we choose to mitigate interest-rate risk.

On March 24, 2004, we executed an interest rate swap agreement to mitigate our floating-rate interest exposure associated with our Senior Secured Credit Facility. The swap agreement became effective March 26, 2004 and terminates March 31, 2006. Under the agreement, we agree to pay quarterly a fixed interest rate on a notional amount of \$400.0 million, commencing on March 31, 2004, and receive quarterly a floating-rate interest rate payment on the same notional amount. The floating rate is based upon three-month LIBOR, subject to a floor.

On March 24, 2004, we executed a second interest rate swap agreement to mitigate our fixed-rate interest exposure associated with our 8% Second Priority Notes. This swap agreement became effective March 26, 2004 and terminates December 15, 2013. The swap

[Table of Contents](#)

agreement has provisions for early termination that are linked to any prepayment of the 8% Second Priority Notes. Under the agreement, we agree to pay semi-annually in arrears, commencing June 15, 2004, a floating interest rate on a notional amount of \$400.0 million, and receive semi-annually in arrears a fixed interest rate payment on the same notional amount. The floating interest rate is based upon six-month LIBOR plus a spread. Depending on market interest rates, we or the swap counterparty may be required to post collateral on a daily basis in support of both of these swaps, to the benefit of the other party. On September 30, 2004 and as of November 2, 2004, we had no collateral posted.

On April 29, 2004, we amended our Senior Secured Credit Facility to give us the flexibility to enter into joint ventures from time to time with affiliates of our 21.5% stockholder, MatlinPatterson Global Opportunities Partners, L.P. Three representatives of MatlinPatterson are members of our board of directors. We paid the lenders and agent under our senior secured credit agreement a fee equal to 12.5 basis points, or approximately \$1.2 million, for the amendment.

Certain Events Related to Project Level Debt

LSP-Kendall Energy LLC

On September 13, 2004, we reached an agreement for the sale of our Kendall generating plant to an affiliate of LS Power Associates, L.P. We have the right to reacquire a 40% interest in the plant within a 10-year period, for a nominal amount. The sale transaction will result in the deconsolidation of the plant and the debt associated with the project at that time. Given our right to reacquire a 40% interest in the project, the transaction is being treated as a partial sale for accounting purposes. Consequently, \$446.6 million of Kendall project debt has been reclassified from long-term debt to non-current liabilities – held for sale on the accompanying balance sheet as of September 30, 2004.

Itiquira Energetica S.A.

On July 15, 2004, Itiquira Energetica S. A., an indirectly wholly owned subsidiary of ours, executed a long-term financing arrangement with União de Bancos Brasileiros S.A. (“Unibanco”) for a 55 million Brazilian reais term loan maturing in January 2012. The facility bears a floating interest rate and amortizes on a schedule that is indexed to certain foreign exchange rates. The facility replaces a revolving loan undertaken with Unibanco which was classified as short-term debt on our balance sheet as of December 31, 2003. The current facility is classified as long-term debt as of September 30, 2004.

Note 15 — Earnings Per Share

Basic earnings per common share were computed by dividing net income by the weighted average number of common shares outstanding. Shares issued during the year are weighted for the portion of the year that they were outstanding. Shares of common stock granted to our officers and employees are included in the computation only after the shares become fully vested. Diluted earnings per share are 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. The dilutive effect of the potential exercise of outstanding options to purchase shares of common stock is calculated using the treasury stock method. The reconciliation of basic earnings per common share to diluted earnings per common share is shown in the following table:

	Reorganized NRG	
	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
	(In thousands, except per share data)	
<i>Basic earnings per share</i>		
Numerator:		
Income from continuing operations	\$ 43,330	\$ 144,176
Income from discontinued operations, net of income taxes	10,891	23,304
Net income	<u>\$ 54,221</u>	<u>\$ 167,480</u>
Denominator:		
Weighted average number of common shares outstanding	100,101	100,066
Income from continuing operations per weighted average common share	\$ 0.43	\$ 1.44
Income from discontinued operations, net of income taxes per weighted average common share	0.11	0.23
Net income per weighted average common share — basic	<u>\$ 0.54</u>	<u>\$ 1.67</u>

	Reorganized NRG	
	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
(In thousands, except per share data)		
Diluted earnings per share		
Numerator		
Income from continuing operations	\$ 43,330	\$ 144,176
Income from discontinued operations, net of income taxes	10,891	23,304
Net income	<u>\$ 54,221</u>	<u>\$ 167,480</u>
Denominator:		
Weighted average number of common shares outstanding	100,101	100,066
Incremental shares attributable to the assumed exercise of outstanding stock options (treasury stock method)	19	—
Incremental shares attributable to the issuance of nonvested restricted stock units (treasury stock method)	496	262
Total dilutive shares	<u>100,616</u>	<u>100,328</u>
Income from continuing operations per weighted average common share – diluted	\$ 0.43	\$ 1.44
Income from discontinued operations, net of income taxes per weighted average common share – diluted	0.11	0.23
Net income per weighted average common share – diluted	<u>\$ 0.54</u>	<u>\$ 1.67</u>

For the three and nine months ended September 30, 2004, options totaling 15,000 and 647,751, respectively, have been excluded from the dilutive calculation as their exercise prices exceeded the average market price of the common shares during the three months and nine months ended September 30, 2004, respectively, and therefore the effect would be anti-dilutive.

Stock options: During the period January 1, 2004 through September 30, 2004, we issued stock option grants for 322,000 shares of common stock under the Long-Term Incentive Plan at fair values between \$19.90 and \$27.27. These options have a three-year graded vesting schedule. Compensation expense recorded under the stock option grants for the three and nine months ended September 30, 2004 was approximately \$1.7 million and \$4.8 million, respectively.

Restricted stock units: During the period January 1, 2004 through September 30, 2004, we issued 711,600 Restricted Stock Units, or RSUs, under the Long-Term Incentive Plan at fair values between \$19.90 and \$27.72 per unit. These units cliff vest in three years. Compensation expense recorded under the RSUs for the three and nine months ended September 30, 2004 was approximately \$1.5 million and \$3.7 million, respectively. For purposes of computing earnings per share, nonvested RSUs are not considered outstanding for purposes of computing basic earnings per share; however, these units are included in the denominator for purposes of computing diluted earnings per share under the treasury stock method.

Deferred stock units: During the period January 1, 2004 through September 30, 2004, we issued 100,961 Deferred Stock Units, or DSUs, under the Long-Term Incentive Plan at fair values between \$19.95 and \$21.05 per unit. A DSU will entitle the grantee to receive either one share of common stock or RSU at the end of the deferral period of not less than one year. Compensation expense recorded under the DSUs for the three and nine months ended September 30, 2004 was approximately \$0.0 million and \$2.1 million, respectively. For the purposes of computing basic earnings per share, the DSUs are considered outstanding upon grant on a weighted average basis.

Note 16 — Segment Reporting

In connection with our emergence from bankruptcy and the new management team, we determined that it was necessary to adjust our segment reporting disclosures to more closely align our disclosures with the realignment of our management team. Accordingly, we have expanded our domestic geographical disclosures and collapsed our international geographical disclosures related to our wholesale power generation operations. In addition, we have refined the reporting of the remaining portions of our business. As a result of these changes, we have retroactively recast our prior period disclosures in a consistent manner.

We conduct the majority of our business within five reportable operating segments. All of our other operations are presented under the “All Other” category. Our reportable operating segments consist of Wholesale Power Generation – Northeast, Wholesale Power Generation – South Central, Wholesale Power Generation – West Coast, Wholesale Power Generation – Other North America and Wholesale Power Generation – Australia. These reportable segments are distinct components with separate operating results and management structures in place. Included in the All Other category are our Wholesale Power Generation – Other International operations, our Alternative Energy operations, our Non – Generation operations and an Other component which includes primarily our corporate charges (primarily interest expense) that have not been allocated to the reportable segments and the remainder of our operations which are not significant. We have presented this detail within the All Other category, as we believe that this information is important to a full understanding of our business.

Reorganized NRG
Three Months Ended September 30, 2004
Wholesale Power Generation

	(In thousands)				
	Northeast	South Central	West Coast	Other North America	Australia
Operating Revenues	\$ 321,097	\$ 107,140	\$ 3,413	\$ 40,912	\$ 47,406
Corporate relocation charges	3	—	—	—	—
Reorganization items	(134)	11	—	(34)	—
Restructuring and impairment charges	247	740	—	24,520	—
Equity in earnings of unconsolidated affiliates	—	—	19,188	14,114	2,060
Write downs and gains/(losses) on sales of equity method investments	—	—	—	(9,694)	—
Income/(Loss) From Continuing Operations Before					
Income Taxes	87,821	14,407	18,180	(19,357)	2,256
Income Tax Expense (Benefit)	—	—	(245)	(4,304)	(1,861)
Income/(Loss) From Continuing Operations	87,821	14,407	18,425	(15,053)	4,117
Income/(Loss) From Discontinued Operations, net of					
Income Taxes	—	—	—	7,351	—
Net Income/(Loss)	87,821	14,407	18,425	(7,702)	4,117
Balance Sheet Total Assets	\$2,036,976	\$1,138,166	\$334,977	\$1,416,322	\$904,058

Reorganized NRG
Three Months Ended September 30, 2004
All Other

	(In thousands)				
	Wholesale Power Generation	Alternative Energy	Non- Generation	Other	Total
Operating Revenues	\$ 37,986	\$ 16,839	\$ 32,362	\$ (492)	\$ 606,663
Corporate relocation charges	—	—	—	5,710	5,713
Reorganization items	—	—	272	(5,360)	(5,245)
Restructuring and impairment charges	—	—	—	15,000	40,507
Equity in earnings of unconsolidated affiliates	18,336	(325)	—	—	53,373
Write downs and gains/(losses) on sales of equity method investments	—	(3,830)	—	—	(13,524)
Income/(Loss) From Continuing Operations Before					
Income Taxes	26,666	(2,401)	7,343	(77,321)	57,594
Income Tax Expense (Benefit)	2,422	(2,028)	497	19,783	14,264
Income/(Loss) From Continuing Operations	24,244	(373)	6,846	(97,104)	43,330
Income/(Loss) From Discontinued Operations, net of					
Income Taxes	—	3,540	—	—	10,891
Net Income/(Loss)	24,244	3,167	6,846	(97,104)	54,221
Balance Sheet Total Assets	\$ 836,775	\$ 63,416	\$574,444	\$ 880,450	\$8,185,584

[Table of Contents](#)

Predecessor Company
Three Months Ended September 30, 2003
Wholesale Power Generation

	(In thousands)				
	Northeast	South Central	West Coast	Other North America	Australia
Operating Revenues	\$ 287,382	\$ 101,877	\$ 11,971	\$ 35,850	\$ 47,790
Reorganization items and legal settlement	515	741	—	—	—
Restructuring and impairment charges	9,327	—	—	422	518
Equity in earnings of unconsolidated affiliates	—	—	39,960	5,353	8,408
Write downs and gains/(losses) on sales of equity method investments	—	—	—	12,310	518
Income/(Loss) From Continuing Operations Before					
Income Taxes	18,581	(1,514)	44,639	9,692	8,681
Income Tax Expense (Benefit)	2	—	1,362	1,846	(363)
Income/(Loss) From Continuing Operations	18,579	(1,514)	43,277	7,846	9,044
Income/(Loss) From Discontinued Operations, net of					
Income Taxes	—	—	—	(939)	—
Net Income/(Loss)	18,579	(1,514)	43,277	6,907	9,044
Balance Sheet Total Assets	\$2,513,724	\$1,375,012	\$488,404	\$2,597,831	\$624,385

Predecessor Company
Three Months Ended September 30, 2003
All Other

	(In thousands)				
	Wholesale Power Generation	Other International	Alternative Energy	Non- Generation	Other
Operating Revenues	\$ 38,182	\$ 17,989	\$ 32,622	\$ (2,962)	\$ 570,701
Reorganization items and legal settlement	—	—	—	415,442	416,698
Restructuring and impairment charges	(3,609)	(1)	—	(405)	6,252
Equity in earnings of unconsolidated affiliates	8,774	777	—	—	63,272
Write downs and gains/(losses) on sales of equity method investments	(518)	—	—	—	12,310
Income/(Loss) From Continuing Operations Before					
Income Taxes	21,657	2,847	6,277	(389,967)	(279,107)
Income Tax Expense (Benefit)	1,947	2,074	(130)	(1,301)	5,437
Income/(Loss) From Continuing Operations	19,710	773	6,407	(388,666)	(284,544)
Income/(Loss) From Discontinued Operations, net of					
Income Taxes	2,068	(1,380)	—	1	(250)
Net Income/(Loss)	21,778	(607)	6,407	(388,665)	(284,794)
Balance Sheet Total Assets	\$1,480,740	\$ 88,386	\$338,085	\$ 667,449	\$10,174,016

Reorganized NRG
Nine Months Ended September 30, 2004
Wholesale Power Generation

	(In thousands)				
	Northeast	South Central	West Coast	Other North America	Australia
Operating Revenues	\$ 926,666	\$304,902	\$ 1,020	\$ 91,334	\$146,428
Corporate relocation charges	3	1	—	—	—
Reorganization items	215	664	—	117	—
Restructuring and impairment charges	247	2,416	—	24,520	—
Equity in earnings of unconsolidated affiliates	—	—	49,885	16,415	8,766
Write downs and gains/(losses) on sales of equity method investments	—	—	—	(8,959)	(1,268)
Income/(Loss) From Continuing Operations Before					
Income Taxes	231,479	42,278	42,780	(29,827)	10,378
Income Tax Expense (Benefit)	—	—	92	(3,560)	(1,967)
Income/(Loss) From Continuing Operations	231,479	42,278	42,688	(26,267)	12,345
Income/(Loss) From Discontinued Operations, net of					
Income Taxes	—	—	—	8,284	—

Net Income/(Loss)	231,479	42,278	42,688	(17,983)	12,345
--------------------------	----------------	---------------	---------------	-----------------	---------------

Reorganized NRG
Nine Months Ended September 30, 2004
All Other

(In thousands)					
Wholesale Power Generation	Other International	Alternative Energy	Non- Generation	Other	Total
Operating Revenues	\$ 117,426	\$ 49,219	\$145,809	\$ (2,253)	\$1,780,551
Corporate relocation charges	—	—	—	12,470	12,474
Reorganization items and legal settlement	—	—	432	(3,084)	(1,656)
Restructuring and impairment charges	—	—	—	15,000	42,183
Equity in earnings of unconsolidated affiliates	41,696	425	—	—	117,187
Write downs and gains/(losses) on sales of equity method investments	—	(3,830)	—	—	(14,057)
Income/(Loss) From Continuing Operations Before					
Income Taxes	67,283	2,677	60,494	(218,500)	209,042
Income Tax Expense (Benefit)	11,872	(2,020)	1,097	59,352	64,866
Income/(Loss) From Continuing Operations	55,411	4,697	59,397	(277,852)	144,176
Income/(Loss) From Discontinued Operations, net of					
Income Taxes	12,357	2,663	—	—	23,304
Net Income/(Loss)	67,768	7,360	59,397	(277,852)	167,480

Predecessor Company
Nine Months Ended September 30, 2003
Wholesale Power Generation

(In thousands)					
Northeast	South Central	Other North West Coast	America	Australia	
Operating Revenues	\$ 728,246	\$298,804	\$ 18,344	\$ 72,590	\$ 130,214
Reorganization items and legal settlement	1,081	1,627	—	—	—
Restructuring and impairment charges	233,811	1,918	—	42,392	524
Equity in earnings of unconsolidated affiliates	—	—	103,801	10,260	15,881
Write downs and gains/(losses) on sales of equity method investments	—	—	—	12,124	(139,454)
Income/(Loss) From Continuing Operations Before					
Income Taxes	(301,972)	7,343	107,367	(89,641)	(127,931)
Income Tax Expense (Benefit)	2	—	37,806	3,469	(1,626)
Income/(Loss) From Continuing Operations	(301,974)	7,343	69,561	(93,110)	(126,305)
Income/(Loss) From Discontinued Operations, net of					
Income Taxes	—	—	—	(109,712)	—
Net Income/(Loss)	(301,974)	7,343	69,561	(202,822)	(126,305)

Predecessor Company
Nine Months Ended September 30, 2003
All Other

(In thousands)					
Wholesale Power Generation	Other International	Alternative Energy	Non- Generation	Other	Total
Operating Revenues	\$ 111,287	\$ 49,657	\$104,492	\$ (6,448)	\$1,507,186
Reorganization items and legal settlement	—	—	—	420,324	423,032
Restructuring and impairment charges	(6,961)	(1)	26	26,310	298,019
Equity in earnings of unconsolidated affiliates	27,154	(1,338)	—	—	155,758
Write downs and gains/(losses) on sales of equity method investments	2,870	(12,257)	—	—	(136,717)
Income/(Loss) From Continuing Operations Before					
Income Taxes	53,154	(6,432)	19,039	(584,346)	(923,419)
Income Tax Expense (Benefit)	7,934	2,022	690	(7,518)	42,779
Income/(Loss) From Continuing Operations	45,220	(8,454)	18,349	(576,828)	(966,198)

Income/(Loss) From Discontinued Operations, net of					
Income Taxes	211,019	(25,276)	—	(15,660)	60,371
Net Income/(Loss)	256,239	(33,730)	18,349	(592,488)	(905,827)

Note 17 — Income Taxes

The income tax provisions for the nine months ended September 30, 2004 and 2003 have been recorded on the basis that we and our U.S. subsidiaries will file a consolidated federal income tax return for 2004 and separate federal income tax returns for the period January 1 to December 5, 2003.

Income tax expense for the three and nine months ended September 30, 2004 was \$14.3 million and \$64.9 million, respectively, compared to a tax expense of \$5.4 million and \$42.8 million, respectively, for the same periods in 2003. The tax expense for the nine months ended September 30, 2004 includes U.S. tax expense of \$54.6 million and foreign tax expense of \$10.3 million. The tax expense for the nine months ended September 30, 2003 includes U.S. tax expense of \$36.1 million and foreign tax expense of \$6.7 million.

For U.S. income tax purposes, the tax expense in 2004 is due to a reduction in deferred tax assets without a tax benefit for the corresponding reduction in valuation allowance. Due to the uncertainty of realization of deferred tax assets related to net operating losses and other temporary differences, our U.S. net deferred tax assets at December 5, 2003 were offset by a full valuation allowance of \$1.3 billion in accordance with SFAS No. 109, "Accounting for Income Taxes". SOP 90-7 requires that reductions in the valuation allowance as of December 5, 2003 (date of emergence) first reduce intangible assets until exhausted and thereafter be reported as a direct addition to paid-in-capital. Consequently, our effective tax rate in post bankruptcy emergence years will not benefit from reductions in the valuation allowance. For 2003, the U.S. tax expense is due to an additional valuation allowance recorded against the deferred tax assets of NRG West Coast LLC as a result of its conversion from a corporation to a disregarded entity for federal income tax purposes. Subsequent to the conversion, NRG West Coast will no longer be taxed as an entity separate from NRG Energy.

The foreign tax expense for the first nine months of 2004 and 2003 is due to the earnings in foreign jurisdictions.

The effective income tax rate for the nine months ended September 30, 2004 differs from the statutory federal income tax rate of 35% primarily due to lower tax rates in foreign jurisdictions and to the SOP 90-7 requirement that reductions to the valuation allowance as of December 5, 2003 (date of emergence) first reduce intangible assets until exhausted and thereafter be reported as a direct addition to paid-in-capital. The effective income tax rate for the nine months ended September 30, 2003 differs from the statutory federal income tax rate of 35% primarily due to limitations on tax benefits.

We have assessed the likelihood that a substantial portion of our deferred tax assets relating to the net operating loss carryforwards would not be realized. This assessment included consideration of positive and negative factors, including our current financial position and results of operations, projected future taxable income, including projected operating and capital gains, and available tax planning strategies. As a result of such assessment, we determined that it was more likely than not that the deferred tax assets related to our domestic net operating loss carryforwards would not be realized. A full valuation allowance was recorded against the net deferred tax assets including net operating loss carryforwards. We also determined that it is more likely than not that a substantial portion of the net operating loss generated in 2002 and 2003 could be determined to be capital in nature. Given that capital losses are of a different character than ordinary losses the likelihood of capital losses expiring unutilized is greater than that of ordinary net operating losses.

Note 18 — Commitments and Contingencies

Legal Issues

Set forth below is a description of our material legal proceedings. In addition to the matters described below, we are party to 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 our financial condition, results of operations or cash flows.

Pursuant to the requirements of Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies," and related guidance, we record reserves for estimated losses from contingencies when information available indicates that a loss is probable and the amount of the loss is reasonably estimable. Because litigation is subject to inherent uncertainties and unfavorable rulings or developments could occur, there can be no certainty that we may not ultimately incur charges in excess of presently recorded reserves. A future adverse ruling or unfavorable development could result in future charges which could have a material adverse effect on NRG Energy's consolidated financial position, results of operations or cash flows.

With respect to a number of the items listed below, management has determined that a loss is not probable or the amount of the loss is not reasonably estimable, or both. In some cases, management is not able to predict with any degree of substantial certainty the range of possible loss that could be incurred. Notwithstanding these facts, management has assessed each of these matters based on

[Table of Contents](#)

current information and made a judgment concerning its potential outcome, considering the nature of the claim, the amount and nature of damages sought and the probability of success. Management's judgment may, as a result of facts arising prior to resolution of these matters or other factors, prove inaccurate and investors should be aware that such judgment is made subject to the known uncertainty of litigation.

The descriptions below update, and should be read in conjunction with, the complete descriptions under "Note 24 Commitments and Contingencies" in NRG Energy's Form 10-K for the year ended December 31, 2003, as amended, and under "Note 17 Commitments and Contingencies" in our Form 10-Q for the quarter ended June 30, 2004, as amended. For any matter previously disclosed in those Forms, if material changes have occurred since the filing of our Form 10-K, supplemental disclosures describing such changes appear below the heading for that matter. If no material changes to a matter previously disclosed in those Forms have occurred since the filing of our Form 10-K, no supplemental disclosures appear below its heading.

California Wholesale Electricity Litigation and Related Investigations

People of the State of California ex. rel. Bill Lockyer, Attorney General, v. Dynegy, Inc. et al., United States District Court, Northern District of California, Case No. C-02-O1854 VRW; United States Court of Appeals for the Ninth Circuit, Case No. 02-16619.

On July 6, 2004, the Ninth Circuit rejected the Attorney General's appeals and affirmed both decisions of the district court, including the dismissal of all the Attorney General's substantive claims. The Attorney General sought rehearing which the Ninth Circuit denied on October 29, 2004.

Public Utility District of Snohomish County v. Dynegy Power Marketing, Inc et al., Case No. 02-CV-1993 RHW, United States District Court, Southern District of California (part of MDL 1405).

Plaintiff filed a notice of appeal, and the appeal was argued in June, 2004. Consistent with its July, 2004 decision in *People of the State of California ex. rel. Bill Lockyer*, described above, the Ninth Circuit on September 10, 2004 rejected plaintiff's appeal, holding that plaintiff's claims are barred by federal preemption and the filed-rate doctrine.

In re: Wholesale Electricity Antitrust Litigation, MDL 1405, United States District Court, Southern District of California, pending before Judge Robert H. Whaley. The cases included in this proceeding are as follows:

Pamela R Gordon, on Behalf of Herself and All Others Similarly Situated v Reliant Energy, Inc. et al., Case No. 758487, Superior Court of the State of California, County of San Diego (filed on November 27, 2000).

Ruth Hendricks, On Behalf of Herself and All Others Similarly Situated and On Behalf of the General Public v. Dynegy Power Marketing, Inc. et al., Case No. 758565, Superior Court of the State of California, County of San Diego (filed November 29, 2000).

The People of the State of California, by and through San Francisco City Attorney Louise H. Renne v. Dynegy Power Marketing, Inc. et al., Case No. 318189, Superior Court of California, San Francisco County (filed January 18, 2001).

Pier 23 Restaurant, A California Partnership, On Behalf of Itself and All Others Similarly Situated v PG&E Energy Trading et al., Case No. 318343, Superior Court of California, San Francisco County (filed January 24, 2001).

Sweetwater Authority, et al. v. Dynegy, Inc. et al., Case No. 760743, Superior Court of California, County of San Diego (filed January 16, 2001).

Cruz M Bustamante, individually, and Barbara Matthews, individually, and on behalf of the general public and as a representative taxpayer suit, v. Dynegy Inc. et al., inclusive. Case No. BC249705, Superior Court of California, Los Angeles County (filed May 2, 2001). "Northern California" cases against various market participants, not including us (part of MDL 1405). These include the *Millar, Pastorino, RDJ Farms, Century Theatres, EI Super Burrito, Leo's, J&M Karsant*, and *Bronco Don* cases.

Bustamante v. McGraw-Hill Companies, Inc., et al., No. BC 235598, California Superior Court, Los Angeles County.

Jerry Egger, et al. v. Dynegy, Inc., et al., Case No. 809822, Superior Court of California, San Diego County (filed May 1, 2003).

[Table of Contents](#)

Texas-Ohio Energy, Inc., on behalf of Itself and all others similarly situated v. Dynegy, Inc. Holding Co., West Coast Power, LLC, et al., Case No. CIV.S-03-2346 DFL GGH.

City of Tacoma, Department of Public Utilities, Light Division, v. American Electric Power Service Corporation, et al., United States District Court, Western District of Washington, Case No. C04-5325 RBL

This action was filed in early June, 2004 in Washington federal district court. The complaint names over 50 defendants, including West Coast Power's four operating subsidiaries and various Dynegy entities. The complaint also names both us and West Coast Power as "Non-Defendant Co-Conspirators." Plaintiff alleges that defendants, acting in concert with some or all of the Non-Defendant Co-Conspirators, violated the federal Sherman Act by unlawfully withholding power generation from, and/or unlawfully inflating the apparent demand for power in, markets in California and elsewhere in the western United States, thereby causing plaintiff to pay power prices substantially above what it would have otherwise paid. Plaintiff alleges defendants' unlawful activities began at least as early as May, 2000, and continued through at least the end of 2001. Plaintiff claims damages in excess of \$175 million. We cannot predict the likelihood of an unfavorable outcome at this time.

County of Santa Clara v. Sempra Energy, et al., San Diego County Superior Court

This action was filed in early July, 2004 in California state court. The complaint names West Coast Power and various Dynegy entities among the numerous defendants. The complaint alleges violation of California's Cartwright Act and Business and Professions Code and unjust enrichment relating to alleged reporting of false natural gas prices and trading information to inflate retail prices for defendants' benefit. We cannot predict the likelihood of an unfavorable outcome at this time.

City and County of San Francisco; The People of the State of California; Dennis J. Herrera v Sempra Energy, et al., San Diego County Superior Court

This action was filed in early July, 2004 in California state court. The complaint names West Coast Power and various Dynegy entities among the numerous defendants. Like the above *County of Santa Clara* case, the complaint alleges violation of California's Cartwright Act and Business and Professions Code and unjust enrichment, as well as unfair competition, asserting that defendants conspired and acted in concert to manipulate retail gas prices, thereby allowing defendants to sell natural gas at prices far above competitive levels. We cannot predict the likelihood of an unfavorable outcome at this time.

County of San Diego v. Sempra Energy, et al., San Diego County Superior Court

This action was filed in late July, 2004 in California state court. The complaint names West Coast Power and various Dynegy entities among the numerous defendants. Like the above *City and County of San Francisco* case, the complaint asserts that defendants conspired to manipulate retail gas prices, thereby allowing defendants to sell natural gas at grossly inflated prices. We cannot predict the likelihood of an unfavorable outcome at this time.

Older v. Sempra Energy, et al., San Diego County Superior Court

This putative class action lawsuit was filed in late September, 2004 in California state court. The complaint names West Coast Power and various Dynegy entities among the numerous defendants. The complaint alleges violation of California Business & Professions Code § 16720 (the Cartwright Act) and Business & Professions Code § 17200, based on defendants' alleged efforts to fix, raise, stabilize, maintain and manipulate retail natural gas prices in California at supra-competitive levels. The complaint seeks a determination of class action status, a trebling of unspecified damages, restitution, disgorgement and costs and attorneys' fees. We cannot predict the likelihood of an unfavorable outcome at this time.

Nurserymen's Exchange, Inc. v. Sempra Energy, et al., Superior Court of California, County of San Mateo, Case No. CIV442605; ***County of Alameda v. Sempra Energy, et al.***, Superior Court of California, County of Alameda, Case No. RG04182878; ***School Project for Utility Rate Reduction v. Sempra Energy, et al.***, Superior Court of California, County of Alameda, Case No. RG04180958

All three of these actions were filed in October, 2004, and each complaint names numerous defendants, including West Coast Power. Also named in each case are various Dynegy entities, including Dynegy Marketing and Trade, which each complaint asserts handled all of the administrative services and commodity related concerns of West Coast Power. Although NRG Energy, Inc. is not named as a defendant, each complaint refers to West Coast Power as a joint venture between us and an affiliate of defendant Dynegy Marketing and Trade. Each complaint alleges violations of California's Cartwright Act (Business and Professions Code § 16700, *et seq.*) and unjust enrichment, asserting that defendants and unnamed co-conspirators engaged in an agreement, contract, combination, trust and/or conspiracy to create and maintain supra-competitive prices for retail natural gas sold in California. Specifically, each plaintiff alleges defendants' and unnamed co-conspirators' unlawful conduct included, among other things, manipulating industry price indices and engaging in so-called "churning" and "wash trades." Each complaint seeks a trebling of unspecified damages, exemplary damages, civil penalties, a preliminary and permanent injunction, a constructive trust, restitution and costs and attorneys' fees. We cannot predict the likelihood of an unfavorable outcome in these cases at this time.

In Re: Natural Gas Commodity Litigation, Master File No. 03 CV 6186(VM)(AJP), United States District Court for the Southern District of New York

West Coast Power and Dynegy Marketing and Trade are among numerous defendants accused of manipulating gas index publications and prices in violation of the Commodity Exchange Act, 7 U.S.C. § 1, *et seq.* (the "CEA"), in the following consolidated cases: *Cornerstone Propane Partners, LP v. Reliant Energy Services, Inc., et al.*, Case No. 03 CV 6186 (S.D.N.Y. filed August 18, 2003); *Calle Gracey v. American Electric Power Co., Inc., et al.*, Case No. 03 CV 7750 (S.D.N.Y. filed Oct. 1, 2003); *Cornerstone Propane Partners, LP v. Coral Energy Resources, LP, et al.*, Case No. 03 CV 8320 (S.D.N.Y. filed Oct. 21, 2003); and *Viola v. Reliant Energy Servs., et al.*, Case No. 03 CV 9039 (S.D.N.Y. filed Nov. 14, 2003). Plaintiffs, in their Amended Consolidated Class Action Complaint dated October 14, 2004, allege that West Coast Power, Dynegy Marketing and Trade and other energy companies

engaged in an illegal scheme to inflate natural gas prices by providing false information to gas index publications, thereby manipulating the price. The Amended Complaint relies heavily on FERC and CFTC investigations into, and reports concerning, index-reporting manipulation in the energy industry. The Amended Complaint also alleges that Dynegy Marketing and Trade and certain other defendants sought to manipulate gas prices by engaging in so-called “wash trades” and other market gaming strategies. The plaintiffs seek class action status for their lawsuit, unspecified actual damages for violations of the CEA and costs and attorneys’ fees. Counsel for Dynegy Marketing and Trade is also defending West Coast Power in these proceedings. We cannot predict the likelihood of an unfavorable outcome at this time.

Fairhaven Power Company v. Encana Corporation, et. al., Case No. CIV-F-04-6256 (OWW/LJO), United States District Court, Eastern District of California

This putative class action lawsuit was filed in September, 2004 in federal district court in California. The complaint names West Coast Power and Dynegy Holding Co., Inc. among the numerous defendants. The complaint alleges violation of the federal Clayton and Sherman Acts, California’s Cartwright Act and Business and Professions Code section 17200, *et seq.*, unjust enrichment and seeks imposition of a constructive trust. Specifically, plaintiff alleges defendants and co-conspirators conspired to fix prices in the California natural gas market by, among other things, providing false information to natural gas trade indices and engaging in so-called “wash trades,” as of result of which plaintiff and members of the putative class paid supra-competitive prices for natural gas. The complaint seeks a determination of class action status, a trebling of unspecified damages, statutory, punitive or exemplary damages, restitution, disgorgement, injunctive relief, a constructive trust and costs and attorneys’ fees. We cannot predict the likelihood of an unfavorable outcome at this time.

California Investigations

FERC — California Market Manipulation

On October 25, 2004, FERC approved the settlement.

Other FERC Proceedings

U.S. Attorney – Houston

U.S. Attorney – San Francisco

California State Senate Select Committee

CPUC

California Attorney General

NRG Energy Bankruptcy Cap on California Claims

Electricity Consumers Resource Council v. Federal Energy Regulatory Commission, Docket No. 03-1449

Consolidated Edison Co. of New York v. Federal Energy Regulatory Commission, Docket No. 01-1503

Consolidated Edison and others petitioned the United States Court of Appeals for the District of Columbia Circuit for review of certain FERC orders in which FERC refused to order a redetermination of prices in the New York Independent System Operator, or NYISO, operating reserves markets for the period from January 29, 2000 to March 27, 2000. Petitioners alleged that the prices in the operating reserves markets were unduly elevated by approximately \$65 million as a result of market power abuse and operating flaws. On November 7, 2003, the court issued a decision which found that the NYISO's method of pricing spinning reserves violated the NYISO tariff. The court also required FERC to determine whether the NYISO's exclusion from the non-spinning market of a generating facility known as Blenheim-Gilboa and resources located in western New York also constituted a tariff violation and/or whether these exclusions obliged NYISO to use its Temporary Extraordinary Procedure, or TEP, authority to require refunds. On June 25, 2004, the NYISO filed a motion requesting that it be permitted to supplement the record. The motion argued that FERC had the authority to order refunds in the case because NYISO's failure to model Blenheim-Gilboa constituted a TEP. On July 16, 2004, we filed an objection to the NYISO's motion, asserting that the failure to model was a conscious decision sought by the owners of that facility and that NYISO's authority under TEP did not apply. It is unclear at this time whether FERC will require refunds, much less the amount of any such refunds. If refunds are required, NRG Energy entities which may be affected include NRG Power Marketing, Inc., Astoria Gas Turbine Power LLC and Arthur Kill Power LLC. Although non-NRG Energy-related entities will share responsibility for payment of such refunds, under the petitioners' theory and calculations the cumulative exposure to our above-listed entities could exceed \$23 million.

Connecticut Light & Power Company v. NRG Power Marketing, Inc., Docket No. 3:01-CV-2373 (AWT), pending in the United States District Court, District of Connecticut

The State of New York and Erin M. Crotty, as Commissioner of the New York State Department of Environmental Conservation v. Niagara Mohawk Power Corporation, NRG Energy, Inc., NRG Dunkirk Operations, Inc., Dunkirk Power, LLC, NRG Huntley Operations, Inc., Huntley Power, LLC, NRG Northeast Generating, LLC, Northeast Generation Holding, LLC, NRG Eastern, LLC and NRG Operating Services, Inc., United States District Court for the Western District of New York, Civil Action No. 02-CV-0024S

The parties have commenced written discovery, and the court has scheduled the trial on liability issues for March, 2006. For several months, the parties have been engaged in discussions respecting possible settlement of this matter.

Niagara Mohawk Power Corporation v. NRG Energy, Inc., Huntley Power, LLC, and Dunkirk Power, LLC, Supreme Court, State of New York, County of Onondaga, Case No. 2001-4372

Huntley Power LLC

Niagara Mohawk Power Corporation v. Dunkirk Power LLC, NRG Dunkirk Operations, Inc., Huntley Power LLC, NRG Huntley Operations, Inc., Oswego Power LLC and NRG Oswego Operations, Inc., Supreme Court, Erie County, Index No. 1-2000-8681 — Station Service Dispute

Niagara Mohawk Power Corporation v. Huntley Power LLC, NRG Huntley Operations, Inc., NRG Dunkirk Operations, Inc., Dunkirk Power LLC, Oswego Harbor Power LLC, and NRG Oswego Operations, Inc., Case Filed November 26, 2002 in Federal Energy Regulatory Commission Docket No. EL 03-27-000

In the Matter of Louisiana Generating, LLC, Adversary Proceeding No. 2002-1095 1-EQ on the docket of the Louisiana Division of Administrative Law

United States Environmental Protection Agency Request for Information under Section 114 of the Clean Air Act

Itiquira Energetica, S.A.

Expert testimony was presented at a hearing in August, 2004. Further expert testimony will be submitted at a final hearing which will take place in either November or early December of 2004. The court of arbitration has indicated that it will deliver a decision within 30 days of that final hearing. We cannot estimate the likelihood of an unfavorable outcome in this dispute.

CFTC Trading Inquiry

On July 1, 2004, we learned that the CFTC had filed a civil complaint against us in Minnesota federal district court, alleging that we engaged in false reporting of natural gas trades from August, 2001 to May, 2002. The CFTC's complaint seeks only an injunction against future violations of the Commodity Exchange Act. On July 23, 2004, we filed a motion with the bankruptcy court to enforce the injunction provisions of the NRG Energy plan of reorganization in order to preclude the CFTC's Minnesota federal court action. On July 27, 2004, we filed with the Minnesota federal district court a motion to dismiss or, in the alternative, to transfer venue to the bankruptcy court. We cannot at this time predict the outcome of this matter.

General Electric Company and Siemens Westinghouse Turbine Purchase Disputes

In August, 2004, we executed with GE final settlement documentation resolving the disputed bankruptcy claims of GE and its subsidiaries. We cannot estimate the likelihood of an unfavorable outcome in our disputes with Siemens.

Additional Litigation

In addition to the foregoing, we are parties to other litigation or legal proceedings, which may or may not be material. There can be no assurance that the outcome of such matters will not have a material adverse effect on our business, financial condition or results of operations.

Disputed Claims Reserve

As part of the NRG Energy plan of reorganization, we have funded a disputed claims reserve for the satisfaction of certain general unsecured bankruptcy claims that were disputed claims as of the effective date of the plan. Under the terms of the plan, to the extent such claims are resolved now that we have emerged from bankruptcy, the claimants will be paid from the reserve on the same basis as if they had been paid out in the bankruptcy. That means that their allowed claims will be reduced to the same recovery percentage as other creditors received and will be paid in pro rata distributions of cash and common stock. We believe we have funded the disputed claims reserve at a sufficient level to settle the remaining unresolved proofs of claim we received during the bankruptcy proceedings. However, to the extent the aggregate amount of these payouts of disputed claims ultimately exceeds the amount of the funded claim reserve, we are obligated to provide additional cash and common stock to the claimants. We will continue to monitor our obligation as the disputed claims are settled. If excess funds remain in the disputed claims reserve after payment of all obligations, such amounts will be reallocated to the creditor pool. We have provided our common stock and cash contribution to an escrow agent to complete the distribution and settlement process. Since we have surrendered control over the common stock and cash provided to the disputed claims reserve, we recognized the issuance of the common stock as of December 6, 2003 and removed the cash amounts from our balance sheet. Similarly, we have removed the obligations relevant to the claims from our balance sheet when the common stock was issued and cash contributed.

Regulatory Issues

New England

On April 1, 2004, we filed with FERC true-up schedules for the third-party payment of our maintenance expenses for the period February 27, 2003 to December 31, 2003. On July 12, 2004 FERC accepted the true-up schedules, effective June 7, 2004, subject to refund, set them for hearing and consolidated the case with other similar cases before a settlement judge.

The initial RMR agreement between ISO-NE and the Company covering Devon station units 7 and 8 terminated on September 30, 2003. On May 28, 2004, a revised RMR agreement was filed with FERC for Devon 7 facility to account for the costs remaining after the deactivation of Devon 8. On July 12, 2004, FERC granted us a one day suspension of the proposed rate of \$10.15 per KW-month subject to refund, set the case for bearing and consolidated the case with other similar NRG Energy cases before a settlement judge. On September 21, 2004, FERC issued an order on the various rehearing motions finding that the rates as filed for this RMR agreement are just and reasonable. On October 1, 2004, Devon 7 was deactivated because it was no longer needed for reliability.

[Table of Contents](#)

On November 2, 2004, ISO-NE filed with FERC a Settlement Agreement, which was supported by NRG Energy, the Connecticut Department of Public Utility Control, the Connecticut Office of Consumer Counsel and various NEPOOL market participants. If approved by FERC, the settlement would resolve all outstanding reliability-must-run (RMR) issues, with the exception of a true-up for the third party maintenance payments known as the “cost tracker”. Under the terms of the agreement, the RMR agreements and the “cost tracker” would terminate at the earlier of the implementation of a LICAP market or December 31, 2005. Under the settlement agreement, the average rate for Montville, Middletown and Devon 11-14 would be \$89.2 million or an average of \$5.34 per KW-month from January 17, 2004 through December 31, 2005 in lieu of the rates conditionally approved by FERC in its March 22, 2004 order. The rate for Devon 7 from June 7, 2004 through October 1, 2004 would be \$12.4 million on an annual basis or \$9.66 per KW-month. Third party maintenance expenses would be capped at \$30 million for Devon 11-14, Middletown, Montville and Norwalk Harbor for the period of April 1, 2004 through December 31, 2005. NRG Energy would retain 35% of all infra marginal revenues received by Devon 11-14, Middletown and Montville. As of this date, FERC has not responded to the November 2, 2004 filing.

On September 1, 2004, ISO-NE filed its LICAP proposal with the FERC administrative law judge (ALJ). Under the ISO-NE’s proposal, separate capacity zones would exist for Southwest Connecticut and the rest of Connecticut. LICAP payments would be based on the availability of generating facilities in the real-time market for one hundred critical hours as determined by ISO-NE. On November 4, 2004, NRG Energy and other participants in the NEPOOL locational installed capacity (LICAP) case submitted testimony to FERC. In the testimony, NRG Energy asserted that the LICAP design proposed by ISO-NE was inadequate to insure reasonable compensation for generators and would not encourage entry by new generation. In the testimony, NRG Energy presented an alternative LICAP design which we believe would resolve the deficiencies of the ISO-NE’s proposal. A recommended decision by the FERC administrative law judge is expected on June 1, 2005.

Contractual Commitments

Rail Car Agreement - On August 23, 2004, PMI entered into an agreement with a vendor for the construction of 1,540 aluminum rail cars to be put into service for the transportation of Powder River Basin coal from Wyoming to NRG Energy’s coal burning generating plants. NRG Energy has the right to either purchase the rail cars outright for a value of \$85.9 million or lease them from this vendor for lease term options ranging from 3 to 10 years. Delivery of the rail cars will commence in January 2005. At this time NRG Energy plans to lease rather than purchase these rail cars and is exploring lease terms with rail car leasing companies. It is anticipated that any lease arrangement would be accounted for as an operating lease.

Note 19 — Guarantees

In November 2002, the FASB issued FASB Interpretation, or FIN, No. 45, “*Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.*” The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor’s fiscal year-end. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The interpretation also clarifies the requirements related to the recognition of a liability by a guarantor at the inception of the guarantee for the obligations the guarantor has undertaken in issuing the guarantee.

In connection with the adoption of Fresh Start, all outstanding guarantees were considered new; accordingly we applied the provisions of FIN 45 to all of those guarantees. Each guarantee was reviewed for the requirement to recognize a liability at inception.

In the normal course of business, we may be asked to provide certain assurances to the counter-parties of our asset sales agreements. Such assurances may take the form of a guarantee issued by NRG Energy on behalf of a directly or indirectly held majority-owned subsidiary. Due to the inter-company nature of such arrangements (NRG Energy is essentially guaranteeing its own performance) and the nature of the guarantee being provided (usually the typical representations and warranties that are provided in any asset sales agreement), it is not our policy to recognize the value of such an obligation in our consolidated financial statements.

We are directly liable for the obligations of certain of our project affiliates and other subsidiaries pursuant to guarantees relating to certain of their indebtedness, equity and operating obligations. In addition, in connection with the purchase and sale of fuel, emission credits and power generation products to and from third parties with respect to the operation of some of our generation facilities in the United States, we may be required to guarantee a portion of the obligations of certain of our subsidiaries.

[Table of Contents](#)

As of September 30, 2004, our obligations pursuant to our guarantees of the performance, equity and indebtedness obligations of our subsidiaries were as follows:

Description	September 30, 2004
(Includes only quantifiable amounts)	
(In thousands)	
Guarantees of subsidiaries	\$ 526,336
Guarantees of NRG PMI obligations	42,100
Guarantees of NE Genco obligations	12,339
Cash collateral calls	—
Total	\$ 580,775

As of September 30, 2004, the nature and details of our guarantees were as follows:

Project or Subsidiary	Maximum Amount (September 30, 2004) (In thousands)	Nature of Guarantee	Expiration	Triggering Event
Astoria/Arthur Kill	Indeterminate	Performance Under Asset Purchase Agreement	None stated	Non-performance
Batesville		Indemnity of Purchaser for Claims Relating to Sale	August 24, 2006	Non-payment
Cobee	\$ 250	Guarantee of Obligations Under the Sale and Purchase Agreement	April 27, 2008	Non-performance or non-payment
Elk River	\$ 12,500			
Flinders	\$ 11,990	Executory Contract Fund Superannuation (Pension) Reserve	Undetermined September 8, 2012	Non-payment Credit agreement default
Flinders	\$ 4,411	Debt Service Reserve Guaranty	September 8, 2012	Credit agreement default
Flinders	\$ 50,953	Plant Removal and Site Remediation Obligation	Undetermined	Non-performance
Flinders	\$ 60,098	Guaranty of Employee Separation Benefits	None stated	Non-payment
Flinders	Indeterminate	Indemnification of Government Entity for Payment for Power and Fuel	Fourth quarter 2018	Non-payment
Flinders		Guaranty of Obligation to Purchase Gas	None stated	Non-payment
Gladstone	\$ 219,738	Payment of Penalties in the Event of an Extraordinary Operational Breach	None stated	Non-performance
Gladstone	\$ 23,752			
Gladstone	Indeterminate	Performance Obligations under Credit Agreement	March 31, 2009	Non-performance
Hsin Yu		Guarantee of Obligations Under the Sale and Purchase Agreement	None stated	Non-performance or non-payment
Latin Power	\$ 1,000			
Latin Power	Indeterminate	Subscription Commitment Guaranty	None stated	Non-performance
Loy Yang		Guarantee of Obligations Under the Sale and Purchase Agreement	April 7, 2011	Non-performance or non-payment
McClain	\$ 26,408	Obligation to Fund	None stated	Non-payment

		Debt Service Reserve Shortfall		
	\$ 1,015			
MIBRAG		Guarantee of Share Purchase Agreement	None stated	Non-performance
	\$ 8,603			
NEO		Guarantee of Obligations Under the Sale and Purchase Agreement	None stated	Non-performance
	\$ 5,489			
Newport	\$ 7,500	Executory Contract	Undetermined	Non-payment
Other	\$ 19,095	Various	Various	Various
PMI		Guarantee on behalf of NRG Power Marketing Inc. for various projects	Various	Non-performance
	\$ 42,100			
NE Genco		Guarantee on behalf of NRG Northeast Generating Co., LLC for various projects	December 31, 2025	Non-performance
	\$ 12,339			
West Coast LLC		Guaranty of Environmental Cleanup Costs	None stated	Non-performance
	\$ 744			
West Coast LLC	Indeterminate	Continuing Obligations Under Asset Sales Agreement and Related Contracts	None stated	Non-performance
Total	\$ <u>580,775</u>			

Recourse provisions for each of the guarantees above are to the extent of their respective liability. No assets are held as collateral for any of the above guarantees.

Note 20 — Benefit Plans and Other Postretirement Benefits

Reorganized NRG

Substantially all of our employees participate in defined benefit pension plans. We have initiated a new NRG Energy noncontributory, defined benefit pension plan effective January 1, 2004, with credit for service from December 5, 2003. In addition, we provide postretirement health and welfare benefits (health care and death benefits) for certain groups of our employees. Generally, these are groups that were acquired in recent years and for whom prior benefits are being continued (at least for a certain period of time or as required by union contracts). Cost sharing provisions vary by acquisition group and terms of any applicable collective bargaining agreements. We have contributed \$1.0 million to the NRG Energy pension plans during the nine months ended September 30, 2004. We expect to contribute approximately \$1.0 million to our postretirement medical plan in 2004.

NRG Energy Pension and Postretirement Medical Plans

Components of Net Periodic Benefit Cost

The net annual periodic pension cost related to all of our plans, include the following components:

	Pension Benefits			
	Reorganized NRG	Predecessor Company	Reorganized NRG	Predecessor Company
	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(In thousands)			
Service cost benefits earned	\$ 2,577	\$ —	\$ 8,477	\$ —
Interest cost on benefit obligation	691	—	2,167	—
Amortization of prior service cost	—	—	—	—
Expected return on plan assets	(22)	—	(22)	—
Recognized actuarial (gain)/loss	—	—	—	—
Net periodic benefit cost	<u>\$ 3,246</u>	<u>\$ —</u>	<u>\$ 10,622</u>	<u>\$ —</u>

	Other Benefits			
	Reorganized NRG	Predecessor Company	Reorganized NRG	Predecessor Company
	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(In thousands)			
Service cost benefits earned	\$ 372	\$ 334	\$ 1,302	\$ 1,002
Interest cost on benefit obligation	671	525	1,931	1,575
Amortization of prior service cost	—	(6)	—	(18)
Expected return on plan assets	—	—	—	—
Recognized actuarial (gain)/loss	—	48	—	144
Net periodic benefit cost	<u>\$ 1,043</u>	<u>\$ 901</u>	<u>\$ 3,233</u>	<u>\$ 2,703</u>

2003 Medicare Legislation

In May 2004, the Financial Accounting Standards Board, FASB, issued FASB Staff Position (FSP) No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2). FSP 106-2 provides guidance on accounting for the effects of the new Medicare Prescription Drug, Improvement, and Modernization Act of 2003 by employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D. FSP 106-2 is effective as of the first interim period beginning after June 15, 2004. NRG Energy adopted FSP 106-2 in the third quarter of 2004 on a retroactive basis. Adoption of FSP 106-2 will reduce the annual non-cash postretirement health expense by approximately \$0.2 million and reduce the accumulated postretirement benefit obligation by \$2.2 million. The change in accumulated postretirement benefit obligation has been reflected as an actuarial gain and will be amortized in future periods.

Note 21— Creditor Pool and Other Settlements

A principal component of our plan of reorganization is a settlement with Xcel Energy in which Xcel Energy agreed to make a contribution consisting of cash (and, under certain circumstances, its stock) in the aggregate amount of up to \$640 million to be paid in three separate installments following the effective date of our plan of reorganization. The Xcel Energy settlement agreement resolves

[Table of Contents](#)

any and all claims existing between Xcel Energy and us and/or our creditors and, in exchange for the Xcel Energy contribution, Xcel Energy is receiving a complete release of claims from us and our creditors, except for a limited number of creditors who have preserved their claims as set forth in the confirmation order entered on November 24, 2003. We received \$288.0 million, \$328.5 million and \$23.5 million from Xcel Energy on February 20, 2004, April 30, 2004 and May 28, 2004, respectively. We used the proceeds from the Xcel Energy settlement to reduce our creditor pool obligation. As of September 30, 2004 and December 31, 2003 the balance of our creditor pool obligation was \$25.0 million and \$540.0 million, respectively. On February 20, 2004, April 30, 2004, May 28, 2004 and October 29, 2004, we made payments of \$163.0 million, \$328.5 million, \$23.5 million and \$25.0 million, respectively. In addition, our other bankruptcy settlement obligation as of September 30, 2004 and December 31, 2003 was \$220.5 million and \$220.0 million, respectively. This obligation relates to the allowed claims pending against our Audrain and Pike facilities. The net change in the balance of \$0.5 million as of September 30, 2004 relates to a \$2.3 million increase to the outstanding obligation offset by an increase of \$1.8 million related to an agreement whereby we are entitled to reimbursement of certain costs incurred while we are maintaining these facilities in anticipation of their sale whereupon any proceeds will be turned over to the creditors.

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

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

Overview

NRG Energy, Inc., or NRG Energy, the "Company", "we", "our", or "us", is a wholesale power generation company, primarily engaged in the ownership and operation of power generation facilities, the procurement of fuel and transportation services and the marketing of energy, capacity and related products in the United States and internationally. The Company has a diverse portfolio of electric generation facilities in terms of geography, fuel type and dispatch levels. NRG Energy seeks to maximize operating income through the effective procurement and trading of fuel supplies and transportation related services, and the marketing and trading of energy, capacity and ancillary services into spot, intermediate and long-term markets.

Our two principal objectives are: 1.) To maximize the operating performance of our entire portfolio and, 2.) To protect and enhance the market value of our physical and contractual assets through the execution of asset focused risk management, marketing and trading strategies within well-defined risk and liquidity guidelines. We will develop the assets in our core regions into integrated businesses well suited to serving the requirements of the load-serving entities in our core markets. Our business will involve the reinvestment of capital in our existing assets for reasons of life extension, repowering, expansion, environmental remediation, operating efficiency, greater fuel optionality, greater merit order diversity, enhanced portfolio effect or for alternative use, among other reasons. Our business also may involve acquisitions intended to complement the asset portfolios in our core regions, and from time to time we may also consider and undertake other merger and acquisition transactions that are consistent with our "core region" strategy.

The wholesale energy industry entered a prolonged slump in 2001, from which it is only beginning to emerge. We expect that generally weak market conditions will continue for the foreseeable future in many U.S. markets. We further expect that the merchant power industry will continue to see corporate restructuring, debt restructuring, and consolidation over the coming years.

Asset Sales. As part of our strategy, we plan to continue the selective divestment of certain assets. Since July 2002, we have sold or made arrangements to sell a number of assets and equity investments. In addition, we are continuing to market our interest in several remaining non-core assets.

Assets Held for Sale. We have reclassified the assets and liabilities of Kendall to the held for sale category on the accompanying balance sheet as of September 30, 2004. Given our right to reacquire a 40% interest in the project, the transaction is being treated as a partial sale for accounting purposes.

Discontinued Operations. We have classified certain business operations, and gains/losses recognized on sale, as discontinued operations for projects that were sold or have met the required criteria for such classification pending final disposition. Accounting regulations require that continuing operations be reported separately in the income statement from discontinued operations, and that any gain or loss on the disposition of any such business be reported along with the operating results of such business. Assets classified as discontinued operations on our balance sheet as of September 30, 2004 include primarily the McClain project. For the three and nine months ended September 30, 2004, discontinued results of operations include McClain, PERC, Cobee, Hsin Yu, LSP Energy (Batesville) and several NEO Corporation projects and prior periods presented have been restated accordingly.

New Management. On October 21, 2003, we announced the appointment of David Crane as our President and Chief Executive Officer, effective December 1, 2003. Before joining our company, Mr. Crane served as the Chief Executive Officer of London-based International Power PLC and has over 12 years of energy industry experience. On March 11, 2004 we announced the appointment of Robert Flexon as Executive Vice President and Chief Financial Officer, effective March 29, 2004. In addition, we have filled most other senior and middle management positions over the last 12 months. Our board of directors is currently comprised of Mr. Crane and ten independent individuals, three of whom have been designated by MatlinPatterson, a significant holder of NRG Energy common stock. On August 4, 2004, we held our 2004 Annual Meeting of Stockholders in which the stockholders of NRG Energy voted on four items, including the election of Class I directors. *For more information, see Item 4. Submission of Matters to a Vote of Security Holders.*

Independent Registered Public Accounting Firm; Audit Committee. PricewaterhouseCoopers LLP served as our independent auditors from 1995 through 2003. On May 3, 2004, we announced that PricewaterhouseCoopers LLP had decided not to stand for re-election as our independent auditor for the year ended December 31, 2004. On May 24, 2004, the Audit Committee of our board of

[Table of Contents](#)

directors appointed KPMG LLP as our independent registered public accounting firm going forward, and on August 4, 2004 our stockholders ratified the appointment. *For more information, see Item 4. Submission of Matters to a Vote of Security Holders.*

Fresh-Start Reporting. In connection with our emergence from bankruptcy, we adopted Fresh Start Reporting on December 5, 2003, in accordance with the requirements of SOP 90-7. The application of SOP 90-7 resulted in the creation of a new reporting entity. Under Fresh Start, our reorganization value was allocated to our assets and liabilities on a basis substantially consistent with purchase accounting in accordance with SFAS No. 141. Accordingly, our assets' recorded values were adjusted to reflect their estimated fair values upon adoption of Fresh Start. Any portion of the reorganization value not attributable to specific assets is an indefinite-lived intangible asset referred to as "reorganization value in excess of value of identifiable assets" and reported as goodwill. We did not record any such amounts. As a result of adopting Fresh Start and emerging from bankruptcy, our historical financial information is not comparable to financial information for periods after our emergence from bankruptcy.

RESULTS OF OPERATIONS

Upon our emergence from bankruptcy, we adopted the Fresh Start provisions of SOP 90-7. Accordingly, the Reorganized NRG balance sheet, statement of operations and statement of cash flows have not been prepared on a consistent basis with the Predecessor Company's financial statements and are not comparable in certain respects to the financial statements prior to the application of Fresh Start, therefore, the Predecessor Company's and the Reorganized NRG's amounts are discussed separately for comparison and analysis purposes, herein.

Management's discussion of our results of operations for the three months ended September 30, 2004 and 2003

Net Income/(Loss)

Reorganized NRG

For the three months ended September 30, 2004, we recorded net income of \$54.2 million, or \$0.54 per diluted weighted average share of common stock. Although the third quarter is typically the strongest quarter for earnings, the weather patterns in our important Northeast region, as measured by population weighted cooling degree-days, were below normal in the MidAtlantic states by 7.2% and below normal in the New England states by 3.4%. The lack of any significant heat event in the Northeast region tended to restrain power prices and earnings ability of our northeast merchant fleet. In the South Central (Louisiana) region, population weighted cooling degree-days were 1.0% above normal. In California, population weighted cooling degree-days were 6.8% above normal which favorably impacted our earnings from West Coast Power, our 50% joint venture with generating assets in California. Our results were positively impacted by \$53.4 million in equity earnings of unconsolidated affiliates including \$17.2 million from our interest in West Coast Power which benefited from warmer than normal temperatures during the third quarter. Our results were unfavorably impacted by impairment charges of \$24.5 million related to the Kendall generating plant and \$15.0 million related to the write-down of the Meriden turbine. Our results were also unfavorably impacted by write downs and losses on sales of equity investments of \$13.5 million.

Predecessor Company

For the three months ended September 30, 2003, we recorded a net loss of \$284.8 million. Our results were unfavorably impacted by \$396.0 million of legal settlement charges recorded in connection with the resolution of the FirstEnergy Arbitration Claim, \$20.7 million of reorganization expenses and \$6.3 million of restructuring and impairment charges. During the third quarter of 2003 we cancelled our plans to re-establish fuel oil capacity at our Arthur Kill plant, which resulted in a charge of approximately \$9.0 million to write-off assets under development. Offsetting this charge was a net gain of approximately \$3.1 million relating to the sale of the Langage project. Our results were favorably impacted by a gain on the sale of equity method investments of \$12.3 million resulting from the sale of our 50% interest in Mustang Station. Our results were unfavorably impacted by continued losses resulting from our Connecticut Light and Power Standard Offer Contracts caused by an increase in market price and a decrease in generation.

Revenues from Majority-Owned Operations

Reorganized NRG

Revenues from majority-owned operations of \$606.7 million for the three months ended September 30, 2004, included \$342.5 million of energy revenues, \$174.4 million of capacity revenues, \$46.4 million of alternative energy revenues, \$4.7 million of O&M fees and \$38.7 million of other revenues, which include financial and physical gas sales and non-cash contract amortization resulting from Fresh Start. Revenues were driven primarily by our North American operations, particularly our Northeast power generation

[Table of Contents](#)

facilities, and to a lesser extent our South Central operations. As indicated above, mild weather limited production from our intermediate and peaking plants in the Northeast and as such, energy revenues were less than expected for the quarter. Our Connecticut facilities continue to benefit from the cost based reliability-must-run, or RMR agreement, which was authorized on January 17, 2004. This agreement entitles us to approximately \$7.1 million of revenues per month, and was expected to be replaced by locational installed capacity, or LICAP, in June 2004. FERC recently postponed the LICAP implementation until January 1, 2006, and as such, the existing RMR agreements will continue until that date. The rates under this agreement are not final and are subject to refund. In the South Central region, our long-term contracts generally provide for capacity and energy payments while improved generation performance provided for increased merchant energy sales, resulting in higher revenues than expected. Of the total dollar value of capacity revenues earned in the quarter, \$47.7 million or 27.4%, were from our New York City assets. The third quarter includes three out of the six months of the summer capability period where capacity prices in New York City are at their highest level. Another 26.9% of capacity revenues this quarter were from our South Central assets. These capacity payments are typically steady quarter to quarter, and are relatively unaffected by seasonal shifts. Strong pool prices related to our Australian operations helped to offset the delayed provisional acceptance related to the final stage of the Playford Station refurbishments, originally expected to be on-line in August of 2004. Our revenues during this period include charges of \$6.3 million of non-cash amortization of the fair values of various executory contracts recorded on our balance sheet upon our adoption of the Fresh Start provisions of SOP 90-7 in December 2003.

Predecessor Company

Revenues from majority-owned operations of \$570.7 million for the three months ended September 30, 2003, included \$317.8 million of energy revenues, \$153.6 million of capacity revenues, \$7.0 million of alternative energy revenues, \$3.3 million of O&M fees and \$89.0 million of other revenues, which include financial and physical gas sales.

Revenues from majority-owned operations during the three months ended September 30, 2003, were driven primarily by our North American operations and to a lesser degree by our international operations, primarily Australia. Our domestic Northeast and South Central power generation operations significantly contributed to our revenues due primarily to favorable market prices resulting from strong fuel and electricity prices. Our Australian operations were favorably impacted by favorable foreign exchange rates. During this period we also experienced an unfavorable impact on our revenues due to continued losses on our CL&P standard offer contract and the mark-to-market on certain of our derivatives.

Cost of Majority-Owned Operations

Reorganized NRG

Our cost of majority-owned operations related to continuing operations for the three months ended September 30, 2004 was \$381.0 million or 62.8% of revenues from majority-owned operations. Cost of majority-owned operations consists of the cost of energy (primarily fuel costs), labor, operating and maintenance costs and non-income based taxes. Of the total cost, \$214.2 million is for fuel related costs including \$130.5 million for coal, \$61.6 million for gas and \$22.1 million for oil. Generation from wholly owned North American power plants was 6.7 million megawatt hours in the third quarter of this year, up from both previous quarters. However, our intermediate and peaking facilities, which are fueled by more expensive fuel oil and natural gas and have less favorable heat conversion efficiencies than the newer generation of turbines, were not frequently called upon to generate power over the course of the quarter due to their unfavorable position in the regional dispatch curves. Included in the cost of majority-owned operations is a \$10.9 million property tax credit associated with an enterprise zone program. Also included in our operating expenses is \$4.6 million of amortization of the value of SO₂ allowances recorded on our balance sheet resulting from Fresh Start.

Predecessor Company

Our cost of majority-owned operations related to continuing operations for the three months ended September 30, 2003 was \$384.4 million or 67.4% of revenues from majority-owned operations. Cost of majority-owned operations consists of cost of energy (primarily fuel costs), labor, operating and maintenance costs and non-income based taxes. Cost of majority-owned operations was unfavorably impacted by increased generation in the Northeast region, partially offset by a reduction in trading and hedging activity resulting from a reduction in our power marketing activities. Our international operations were unfavorably impacted due to an unfavorable movement in foreign exchange rates and continued mark-to-market of the Osborne contract at Flinders resulting from lower pool prices.

Depreciation and Amortization

Reorganized NRG

Our depreciation and amortization expense related to continuing operations for the three months ended September 30, 2004 was \$51.4 million. Depreciation and amortization consists primarily of the allocation of our historical depreciable fixed asset costs over the remaining lives of such property. Upon adoption of Fresh Start we were required to revalue our fixed assets to fair value and determine new remaining lives for such assets. Our fixed assets were written down substantially upon our emergence from bankruptcy. We also determined new remaining depreciable lives, which are, on average, shorter than what we had previously used primarily due to the age and condition of our fixed assets. In completing the process of establishing newly determined depreciable fixed asset values and remaining depreciable lives, we utilized our best estimates for determining depreciation expense in certain instances.

Predecessor Company

Our depreciation and amortization expense related to continuing operations for the three months ended September 30, 2003 was \$56.5 million. Depreciation and amortization consisted primarily of the allocation of our historical depreciable fixed asset costs over the remaining lives of such property. During this period, depreciation expense was unfavorably impacted by the shortening of the depreciable lives of certain of our domestic power generation facilities located in the Northeast region and the impact of recently completed construction projects. The depreciable lives of certain of our Northeast facilities, primarily our Connecticut facilities, were shortened to reflect economic developments in that region.

General, Administrative and Development

Reorganized NRG

Our general, administrative and development costs related to continuing operations for the three months ended September 30, 2004 were \$54.3 million or 9.0% of operating revenue. These costs are primarily comprised of corporate labor, insurance and external professional support, such as legal, accounting and audit fees. General, administrative and development costs have been adversely impacted by increased costs associated with the Sarbanes Oxley implementation, engineering costs at our Arthur Kill power plant and higher labor costs associated with an increase in corporate headquarters staff in preparation for our headquarters relocation. The third quarter was also negatively impacted by a \$4.5 million bad debt allowance for a note receivable held by a third party.

Predecessor Company

Our general, administrative and development costs related to continuing operations for the three months ended September 30, 2003 were \$34.4 million or 6.0% of operating revenue. General, administrative and development costs were directly impacted by our efforts to streamline the operations through work force reduction efforts, closure of certain international offices and lower legal costs charged herein.

Legal Settlement Charges

During the third quarter of 2003, we recorded \$396.0 million in connection with the resolution of an arbitration claim asserted by FirstEnergy Corp. As a result of this resolution, FirstEnergy retained ownership of the Lake Plant Assets and received an allowed general unsecured claim of \$396.0 million under NRG Energy's Plan of Reorganization.

Corporate Relocation Charges

On March 16, 2004, we announced plans to implement a new regional business strategy and structure. The new structure calls for a reorganized leadership team and a corporate headquarters relocation to Princeton, New Jersey. The corporate headquarters staff will be streamlined as part of the relocation, as functions are shifted to the regions. The transition of the corporate headquarters has commenced and is expected to run through March 2005. During the three months ended September 30, 2004, we recorded \$5.7 million for charges related to our corporate relocation activities, primarily for employee related transition costs and employee severance and termination benefits. We expect to incur \$25.2 million of expenses in connection with corporate relocation charges. Relocating, recruiting and other employee-related transition costs are expected to be approximately \$11.8 million and will be expensed as incurred. These costs and cash payments are expected to be incurred through first quarter of 2005. Severance and termination benefits of \$8.3 million are expected to be incurred through first quarter of 2005 with cash payments being made through fourth quarter of 2005. Building lease termination costs are expected to be \$5.1 million. These costs are expected to be incurred

[Table of Contents](#)

through first quarter of 2005 with cash payments being made through fourth quarter of 2006. These charges will be classified separately in our statement of operations, in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". We currently estimate total costs associated with the corporate relocation to approximate \$41.6 million, inclusive of the relocation charges mentioned above. All other costs and expenses relating to the corporate relocation, except for approximately \$3.7 million of related capital expenditures, will be expensed as incurred and included in general, administrative and development expenses. Cash expenditures for 2004, including capital expenditures, are expected to be approximately \$32 million.

Reorganization Items and Restructuring and Impairment Charges

Reorganized NRG

During the three months ended September 30, 2004, we recorded a net credit of \$5.2 million related to reorganization items. These items relate primarily to the favorable settlement of obligations recorded under Fresh Start.

During the three months ended September 30, 2004, we reviewed the recoverability of our long-lived assets in accordance with SFAS No. 144. As a result of this review, we recorded \$40.5 million of asset impairments related primarily to the impairment to the realizable values of Kendall Energy and the Meriden turbine (see Note 7).

Predecessor Company

During the three months ended September 30, 2003, we incurred total reorganization expenses of \$20.7 million. All reorganization costs have been incurred since we filed for bankruptcy in May 2003. These costs consist of bankruptcy related charges primarily related to professional fees.

During the three months ended September 30, 2003, we incurred total restructuring charges of \$0.3 million. These costs consist of employee separation costs and advisor fees.

During the three months ended September 30, 2003, we reviewed the recoverability of our long-lived assets in accordance with the guidelines of SFAS No. 144. As a result of this review, we recorded \$6.0 million of asset impairments. During the third quarter of 2003, we cancelled our plans to re-establish fuel oil capacity at our Arthur Kill plant which resulted in a charge of approximately \$9.0 million to write-off assets under development. Offsetting this charge was a net gain of approximately \$3.1 million relating to the sale of the Langage project.

Other Income (Expense)

Reorganized NRG

During the three months ended September 30, 2004, we recorded other expense of \$21.4 million, which consisted primarily of \$66.9 million of interest expense and \$13.5 million of write downs and losses on sales of equity method investments, offset by \$0.1 million of minority interest in losses of consolidated subsidiaries, \$53.4 million of equity in earnings of unconsolidated affiliates (including \$17.2 million from our investment in West Coast Power LLC) and \$5.5 million of other income, net.

Predecessor Company

During the three months ended September 30, 2003, we recorded other income of \$48.5 million. Other income consisted primarily of \$63.3 million of equity in earnings of unconsolidated affiliates (including \$27.7 million from our investment in West Coast Power LLC), \$12.3 million of gains on sales of equity method investments and \$7.3 million in other income, net offset by \$34.4 million of interest expense.

Equity in Earnings of Unconsolidated Affiliates

Reorganized NRG

During the three months ended September 30, 2004, we recorded \$53.4 million of equity earnings from our investments in unconsolidated affiliates. Our investment in West Coast Power comprised \$17.2 million of this amount with our investment in Mibrag and Gladstone comprising \$3.4 million and \$2.1 million, respectively. Our investment in West Coast Power generated favorable results due to the pricing under the California Department of Water Resources contract. Our equity earnings in the project as reported in our results of operations have been reduced to reflect a non-cash basis adjustment resulting from adoption of Fresh Start.

[Table of Contents](#)

Additionally, NRG Energy recorded a \$4.2 million favorable adjustment for its James River partnership. NRG Energy's equity earnings were also favorably impacted by \$13.9 million of unrealized gain related to our Enfield investment. This gain is associated with changes in the fair value of energy-related derivative instruments not accounted for as hedges in accordance with SFAS No. 133.

Predecessor Company

During the three months ended September 30, 2003, we recorded \$63.3 million of equity earnings from our investments in unconsolidated affiliates. \$46.1 million was generated by our domestic portfolio and \$17.2 million from our international portfolio. Our investment in West Coast Power continued to generate favorable earnings due primarily from the CDWR contract and contributed \$27.7 million in earnings this period.

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

As part of our periodic review of our equity method investments for impairments, we have taken write downs and losses on sales of equity method investments for the three months ended September 30, 2004 of \$13.5 million and gain on sale of equity method investments of \$12.3 million for the three months ended September 30, 2003.

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

	Reorganized NRG	Predecessor Company
	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003
	(In thousands)	
Commonwealth Atlantic Limited Partnership	\$ (3,686)	\$ —
James River Power LLC	(6,008)	—
NEO Corporation — 2004	(3,830)	—
Mustang	—	12,310
Total write downs and gains/(losses) on sales of equity method investments	\$ (13,524)	\$ 12,310

Commonwealth Atlantic Limited Partnership (CALP) — In June 2004, we executed a sales agreement with Virginia Electric Power Company (VEPCO) to sell our 50% interest in CALP. During the third quarter of 2004, we recorded an impairment charge of approximately \$3.7 million to write down the value of our investment in CALP to its fair value. We expect the sale to close in the fourth quarter of 2004.

James River Power LLC — In September 2004, we executed an agreement with Colonial Power Company LLC to sell all of our outstanding shares of stock in Capistrano Cogeneration Company, a wholly-owned subsidiary of NRG Energy which owns a 50% interest in James River Cogeneration Company. During the third quarter of 2004, we recorded an impairment charge of approximately \$6.0 million to write down the value of our investment in James River to its fair value. The sale is expected to close in the fourth quarter of 2004.

NEO Corporation — 2004 — On September 30, 2004, we completed the sale of several NEO investments – Four Hills LLC, Minnesota Methane II LLC, NEO Montauk Genco LLC and NEO Montauk Gasco LLC to Algonquin Power of Canada. The sale also included four wholly owned NEO subsidiaries (see Note 3). We received proceeds of \$6.1 million. The sale resulted in a loss of approximately \$3.8 million attributable to the equity investment entities sold.

Mustang Station — On July 7, 2003, NRG Energy completed the sale of its 50% interest in Mustang Station, a 483 MW gas-fired combined cycle power generating plant located in Denver City, Texas, to EIF Mustang Holdings I, LLC. The sale resulted in net cash proceeds of approximately \$13.3 million and a net gain of approximately \$12.3 million.

Other income, net

Reorganized NRG

During the three months ended September 30, 2004, we recorded \$5.5 million of other income, net, consisting primarily of interest income earned on notes receivable and cash balances.

[Table of Contents](#)

Predecessor Company

During the three months ended September 30, 2003, we recorded \$7.3 million of other income, net consisting primarily of interest income earned on notes receivable and cash balances.

Interest expense

Reorganized NRG

Interest expense for the three months ended September 30, 2004 was \$66.9 million, consisting of interest expense on both our project and corporate level interest bearing debt. Also included in interest expense is the amortization of debt financing costs and the amortization expense related to debt discounts and premiums recorded as part of Fresh Start. Additionally, interest expense also includes the impact of any interest rate swaps that we have entered in order to manage our exposure to changes in interest rates.

Predecessor Company

Interest expense for the three months ended September 30, 2003 was \$34.4 million, consisting of interest expense on both our project and corporate level interest bearing debt. In addition, interest expense includes the amortization of debt financing costs. Interest expense during this period was favorably impacted by our ceasing to record interest expense on debt where it was probable that such interest would not be paid, such as the NRG Energy corporate level debt (primarily bonds) and NRG Finance Company debt (construction revolver) due to our entering into bankruptcy in May 2003. Interest expense was unfavorably impacted by an adverse mark-to-market on certain interest rate swaps that we have entered in order to manage our exposure to changes in interest rates. Due to our deteriorating financial condition, hedge accounting treatment was ceased for certain of our interest rate swaps, causing changes in fair value to be recorded as interest expense.

Income Tax Expense

Reorganized NRG

Income tax expense for the three months ended September 30, 2004, was \$14.3 million. For U.S. income tax purposes, the tax expense in 2004 is due to a reduction in deferred tax assets without a tax benefit for the corresponding reduction in valuation allowance. Due to the uncertainty of realization of deferred tax assets related to net operating losses and other temporary differences, our U.S. net deferred tax assets at December 5, 2003 were offset by a full valuation allowance of \$1.3 billion in accordance with SFAS No. 109. SOP 90-7 requires that reductions in the valuation allowance as of December 5, 2003 (date of emergence) first reduce intangible assets until exhausted and thereafter be reported as a direct addition to paid-in-capital. Consequently, our effective tax rate in post bankruptcy emergence years will not benefit from reductions in the valuation allowance. The foreign tax expense for the three months ended September 30, 2004 is due to the earnings in foreign jurisdictions.

Predecessor Company

During the three months ended September 30, 2003, we recorded income tax expense of \$5.4 million. The U.S. tax expense is due to separate company income tax liabilities. The foreign tax expense for the three months ended September 30, 2003 is due to earnings in foreign jurisdictions.

Income (Loss) From Discontinued Operations, net of Income Taxes

Reorganized NRG

We classified as discontinued operations the operations and gains/losses recognized on the sale of projects that were sold or were deemed to have met the required criteria for such classification pending final disposition. During the three months ended September 30, 2004, we recorded income from discontinued operations, net of income taxes of \$10.9 million. During this period, discontinued operations consisted of the results of our NRG McClain LLC, Penobscot Energy Recovery Company, or PERC, Compania Boliviana De Energia Electrica S.A. Bolivian Power Company Limited, or Cobee, Hsin Yu, LSP Energy (Batesville) and four NEO Corporation projects (NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha and NEO Tajiguas LLC). All other discontinued operations were disposed of in prior periods. The \$10.9 million income from discontinued operations is comprised primarily of a \$11.0 million gain from the sale of Batesville and a \$6.0 million gain associated with the sale of the four NEO wholly owned entities sold, offset by \$6.4 million of income tax expense.

[Table of Contents](#)

Predecessor Company

We classified as discontinued operations the operations and gains/losses recognized on the sale of projects that were sold or were deemed to have met the required criteria for such classification pending final disposition. During the three months ended September 30, 2003, we recorded a loss on discontinued operations, net of income taxes of \$0.3 million consisting of the results from our McClain, PERC, Cobee, Killingholme, NEO Landfill Gas, Inc., seven NEO Corporation projects (NEO Fort Smith LLC, NEO Woodville LLC, NEO Phoenix LLC, NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha and NEO Tajiguas LLC), Timber Energy Resources, Inc., Cahua and Energia Pacasmayo, Hsin Yu and LSP Energy (Batesville) projects. The income on discontinued operations of \$0.3 million was offset by a net loss on sale of discontinued operations of \$0.6 million.

Management's discussion of our results of operations for the nine months ended September 30, 2004 and 2003

Net Income/(Loss)

Reorganized NRG

For the nine months ended September 30, 2004, we recorded net income of \$167.5 million, or \$1.67 per weighted average share of diluted common stock. Our results were favorably impacted by the cold weather in January in the Northeast region where population weighted heating degree-days were 18% above normal. Severe cold weather and gas supply problems resulted in extremely high gas and power prices in the Northeast with gas prices reaching \$70/mmbtu in the New York City area. Facilities, which operate on oil such as our units in Nepool and our Oswego facility, realized a competitive advantage as their fuel costs were significantly better than gas fired units. This resulted in an increase in production from these facilities as they gained market share from gas facilities and higher margins as power prices were set by higher cost units. Additionally, our results benefited by locking in certain of our domestic coal costs. Our results were also favorably impacted by the FERC-approved Settlement Agreement between NRG Energy and Connecticut Light and Power and others, whereby we received \$38.4 million in settlement proceeds in July 2004. The year to date September 30, 2004 results were also positively impacted by \$117.2 million in equity earnings of unconsolidated affiliates including \$45.1 million from our interest in West Coast Power which benefited from warmer than normal temperatures during the third quarter.

Predecessor Company

For the nine months ended September 30, 2003, we recorded a net loss of \$905.8 million. Our results were unfavorably impacted by \$396.0 million of legal settlement charges, \$298.0 million of restructuring and impairment charges, \$136.7 million of charges related to write downs and losses on our equity method investments and \$27.0 million of reorganization charges related to our entering into bankruptcy in May 2003. Our results were also unfavorably impacted by continued losses resulting from our Connecticut Light and Power Standard Offer Contract caused by increased market prices and a decrease in generation and increased costs related to our restructuring activities.

Revenues from Majority-Owned Operations

Reorganized NRG

Revenues from majority-owned operations of \$1.8 billion for the nine months ended September 30, 2004, included \$1.1 billion of energy revenues, \$473.6 million of capacity revenues, \$146.8 million of alternative energy revenues, \$15.3 million of O&M fees and \$79.1 million of other revenues, which include financial and physical gas sales and non-cash contract amortization resulting from fresh start accounting.

Revenues from majority-owned operations for the nine months ended September 30, 2004, were driven primarily by our North American operations, primarily our Northeast facilities. Our domestic Northeast power generation operations significantly contributed to our energy revenues due to favorable market prices resulting from colder than normal weather in the winter and strong natural gas prices, which pushed up electricity prices in January 2004. Our wholly owned North America assets generated over 12.6 million megawatt hours during the nine months ended September 30, 2004. Our capacity revenues are largely driven by our Northeast and South Central facilities. Our South Central and New York City assets earned 29% and 26% of the total capacity revenues, respectively. Our Connecticut facilities continue to benefit from the cost based reliability-must-run, or RMR agreement, which was authorized on January 17, 2004. The agreement entitles us to approximately \$7.1 million of capacity revenues per month, which was originally expected to be replaced by LICAP in June 2004. FERC recently postponed the LICAP implementation until January 1, 2006, and as such, the existing RMR agreements will continue until that date. The rates under this agreement are not final and are subject to refund. In the South Central region our long-term contracts generally provide for capacity payments. Our Australian operations were favorably impacted by strong market prices driven by gas restrictions in January, record high temperatures in

[Table of Contents](#)

February and March, and favorable foreign exchange movements. During this period we also experienced a favorable impact on our revenues due to the mark-to-market on certain of our derivative contracts. Our revenues were also favorably impacted by the FERC-approved Settlement Agreement between us and Connecticut Light and Power and others, whereby we received \$38.4 million in settlement proceeds in July 2004. The results for the nine months ended September 30, 2004 were positively impacted by \$117.2 million in equity earnings of unconsolidated affiliates including \$45.1 million from our interest in West Coast Power. Our revenues during this period include charges of \$16.6 million of non-cash amortization of the fair values of various executory contracts recorded on our balance sheet upon our adoption of the Fresh Start provisions of SOP 90-7 in December 2003.

Predecessor Company

Revenues from majority-owned operations of \$1.5 billion for the nine months ended September 30, 2003, included \$769.7 million of energy revenues, \$469.8 million of capacity revenues, \$113.1 million of alternative energy revenues, \$10.3 million of O&M fees and \$144.2 million of other revenues, which include financial and physical gas sales.

Revenues from majority-owned operations during the nine months ended September 30, 2003, were driven primarily by our North American operations and to a lesser degree by our international operations, primarily Australia. Our domestic Northeast and South Central power generation operations significantly contributed to our revenues due primarily to favorable market prices resulting from strong fuel and electricity prices. Our Australian operations were favorably impacted by favorable foreign exchange rates. During this period we also experienced an unfavorable impact on our revenues due to continued losses on our CL&P standard offer contract and the mark-to-market on certain of our derivatives.

Cost of Majority-Owned Operations

Reorganized NRG

Our cost of majority-owned operations related to continuing operations for the nine months ended September 30, 2004 was \$1.1 billion or 62.7% of revenues from majority-owned operations. Cost of majority-owned operations consists of the cost of energy (primarily fuel costs) of \$755.3 million, labor of \$153.6 million, operating and maintenance costs of \$174.4 million and non-income based taxes of \$32.7 million. Fuel related costs include coal costs of \$361.4 million, natural gas costs of \$161.9 million, fuel oil costs of \$87.1 million, transmission expense of \$28.1 million, purchased energy costs of \$74.5 million, other costs of \$27.5 million and non-cash SO₂ emission credit amortization of \$14.8 million resulting from Fresh Start accounting. Included in the cost of majority-owned operations is a \$22.6 million property tax credit associated with an enterprise zone program.

Predecessor Company

Our cost of majority-owned operations related to continuing operations for the nine months ended September 30, 2003 was \$1.1 billion or 75.8% of revenues from majority-owned operations. Cost of majority-owned operations consists of cost of energy (primarily fuel costs), labor, operating and maintenance costs and non-income based taxes. Cost of majority-owned operations was unfavorably impacted by increased generation in the Northeast region, partially offset by a reduction in trading and hedging activity resulting from a reduction in our power marketing activities. Our international operations were unfavorably impacted due to an unfavorable movement in foreign exchange rates and continued mark-to-market of the Osborne contract at Flinders resulting from lower pool prices.

Depreciation and Amortization

Reorganized NRG

Our depreciation and amortization expense related to continuing operations for the nine months ended September 30, 2004 was \$159.5 million. Depreciation and amortization consists primarily of the allocation of our historical depreciable fixed asset costs over the remaining lives of such property. Upon adoption of Fresh Start we were required to revalue our fixed assets to fair value and determine new remaining lives for such assets. Our fixed assets were written down substantially upon our emergence from bankruptcy. We also determined new remaining depreciable lives, which are, on average, shorter than what we had previously used primarily due to the age and condition of our fixed assets. In completing the process of establishing newly determined depreciable fixed asset values and remaining depreciable lives, we utilized our best estimates for determining depreciation expense in certain instances. As we have completed the process, we have recognized the impact of any adjustments to those estimates.

[Table of Contents](#)

Predecessor Company

Our depreciation and amortization expense related to continuing operations for the nine months ended September 30, 2003 was \$179.2 million. Depreciation and amortization consisted primarily of the allocation of our historical depreciable fixed asset costs over the remaining lives of such property. During this period, depreciation expense was unfavorably impacted by the shortening of the depreciable lives of certain of our domestic power generation facilities located in the Northeast region and the impact of recently completed construction projects. The depreciable lives of certain of our Northeast facilities, primarily our Connecticut facilities, were shortened to reflect economic developments in that region. Certain capitalized development costs were written-off in connection with the Loy Yang project resulting in increased expense. Amortization expense increased due to reducing the life of certain software costs.

General, Administrative and Development

Reorganized NRG

Our general, administrative and development costs related to continuing operations for the nine months ended September 30, 2004 were \$136.4 million or 7.7% of operating revenue. These costs are primarily comprised of corporate labor, insurance and external professional support, such as legal, accounting and audit fees.

Predecessor Company

Our general, administrative and development costs related to continuing operations for the nine months ended September 30, 2003 were \$122.1 million or 8.1% of operating revenue. General, administrative and development costs were directly impacted by our efforts to streamline the operations through work force reduction efforts, closure of certain international offices and lower legal costs charged herein. Partially offsetting these favorable variances was an increase to our bad debt expense.

Legal Settlement Charges

During the third quarter of 2003, we recorded \$396.0 million in connection with the resolution of an arbitration claim asserted by FirstEnergy Corp. As a result of this resolution, FirstEnergy retained ownership of the Lake Plant Assets and received an allowed general unsecured claim of \$396.0 million under NRG Energy's Plan of Reorganization.

Corporate Relocation Charges

On March 16, 2004, we announced plans to implement a new regional business strategy and structure. The new structure calls for a reorganized leadership team and a corporate headquarters relocation to Princeton, New Jersey. The corporate headquarters staff will be streamlined as part of the relocation, as functions are shifted to the regions. The transition of the corporate headquarters has commenced and is expected to run through March 2005. During the nine months ended September 30, 2004, we recorded \$12.5 million for charges related to our corporate relocation activities, primarily for employee severance and termination benefits and employee related transition costs. We expect to incur \$25.2 million of expenses in connection with corporate relocation charges. Relocating, recruiting and other employee-related transition costs are expected to be approximately \$11.8 million and will be expensed as incurred. These costs and cash payments are expected to be incurred through first quarter of 2005. Severance and termination benefits of \$8.3 million are expected to be incurred through first quarter of 2005 with cash payments being made through fourth quarter of 2005. Building lease termination costs are expected to be \$5.1 million. These costs are expected to be incurred through first quarter of 2005 with cash payments being made through fourth quarter of 2006. These charges will be classified separately in our statement of operations, in accordance with SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"*. We currently estimate total costs associated with the corporate relocation to approximate \$41.6 million, inclusive of the relocation charges mentioned above. All other costs and expenses relating to the corporate relocation, except for approximately \$3.7 million of related capital expenditures, will be expensed as incurred and included in general, administrative and development expenses. Cash expenditures for 2004, including capital expenditures, are expected to be approximately \$32 million.

We expect to recognize a curtailment gain on our defined benefit pension plan in the fourth quarter of this year, as a substantial number of our current headquarters staff are expected to leave the company in this period. We do not believe that the curtailment gain will be significant, given the relatively short average service period of these employees.

Reorganization Items and Restructuring and Impairment Charges

Reorganized NRG

During the nine months ended September 30, 2004, we recorded a net credit of \$1.7 million related to reorganization items. These items relate primarily to the favorable settlement of obligations recorded under Fresh Start.

During the nine months ended September 30, 2004, we reviewed the recoverability of our long-lived assets in accordance with the guidelines of SFAS No. 144. As a result of this review, we recorded \$42.2 million of asset impairments related primarily to impairments at Kendall Energy and the Meriden turbine (see Note 7).

Predecessor Company

During the nine months ended September 30, 2003, we incurred total reorganization expenses of \$27.0 million. All reorganization costs have been incurred since we filed for bankruptcy in May 2003. These costs consist of bankruptcy related charges primarily related to professional fees.

During the nine months ended September 30, 2003, we incurred total restructuring charges of \$68.5 million. These costs consist of employee separation costs and advisor fees.

During the nine months ended September 30, 2003, we reviewed the recoverability of our long-lived assets in accordance with the guidelines of SFAS No. 144. As a result of this review, we recorded \$229.6 million of asset impairments primarily related to our Devon, Middletown and Arthur Kill facilities resulting from adverse regulatory developments affecting these facilities.

Other Income (Expense)

Reorganized NRG

During the nine months ended September 30, 2004, we recorded other expense of \$106.5 million. Other expense consisted primarily of \$226.2 million of interest expense, \$0.6 million of minority interest in earnings of consolidated subsidiaries and \$14.1 million of write downs and losses on sales of equity method investments, offset by \$117.2 million of equity in earnings of unconsolidated affiliates (including \$45.1 million from our investment in West Coast Power LLC) and \$17.2 million of other income, net.

Predecessor Company

During the nine months ended September 30, 2003, we recorded other expense of \$265.3 million. Other expense consisted primarily of \$294.5 million of interest expense, \$136.7 million of write downs and losses on sales of equity method investments, offset by \$10.1 million of other income, net and \$155.8 million of equity in earnings of unconsolidated affiliates (including \$27.3 million from our investment in West Coast Power LLC).

Equity in Earnings of Unconsolidated Affiliates

Reorganized NRG

During the nine months ended September 30, 2004, we recorded \$117.2 million of equity earnings from our investments in unconsolidated affiliates. Our investment in West Coast Power comprised \$45.1 million of this amount with our investment in Mibrag and Gladstone comprising \$14.2 million and \$8.8 million, respectively. Our investment in West Coast Power generated favorable cash results due to the pricing under the California Department of Water Resources contract. Additionally, revenues from ancillary services revenue and minimum load cost compensation power positively contributed to West Coast Power's operating results. However, our equity earnings in the project as reported in our results of operations have been reduced to reflect a non-cash basis adjustment resulting from adoption of Fresh Start.

NRG Energy's equity earnings were also favorably impacted by \$23.0 million of unrealized gain related to our Enfield investment. This gain is associated with changes in the fair value of energy-related derivative instruments not accounted for as hedges in accordance with SFAS No. 133. Additionally, NRG Energy recorded a \$4.2 million favorable adjustment for its James River partnership.

[Table of Contents](#)

Predecessor Company

During the nine months ended September 30, 2003, we recorded \$155.8 million of equity earnings from our investments in unconsolidated affiliates. Our investment in West Coast Power comprised \$27.3 million of this amount with our investment in Mibrag and Gladstone comprising \$8.0 million and \$4.4 million, respectively.

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

As part of our periodic review of our equity method investments for impairments, we have taken write downs and losses on sales of equity method investments during the nine months ended September 30, 2004 and 2003 of \$14.1 million and \$136.7 million, respectively.

Write downs and losses on sales of equity method investments recorded in the consolidated statement of operations include the following:

	Reorganized NRG	Predecessor Company
	Nine Months Ended September 30,	Nine Months Ended September 30,
	2004	2003
	(In thousands)	
Commonwealth Atlantic Limited Partnership	\$ (3,686)	\$ —
James River Power LLC	(6,008)	—
NEO Corporation — 2004	(3,830)	—
Calpine Cogeneration	735	—
Loy Yang	(1,268)	(139,972)
NEO Corporation — Minnesota Methane	—	(12,257)
Kondapalli	—	519
ECKG	—	2,869
Mustang	—	12,124
Total write downs and losses on sales of equity method investments	<u>\$ (14,057)</u>	<u>\$ (136,717)</u>

Commonwealth Atlantic Limited Partnership (CALP) — In June 2004, we executed a sales agreement with Virginia Electric Power Company (VEPCO) to sell our 50% interest in CALP. During the third quarter of 2004, we recorded an impairment charge of approximately \$3.7 million to write down the value of our investment in CALP to its fair value. We expect the sale to close in the fourth quarter of 2004.

James River Power LLC — In September 2004, we executed an agreement with Colonial Power Company LLC to sell all of our outstanding shares of stock in Capistrano Cogeneration Company, a wholly-owned subsidiary of NRG Energy which owns a 50% interest in James River Cogeneration Company. During the third quarter of 2004, we recorded an impairment charge of approximately \$6.0 million to write down the value of our investment in James River to its fair value. The sale is expected to close in the fourth quarter of 2004.

NEO Corporation — 2004 — On September 30, 2004, we completed the sale of several NEO investments – Four Hills LLC, Minnesota Methane II LLC, NEO Montauk Genco LLC and NEO Montauk Gasco LLC to Algonquin Power of Canada. The sale also included four wholly owned NEO subsidiaries (see Note 3). We received cash proceeds of \$6.1 million. The sale resulted in a loss of approximately \$3.8 million attributable to the equity investment entities sold.

Calpine Cogeneration — In January 2004, we executed an agreement to sell our 20% interest in Calpine Cogeneration Corporation to Calpine Power Company. The transaction closed in March 2004 and resulted in net cash proceeds of \$2.5 million and a net gain of \$0.2 million. During the second quarter of 2004, we received additional consideration on the sale of \$0.5 million, resulting in an adjusted net gain of \$0.7 million.

Loy Yang — We recorded an impairment charge of \$111.4 million during 2002 and an additional impairment charge of \$140.0 million during the second quarter of 2003 based on a third party market evaluation and bids received in response to marketing Loy Yang for possible sale. In April 2004, we completed the sale of our 25.4% interest in Loy Yang to Great Energy Alliance Corporation, which resulted in net cash proceeds of \$26.7 million and a loss of \$1.3 million.

[Table of Contents](#)

NEO Corporation — Minnesota Methane — We recorded an impairment charge of \$12.3 million during 2002 to write-down our 50% investment in Minnesota Methane. We recorded an additional impairment charge of \$14.5 million during the first quarter of 2003. These charges were related to a revised project outlook and management's belief that the decline in fair value was other than temporary. In May 2003, the project lenders to the wholly owned subsidiaries of NEO Landfill Gas, Inc. and Minnesota Methane LLC foreclosed on our membership interest in the NEO Landfill Gas, Inc. subsidiaries and our equity interest in Minnesota Methane LLC. Upon completion of the foreclosure, we recorded a gain of \$2.2 million on the related equity investments resulting from the legal release of certain obligations. This resulted in an adjusted loss of \$12.3 million for the nine months ended September 30, 2003.

Kondapalli — In the first quarter of 2003, we wrote down our investment in Kondapalli by \$1.3 million based on the final sales agreement. The sale closed on May 30, 2003 resulting in net cash proceeds of approximately \$24 million and a gain of approximately \$1.8 million, resulting in a net gain of \$0.5 million. The gain resulted from incurring lower selling costs than estimated as part of the first quarter impairment.

ECKG — In January 2003, we sold our 44.5% interest in ECKG and our interest in Entrade to Atel which resulted in cash proceeds of \$65.3 million and a net gain of \$2.9 million.

Mustang Station — On July 7, 2003, NRG Energy completed the sale of its 50% interest in Mustang Station, a 483 MW gas-fired combined cycle power generating plant located in Denver City, Texas, to EIF Mustang Holdings I, LLC. The sale resulted in net cash proceeds of approximately \$13.3 million and a net gain of approximately \$12.1 million.

Other Income, net

Reorganized NRG

During the nine months ended September 30, 2004, we recorded \$17.2 million of other income, net, consisting primarily of interest income earned on notes receivable and cash balances.

Predecessor Company

During the nine months ended September 30, 2003, we recorded \$10.1 million of other income, net. During this period other income, net consisted primarily of interest income earned on notes receivable and cash balances, offset in part by the unfavorable mark-to-market on our corporate level £160 million note that was cancelled in connection with our bankruptcy proceedings.

Interest Expense

Reorganized NRG

Interest expense for the nine months ended September 30, 2004 was \$226.2 million, consisting of interest expense on both our project and corporate level interest bearing debt. Significant amounts of our corporate level debt were forgiven upon our emergence from bankruptcy and we refinanced significant amounts of our project level debt with corporate level high yield notes and term loans in December 2003. In January 2004, we refinanced certain amounts of our recently issued term loans with additional corporate level high yield notes. As a result of this financing, interest expense includes \$15 million of pre-payment penalties and a \$15 million write-off of deferred financing costs. Also included in interest expense is the amortization of debt financing costs related to our corporate level debt and the amortization expense related to debt discounts and premiums recorded as part of Fresh Start. Interest expense also includes the impact of any interest rate swaps that we have entered in order to manage our exposure to changes in interest rates.

Predecessor Company

Interest expense for the nine months ended September 30, 2003 was \$294.5 million, consisting of interest expense on both our project and corporate level interest bearing debt. In addition, interest expense includes the amortization of debt financing costs. Interest expense during this period was favorably impacted by our ceasing to record interest expense on debt where it was probable that such interest would not be paid, such as the NRG Energy corporate level debt (primarily bonds) and the NRG Finance Company debt (construction revolver) due to our entering into bankruptcy in May 2003. Interest expense was unfavorably impacted by an adverse mark-to-market on certain interest rate swaps that we have entered in order to manage our exposure to changes in interest rates. Due to our deteriorating financial condition during such period, hedge accounting treatment was ceased for certain of our interest rate swaps, causing changes in fair value to be recorded as interest expense.

Income Tax Expense

Reorganized NRG

Income tax expense for the nine months ended September 30, 2004, was \$64.9 million. For U.S. income tax purposes, the tax expense in 2004 is due to a reduction in deferred tax assets without a tax benefit for the corresponding reduction in valuation allowance. Due to the uncertainty of realization of deferred tax assets related to net operating losses and other temporary differences, our U.S. net deferred tax assets at December 5, 2003 were offset by a full valuation allowance of \$1.3 billion in accordance with SFAS No. 109. SOP 90-7 requires that reductions in the valuation allowance as of December 5, 2003 (date of emergence) first reduce intangible assets until exhausted and thereafter be reported as a direct addition to paid-in-capital. Consequently, our effective tax rate in post bankruptcy emergence years will not benefit from reductions in the valuation allowance. The tax expense for the nine months ended September 30, 2004 includes U.S. tax expense of \$54.6 million and foreign tax expense of \$10.3 million. The foreign tax expense for the nine months ended September 30, 2004 is due to earnings in foreign jurisdictions.

We have assessed the likelihood that a substantial portion of the deferred tax assets relating to the net operating loss carryforwards would not be realized. This assessment included consideration of positive and negative factors, including our current financial position and results of operations, projected future taxable income, including projected operating and capital gains, and available tax planning strategies. As a result of such assessment, we determined that it was more likely than not that the deferred tax assets related to our domestic net operating loss carryforwards would not be realized. As noted above, a full valuation allowance was recorded against the net deferred tax assets including net operating loss carryforwards. We also determined that it is more likely than not that a substantial portion of the net operating loss generated in 2002 and 2003 could be determined to be capital in nature. Given that capital losses are of a different character than ordinary losses the likelihood of capital losses expiring unutilized is greater than that of ordinary net operating losses.

Predecessor Company

During the nine months ended September 30, 2003, we recorded income tax expense of \$42.8 million. The tax expense for the nine months ended September 30, 2003 includes U.S. tax expense of \$36.1 million and foreign tax expense of \$6.7 million. The U.S. tax expense is due to separate company tax liabilities and an additional valuation allowance recorded against the deferred tax assets of NRG West Coast Power LLC as a result of its conversion from a corporation to a disregarded entity for federal income tax purposes. The foreign tax expense for the nine months ended September 30, 2003 is due to earnings in foreign jurisdictions. As of December 31, 2003, a valuation allowance of \$556.6 million was provided to account for potential limitations on utilization of U.S. and foreign net operating loss carryforwards and a valuation allowance of \$684.5 million was provided for other deferred tax assets.

Income From Discontinued Operations, net of Income Taxes

Reorganized NRG

We classified as discontinued operations the operations and gains/losses recognized on the sale of projects that were sold or were deemed to have met the required criteria for such classification pending final disposition. During the nine months ended September 30, 2004, we recorded income from discontinued operations, net of income taxes of \$23.3 million. During this period, discontinued operations consisted of the results of our NRG McClain LLC, PERC, Cobee, Hsin Yu, LSP Energy (Batesville) and four NEO Corporation projects (NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha and NEO Tajiguas LLC). All other discontinued operations were disposed of in prior periods. The \$23.3 million income from discontinued operations includes a gain of \$22.4 million, net of income taxes of \$7.8 million, related primarily to the dispositions of Batesville and Hsin Yu.

Predecessor Company

We classified as discontinued operations the operations and gains/losses recognized on the sale of projects that were sold or were deemed to have met the required criteria for such classification pending final disposition. During the nine months ended September 30, 2003, we recorded income on discontinued operations, net of income taxes of \$60.4 million consisting of the results from our McClain, PERC, Cobee, Killingholme, NEO Landfill Gas, Inc., seven NEO Corporation projects (NEO Fort Smith LLC, NEO Woodville LLC, NEO Phoenix LLC, NEO Nashville LLC, NEO Hackensack LLC, NEO Prima Deshecha and NEO Tajiguas LLC), Timber Energy Resources, Inc., Cahua and Energia Pacasmayo, Hsin Yu and LSP Energy (Batesville) projects. The \$60.4 million income from discontinued operations is due primarily to the \$191.2 million net gain recognized on the completion of the sale of our interest in Killingholme, partially offset by asset impairment charges of \$100.7 million related to our McClain facilities and \$23.6 million related to subsidiaries of NLGI.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements and related disclosures in compliance with generally accepted accounting principles, or GAAP, requires the application of appropriate technical accounting rules and guidance as well as the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. The application of these policies necessarily involves judgments regarding future events, including the likelihood of success of particular projects, legal and regulatory challenges. These judgments, in and of themselves, could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies have not changed.

On an ongoing basis, we evaluate our estimates, utilizing historic experience, consultation with experts and other methods we consider reasonable. In any case, actual results may differ significantly from our estimates. Any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

Liquidity and Capital Resources

In connection with the consummation of the NRG Energy plan of reorganization, on December 5, 2003 all shares of our old common stock were canceled and 100,000,000 shares of new common stock of NRG Energy were distributed pursuant to such plan to the holders of certain classes of claims. A certain number of shares of common stock were issued for distribution to holders of disputed claims as such claims are resolved or settled. In the event our disputed claims reserve is inadequate, it is possible we would have to issue additional shares of our common stock to satisfy such pre-petition claims or contribute additional cash proceeds. See Item 1 — Note 18 of the Consolidated Financial Statements of this Form 10-Q — Disputed Claims Reserve. Our authorized capital stock consists of 500,000,000 shares of NRG Energy common stock and 10,000,000 shares of Serial Preferred Stock. Further, a total of 4,000,000 shares of our common stock, representing approximately 4% of our outstanding common stock, are available for issuance under our long-term incentive plan.

In addition to our issuance of new common stock, on December 23, 2003, we completed a note offering consisting of \$1.25 billion of 8% Second Priority Senior Secured Notes due 2013 and we entered into a new Senior Secured Credit Facility consisting of a \$950.0 million term loan facility, a \$250.0 million funded letter of credit facility and a \$250.0 million revolving credit facility. In January of 2004, we completed a supplementary note offering whereby we issued an additional \$475.0 million of the 8% Second Priority Notes at a premium and used the proceeds to repay a portion of the \$950.0 million term loan. As of November 2, 2004, we had \$1.725 billion in aggregate principal amount of 8% Second Priority Notes outstanding, \$441.3 million principal amount outstanding under the term loan and \$98.9 million remains available under the funded letter of credit facility. As of November 2, 2004, we had not drawn down on our revolving credit facility.

In connection with our power generation business, we manage the commodity price risk associated with our supply activities and our electric generation facilities. This includes forward power sales, fuel and energy purchases and emission credits. In order to manage these risks, we enter into financial instruments to hedge the variability in future cash flows from forecasted sales of electricity and purchases of fuel and energy. We utilize a variety of instruments including forward contracts, future contracts, swaps and options. Certain of these contracts allow counterparties to require NRG to post margin. As of September 30, 2004 and November 1, 2004, we have posted \$42.3 million and \$99.6 million, respectively, in collateral to support these contracts.

In March 2004, we entered into two interest rate hedges in support of our obligations under the 8% Second Priority Notes and the Senior Secured Credit Facility. Depending on market interest rates, we or the swap counterparty may be required to post collateral on a daily basis in support of both of these swaps, to the benefit of the other party. On September 30, 2004 and as of November 2, 2004, we had not posted any collateral.

In connection with the consummation of the NRG Energy plan of reorganization, on December 5, 2003 we issued to Xcel Energy a \$10.0 million non-amortizing promissory note, which will accrue interest at a rate of 3% per annum and mature 2.5 years after the effective date of the NRG plan of reorganization.

A principal component of our plan of reorganization is a settlement with Xcel Energy in which Xcel Energy agreed to make a contribution consisting of cash (and, under certain circumstances, its stock) in the aggregate amount of up to \$640 million to be paid in

[Table of Contents](#)

three separate installments following the effective date of our plan of reorganization. The Xcel Energy settlement agreement resolves any and all claims existing between Xcel Energy and us and/or our creditors and, in exchange for the Xcel Energy contribution, Xcel Energy received a complete release of claims from us and our creditors, except for a limited number of creditors who have preserved their claims as set forth in the order entered on November 24, 2003 confirming our plan of reorganization. We received \$288.0 million, \$328.5 million and \$23.5 million from Xcel Energy on February 20, 2004, April 30, 2004 and May 28, 2004, respectively. We used the proceeds from the Xcel Energy settlement to reduce our creditor pool obligation. As of September 30, 2004 and December 31, 2003 the balance of our creditor pool obligation was \$25.0 million and \$540.0 million, respectively. On February 20, 2004, April 30, 2004, May 28, 2004 and October 29, 2004, we made payments of \$163.0 million, \$328.5 million, \$23.5 million and \$25.0 million, respectively.

As part of the NRG Energy's plan of reorganization, we eliminated approximately \$5.2 billion of corporate level bank and bond debt and approximately \$1.3 billion of additional claims and disputes through our distribution of new common stock and \$1.04 billion in cash among our unsecured creditors. In addition to the debt reduction associated with the restructuring, we used the proceeds of the recent note offering and borrowings under the Senior Secured Credit Facility to retire approximately \$1.7 billion of project-level debt.

Capital Expenditures

Capital expenditures were approximately \$78.3 million for the nine months ended September 30, 2004. We anticipate that our 2004 capital expenditures will be approximately \$130 million and will relate to the operation and maintenance of our existing generating facilities, including the conversion of certain coal-fired plants in New York and Delaware to combust lower sulfur coal from the Powder River Basin.

Liquidity

As of September 30, 2004 our liquidity was \$1.6 billion and includes \$1.3 billion of cash and restricted cash. Our liquidity also includes \$250.0 million of available capacity under our revolving line of credit and \$97.5 million of availability under our letter of credit facility. As of December 31, 2003 our liquidity was \$1.2 billion and included \$667.3 million of cash and restricted cash. Our liquidity also included \$250.0 million of available capacity under our revolving line of credit and \$248.3 million of availability under our letter of credit facility.

Other Liquidity Matters – NOL

As of September 30, 2004, the valuation allowance against U.S. and foreign net operating loss carryforwards was \$400.5 million and the valuation allowance against other deferred tax assets was \$658.2 million. As of December 31, 2003, a valuation allowance of \$556.6 million was provided to account for potential limitations on utilization of U.S. and foreign net operating loss carryforwards, and a valuation allowance of \$684.5 million was provided for other deferred tax assets. If unused, the U.S. net operating loss carryforward of \$1.0 billion generated in 2002 and 2003 will expire by 2023. The foreign net operating loss carryforwards have no expiration date.

We have assessed the likelihood that a substantial portion of the deferred tax assets relating to the net operating loss carryforwards would not be realized. This assessment included consideration of positive and negative factors, including our current financial position and results of operations, projected future taxable income, including projected operating and capital gains, and available tax planning strategies. As a result of such assessment, we determined that it was more likely than not that the deferred tax assets related to our domestic net operating loss carryforwards would not be realized. As noted above, a full valuation allowance was recorded against the net deferred tax assets including net operating loss carryforwards. We also determined that it is more likely than not that a substantial portion of the net operating loss generated in 2002 and 2003 could be determined to be capital in nature. Given that capital losses are of a different character than ordinary losses the likelihood of capital losses expiring unutilized is greater than that of ordinary net operating losses.

Cash Flows

	Reorganized NRG	Predecessor Company
	For the Nine Months Ended September 30, 2004	For the Nine Months Ended September 30, 2003
	(In thousands)	
Net cash provided by operating activities	\$ 595,421	\$ 121,315
Net cash (used) provided by investing activities	210,806	(160,124)
Net cash used by financing activities	(227,633)	(24,119)

Net Cash Provided By Operating Activities

Reorganized NRG

For the nine months ended September 30, 2004, cash provided by operating activities was \$595.4 million. This was primarily a result of net income after non-cash charges of \$466.9 million and \$640.0 million received in connection with the Xcel Energy settlement agreement, offset by payments made in connection with our creditor pool obligation.

Predecessor Company

For the nine months ended September 30, 2003, cash provided by operating activities was \$121.3 million. During 2003, our financial condition deteriorated, primarily due to the overall downturn in the energy industry. As a result of deteriorating credit, we were required to prepay and provide deposits for certain operating expenses. Other factors affecting working capital included an increase in accounts receivable, primarily related to increased energy prices, offset by a decrease in accounts payable and a decrease in accrued interest, due to our not making scheduled interest payments.

Net Cash Provided By Investing Activities

Reorganized NRG

For the nine months ended September 30, 2004, cash provided by investment activities was \$210.8 million. This was primarily due to proceeds from the sales of discontinued operations and equity method investments offset by ongoing capital improvement projects at our South Central and Northeast facilities.

Predecessor Company

For the nine months ended September 30, 2003, cash used by investing activities was \$160.1 million. This was primarily a result of an increase in restricted cash due to providing deposits for certain operating expenses and collateral deposits and capital expenditures made offset by cash proceeds received upon the sale of investments.

Net Cash Used By Financing Activities

Reorganized NRG

For the nine months ended September 30, 2004, cash used by financing activities was \$227.6 million. In January of 2004, we received proceeds through a supplementary note offering whereby we issued an additional \$475.0 million of Second Priority Notes at a premium. We used the proceeds from this offering to repay \$503.5 million of our recently issued term loan.

Predecessor Company

For the nine months ended September 30, 2003, cash used by financing activities was \$24.1 million, resulting primarily from principal payments on short and long-term debt and an increase in deferred debt issuance costs offset by proceeds from the issuance of long-term debt.

Off-Balance Sheet Arrangements

As of September 30, 2004, we have not entered into any financing structure that is designed to be off-balance sheet that would create liquidity, financing or incremental market risk or credit risk. However, we have numerous investments with an ownership interest percentage of 50% or less in energy and energy related entities that are accounted for under the equity method of accounting. Our pro-rata share of non-recourse debt held by unconsolidated affiliates was approximately \$250.4 million and \$967.7 million as of September 30, 2004 and December 31, 2003, respectively. The decline was a result of sales of our interest in Calpine Cogeneration and Loy Yang and the amortization of remaining debt. In the normal course of business we may be asked to loan funds to unconsolidated entities on both a long and short-term basis. Such transactions are generally accounted for as accounts payable and receivable to/from affiliates and notes payable/receivable to/from affiliates and if appropriate, bear market-based interest rates.

Contractual Obligations and Commercial Commitments

NRG Energy has a variety of contractual obligations and other commercial commitments that represent prospective cash requirements in addition to its capital expenditure programs.

Rail Car Agreement — On August 23, 2004, NRG Power Marketing Inc. entered into an agreement with a vendor for the construction of 1,540 aluminum rail cars to be put into service for the transportation of Powder River Basin coal from Wyoming to NRG Energy's coal burning generating plants. NRG Energy has the right to either purchase the rail cars outright for a value of \$85.9 million or lease them from this vendor for lease term options ranging from 3 to 10 years. Delivery of the rail cars will commence in January 2005. At this time NRG Energy plans to lease rather than purchase these rail cars and is exploring lease terms with rail car leasing companies. It is anticipated that any lease arrangement would be accounted for as an operating lease.

The following is a summarized table of contractual obligations:

Contractual Cash Obligations	Payments Due by Period as of September 30, 2004				
	Total	Short Term	2-3 Years	4-5 Years	After 5 Years
			(In thousands)		
Long-term debt	\$ 3,084,762	\$ 36,706	\$ 100,922	\$ 91,847	\$ 2,855,287
Capital lease obligations	526,574	63,399	122,474	60,155	280,546
Operating leases	47,522	9,224	15,524	7,840	14,934
Coal purchase agreements	162,790	97,870	61,800	3,120	—
Total contractual cash obligations	<u>\$ 3,821,648</u>	<u>\$ 207,199</u>	<u>\$ 300,720</u>	<u>\$ 162,962</u>	<u>\$ 3,150,767</u>

Other Commercial Commitments	Amount of Commitment Expiration per Period as of September 30, 2004				
	Total Amounts Committed	Short Term	1-3 Years	4-5 Years	After 5 Years
			(In thousands)		
Draws on lines of credit	\$ —	\$ —	\$ —	\$ —	\$ —
Issued letters of credit	168,638	168,638	—	—	—
Cash collateral calls	—	—	—	—	—
Guarantees of subsidiaries	526,336	750	20,518	12,500	492,568
Guarantees of NRG PMI obligations	42,100	10,000	5,000	—	27,100
Guarantees of NE Genco obligations	12,339	—	—	—	12,339
Total commercial commitments	<u>\$ 749,413</u>	<u>\$ 179,388</u>	<u>\$ 25,518</u>	<u>\$ 12,500</u>	<u>\$ 532,007</u>

Derivative Instruments

In connection with our power generation business, we manage the commodity price risk associated with our supply activities and our electric generation facilities. This includes forward power sales, fuel and energy purchases and emission credits. In order to manage these risks, we enter into financial instruments to hedge the variability in future cash flows from forecasted sales of electricity and purchases of fuel and energy. We utilize a variety of instruments including forward contracts, future contracts, swaps and options. Certain of these contracts allow counterparties to require NRG to post margin. As of September 30, 2004 and November 1, 2004 we have posted \$42.3 million and \$99.6 million, respectively, in collateral to support these contracts.

[Table of Contents](#)

On March 24, 2004, we executed an interest rate swap agreement to mitigate our floating-rate interest exposure associated with our Senior Secured Credit Facility. The swap agreement became effective March 26, 2004 and terminates March 31, 2006. Under the agreement, we agree to pay quarterly a fixed interest rate on a notional amount of \$400.0 million, commencing on March 31, 2004, and receive quarterly a floating-rate interest rate payment on the same notional amount. The floating rate is based upon three-month LIBOR, subject to a floor. This instrument was designated as a cash flow hedge under SFAS No. 133 as of April 1, 2004. As a result, subsequent changes to fair value were recorded as part of other comprehensive income. Changes in fair value prior to April 1, 2004 were recorded as interest expense.

On March 24, 2004, we executed a second interest rate swap agreement to mitigate our fixed-rate interest exposure associated with our 8% Second Priority Notes. This swap agreement became effective March 26, 2004 and terminates December 15, 2013. The swap agreement has provisions for early termination that are linked to any prepayment of the 8% Second Priority Notes. Under the agreement, we agree to pay semi-annually in arrears a fixed interest rate payment on the same notional amount. The floating interest rate is based upon six-month LIBOR plus a spread. Depending on market interest rates, we or the swap counterparty may be required to post collateral on a daily basis in support of both of these swaps, to the benefit of the other party. On September 30, 2004 and as of November 2, 2004, we had posted no collateral in support of the swaps. During the three months ended September 30, 2004, this transaction was designated as a fair value hedge; therefore, changes in fair value of the hedge instrument and hedged item were recorded in interest expense.

Changes in Accounting Standards – 2003 Medicare Legislation

In May 2004, the Financial Accounting Standards Board, FASB, issued FASB Staff Position (FSP) No. 106-2, “*Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*” (FSP 106-2). FSP 106-2 provides guidance on accounting for the effects of the new Medicare Prescription Drug, Improvement, and Modernization Act of 2003 by employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D. FSP 106-2 is effective as of the first interim period beginning after June 15, 2004. NRG Energy adopted FSP 106-2 in the third quarter of 2004 on a retroactive basis. Adoption of FSP 106-2 will reduce the annual non-cash postretirement health expense by approximately \$0.2 million and reduce the accumulated postretirement benefit obligation by \$2.2 million. The change in accumulated postretirement benefit obligation has been reflected as an actuarial gain and will be amortized in future periods.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks associated with commodity prices, credit exposure, interest rates and foreign currency exchange rates. It is our practice to use derivatives to manage risk consistent with our business plans and prudent practices. We have formed the Financial Risk Management Committee (FRMC), consisting of senior officers, to oversee company wide energy risk management activities and monitor the results of trading activities to ensure compliance with the Company’s energy management policies, as aided by the Risk Management Group. Historically, we have used a variety of financial instruments to manage our exposure to fluctuations in foreign currency exchange rates on our international project cash flows, interest rates on our cost of borrowing and energy and energy related commodities prices.

Currency Exchange Risk

We expect to continue to be subject to currency risks associated with foreign denominated distributions from our international investments. In the normal course of business, we may receive distributions denominated in the Euro, Australian Dollar, British Pound and the Brazilian Real. We have historically engaged in a strategy of hedging foreign denominated cash flows through a program of matching currency inflows and outflows, and to the extent required, fixing the U.S. Dollar equivalent of net foreign denominated distributions with currency forward and swap agreements with highly credit worthy financial institutions. We would expect to enter into similar transactions in the future if management believes it to be appropriate.

As of September 30, 2004, neither we, nor any of our consolidating subsidiaries, had any outstanding foreign currency exchange contracts.

Interest Rate Risk

We are exposed to fluctuations in interest rates when entering into variable rate debt obligations to fund certain power projects. Exposure to interest rate fluctuations may be mitigated by entering into derivative instruments known as interest rate swaps, caps, collars and put or call options. These contracts reduce exposure to interest rate volatility and result in primarily fixed rate debt

[Table of Contents](#)

obligations when taking into account the combination of the variable rate debt and the interest rate derivative instrument. Our risk management policy allows us to reduce interest rate exposure from variable rate debt obligations.

As of September 30, 2004, we had various interest rate swap agreements with notional amounts totaling approximately \$1.7 billion, including two interest rate swaps we entered into in March 2004 in support of our obligations under the 8% Second Priority Notes and our term loan under our Senior Secured Credit Facility. If all swaps had been discontinued on September 30, 2004, we would have owed the counterparties approximately \$63.7 million. Based on the investment grade rating of the counterparties, we believe that our exposure to credit risk due to nonperformance by the counterparties to our hedging contracts is insignificant.

We have both long and short-term debt instruments that subject us to the risk of loss associated with movements in market interest rates. As of September 30, 2004, a 100 basis point change in the benchmark rate on our variable rate debt at our consolidated operations would impact net income by approximately \$7.9 million.

At September 30, 2004, the fair value of our fixed-rate debt was \$1.9 billion, compared with the carrying amount of \$1.9 billion. We estimate that a 1% decrease in market interest rates would have increased the fair value of our fixed-rate debt to \$2.0 billion, or an increase of \$100.6 million.

Commodity Price Risk

As part of our overall portfolio, we manage the commodity price risk of our competitive supply activities and our electric generation facilities, including power sales, fuel and energy purchases and emission credits. In order to manage these risks, we may enter into contracts to hedge the variability in future cash flows from forecasted sales of electricity and purchases of fuel and energy including forward contracts, future contracts, swaps and options.

We measure the sensitivity of our mark-to-market energy contracts including those accounted for as a hedge under SFAS No. 133 to potential changes in market price using value at risk. Value at risk is a statistical model that attempts to predict risk of loss based on market price volatilities. We calculate value at risk using a variance/covariance technique that models positions using a linear approximation of their value. Our value at risk calculation includes mark-to-market and non mark-to-market energy assets and liabilities.

We use a diversified VAR model to calculate the estimate of potential loss in the fair value of our energy assets and liabilities including generation assets, load obligations and bilateral physical and financial transactions. The key assumptions for our model include (1) a lognormal distribution of price returns (2) one day holding period (3) a 95% confidence interval, (4) a rolling 24 month forward looking period and (5) market implied price volatilities and historical price correlations.

Due to the inherent limitations of statistical measures such as value at risk, the relative immaturity of the competitive markets for electricity and related derivatives and the seasonality of changes in market prices, the value at risk calculation may not capture the full extent of commodity price exposure. As a result, actual changes in the fair value of mark-to-market energy assets and liabilities could differ from the calculated value at risk, and such changes could have a material impact on our financial results.

This model encompasses the following generating regions: ENTERGY, NEPOOL, NYPP, PJM, WSCC and MAIN. The estimated maximum potential loss in fair value of our commodity portfolio, calculated using the VAR model is as follows:

	(In millions)
Quarter ending September 30, 2004 (Diversified)	\$ 40.8
Average	39.5
High	44.7
Low	34.2
Year ending December 31, 2003 (Diversified)	37.1
Average	45.7
High	53.0
Low	37.1

We have risk management policies in place to measure and limit market and credit risk associated with our power marketing activities. An independent department within our finance organization is responsible for the enforcement of such policies. We regularly review these policies to ensure they capture changes in industry best practices and market environment.

Credit Risk

We are exposed to credit risk in our risk management activities. Credit risk relates to the risk of loss resulting from the nonperformance by a counterparty of its contractual obligations. We actively manage our counterparty credit risk. We have an established credit policy in place to minimize overall credit risk. Important elements of this policy include ongoing financial reviews of all counterparties, established credit limits, as well as monitoring, managing and mitigating credit exposure.

Significant Customers

For the quarter ended September 30, 2004, we derived approximately 39.3% of our total revenues from majority-owned operations from two customers: NYISO accounted for 28.6% and ISO-New England accounted for 10.7%. For the nine months ended September 30, 2004, we derived approximately 38.6% of our total revenues from majority-owned operations from two customers: NYISO accounted for 29.0% and ISO-New England accounted for 9.6%. We account for revenues attributable to the NYISO and ISO-New England as part of our Wholesale Power Generation – Northeast segment. NYISO and ISO-New England are FERC-regulated independent system operators that manage transmission assets collectively under their control to provide non-discriminatory access to their respective transmission grids. The NYISO exercises operational control over most of New York State’s transmission facilities. We anticipate that NYISO will continue to be a significant customer given the scale of our asset base in the NYISO control area.

Item 4. Controls and Procedures

Our management has, with the participation of our principal executive and principal financial officers, conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Act”), as of the end of the period covered by this Form 10-Q. Based on that evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures were effective as of that time.

Management noted, however, that as previously announced, we are in the process of moving our corporate headquarters from Minneapolis, Minnesota to Princeton, New Jersey. Management notes that it expects substantial transition and turnover of staff, including in the accounting and finance departments, as a result of this move of our corporate headquarters. This turnover may impact our ability to ensure that information that is required to be disclosed under the Act is accumulated and communicated to management in a manner that would allow timely decisions regarding required disclosure. We are taking steps to address these concerns. We hired Robert Flexon as our Chief Financial Officer, effective March 29, 2004, and James Ingoldsby as our Controller, effective May 3, 2004. In addition, we hired a Director of Internal Audit, a Chief Risk Officer and have hired approximately eighty percent of the Princeton accounting and finance staff. To address transition issues, we have implemented a transition plan and established a staff retention bonus program. We continue to dedicate the appropriate resources to resolve any transition issues and ensure the continued functioning and effectiveness of our disclosure control and procedures environment. There can be no assurance, however, that we will be successful in that regard.

In preparation for NRG Energy’s December 31, 2004 audit of internal controls over financial reporting, management identified deficiencies in controls related to its information technology systems. Specifically, the deficiencies identified involved systems security, segregation of duties, change management, documentation and data recovery processes. We performed remediation of a substantial number of these deficiencies during the third quarter. Remediation, documentation and testing activities were underway at September 30, 2004 and have continued into the fourth quarter. We intend to complete these activities prior to December 31, 2004. Management has not detected any errors or irregularities in its financial records and systems as a result of these deficiencies.

Notwithstanding the foregoing and as indicated in the certification accompanying the signature page to this report, the Certifying Officers have certified that, to the best of their knowledge, the consolidated financial statements, and other financial information included in this report on Form 10-Q, fairly present in all material respects the financial conditions, results of operations and cash flows of NRG Energy as of, and for the periods presented in this report.

Other than as described above, there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act), during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II — OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of material legal proceedings in which we were involved through September 30, 2004, see Note 18 “Commitments and Contingencies” to our consolidated financial statements contained in Part I, Item 1 of this Form 10-Q.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

The stockholders of NRG Energy, Inc. voted on four items at the Annual Meeting of Stockholders held on August 4, 2004:

1. The election of Class I Directors to a three-year term.
2. The proposal to approve NRG Energy’s Long-Term Incentive Plan.
3. The proposal to approve NRG Energy’s Annual Incentive Plan for Designated Corporate Officers.
4. The proposal to ratify the appointment of KPMG LLP as NRG Energy’s independent registered public accounting firm.

There were 100,006,798 shares of Common stock entitled to vote at the meeting, and a total of 81,071,563 of NRG Energy’s shares (81.07%) were represented at the meeting.

The four individuals named below were elected to serve a three-year term as Class I Directors expiring at the annual meeting of stockholders in 2007:

Nominee	Votes For	Votes Withheld
Ramon Betolaza	80,806,570	264,993
David Crane	81,046,223	25,340
Stephen L. Cropper	80,794,982	276,581
Thomas H. Weidemeyer	81,050,440	21,123

The proposal to approve NRG Energy’s Long-Term Incentive Plan was approved with 48,812,612 shares voting for, 10,329,190 shares voting against, 78,069 shares abstaining and 21,851,692 broker non-votes.

The proposal to approve NRG Energy’s Annual Incentive Plan for Designated Corporate Officers was approved with 58,854,477 shares voting for, 285,570 shares voting against, 79,824 shares abstaining and 21,851,692 broker non-votes.

The proposal to ratify the appointment of KPMG LLP as NRG Energy’s independent registered public accounting firm was ratified with 80,736,682 shares voting for, 266,498 shares voting against and 68,383 shares abstaining.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

- 10.1 Form of NRG Energy, Inc. Long-Term Incentive Plan Non-Qualified Stock Option Agreement.
- 10.2 Form of NRG Energy, Inc. Long-Term Incentive Plan Restricted Stock Unit Agreement.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3 Certification of Controller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer, Chief Financial Officer and Controller pursuant to Section 906 of the Sarbanes- Oxley Act of 2002, 18 U.S.C. Section 1350.

Cautionary Statement Regarding Forward Looking Information

This quarterly report includes forward-looking statements within the meaning of Section 27A of 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,” “may,” “will,” “should” and similar expressions are intended to identify forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our 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, but are not limited to, the following:

- Lack of comparable financial data due to adoption of Fresh Start reporting;
- Our ability to successfully and timely close transactions to sell certain of our assets;
- Adverse rulings with respect to our RMR agreements resulting in our paying refunds in Connecticut;
- The potential impact of our planned corporate relocation on workforce requirements including the loss of institutional knowledge and inability to maintain existing processes;
- 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 fossil 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 we may not have adequate insurance to cover losses as a result of such hazards;
- Our potential inability to enter into contracts to sell power and procure fuel on terms and prices acceptable to us;
- The liquidity and competitiveness of wholesale markets for energy commodities;
- Changes in government regulation, including but not limited to the pending changes of market rules, market structures and design, rates, tariffs, environmental regulations and regulatory compliance requirements imposed by the Federal Energy Regulatory Commission, state commissions, other state regulatory agencies, the Environmental Protection Agency, the National Energy Reliability Council, transmission providers, Regional Transmission Organizations, Independent System Operators, or ISOs, or other regulatory or industry bodies;
- Price mitigation strategies employed by ISOs that result in a failure to adequately compensate our generation units for all of their costs;
- Our ability to borrow additional funds and access capital markets, as well as our substantial indebtedness and the possibility that we may incur additional indebtedness going forward; and
- Significant operating and financial restrictions placed on us contained in the indenture governing our note offerings and our existing credit facility, as well as in debt and other agreements of certain of our subsidiaries and project affiliates generally.

Forward-looking statements speak only as of the date they were made, and we undertake 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 our actual results to differ materially from those contemplated in any forward-looking statements included in this quarterly report should not be construed as exhaustive.

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)

/s/ DAVID CRANE

David Crane,
Chief Executive Officer

/s/ ROBERT FLEXON

Robert Flexon,
Chief Financial Officer
(Principal Financial Officer)

/s/ JAMES INGOLDSBY

James Ingoldsby,
Controller
(Principal Accounting Officer)

Date: November 9, 2004

Exhibit Index

Exhibits

- 10.1 Form of NRG Energy, Inc. Long-Term Incentive Plan Non-Qualified Stock Option Agreement.
- 10.2 Form of NRG Energy, Inc. Long-Term Incentive Plan Restricted Stock Unit Agreement.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3 Certification of Controller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer, Chief Financial Officer and Controller pursuant to Section 906 of the Sarbanes- Oxley Act of 2002, 18 U.S.C. Section 1350.



**NRG ENERGY, INC. LONG-TERM INCENTIVE PLAN
NON-QUALIFIED STOCK OPTION AGREEMENT**

«Merge_Name»

«Address»

«City», «State» «Zip»

Congratulations on your selection as a Participant under the Long-Term Incentive Compensation Plan (“Plan”) of NRG Energy, Inc. (the “Company”). You have been chosen to receive an option under the Plan. The option granted to you under this Non-Qualified Stock Option Agreement (this “Agreement”) is a Non-qualified Stock Option, as defined in the Plan, and is neither intended to be, nor will be, treated as an Incentive Stock Option. You are sometimes referred to in this Agreement as the “Participant.”

This Agreement constitutes the Grant Agreement pursuant to Section 6 of the Plan. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the Plan’s terms shall completely supersede and replace the conflicting terms of this Agreement. Capitalized terms used in this Agreement and not defined herein shall have the meaning assigned to them in the Plan.

PLEASE NOTE THAT BY SIGNING THIS AGREEMENT YOU ARE ACKNOWLEDGING THAT YOU AGREE TO BE BOUND BY THE TERMS OF THIS AGREEMENT AND THE PLAN, INCLUDING WITHOUT LIMITATION TERMS AND CONDITIONS THAT MAY LIMIT YOUR ELIGIBILITY TO EXERCISE THE OPTION GRANTED IN THIS AGREEMENT.

1. Grant of Option.

The Company hereby grants you a right to purchase shares of the Company’s Common Stock as follows, upon the terms and subject to the conditions set forth in this Agreement and the Plan (as amended from time to time) (the “*Option*”):

Date of Grant: «Grant_Date»

Number of Shares: «NQSO»

Exercise Price: «Price»

Expiration Date: «Exp_Date»

The Option is a Non-Qualified Stock Option under the Plan.

2. Vesting Schedule and Exercise.

The Option shall not be exercisable as of the Date of Grant. After the Date of Grant, to the extent not previously exercised, and subject to termination or acceleration as provided in this Agreement and the Plan, the Option shall be exercisable to the extent it becomes vested, which shall be in accordance with the following schedule:

Period of Continuous Service from Date of Grant	% of Option Shares That Are Vested
1 year	33 1/3%
2 years	66 2/3%
3 years	100%

Notwithstanding the foregoing,

- (i) if there is a Change in Control (as defined in the Plan) of the Company, the Option shall immediately vest in full upon such Change in Control, and shall be exercisable until the Expiration Date, unless earlier terminated pursuant to Section 6 of this Agreement;
- (ii) in connection with any transaction of the type referred to as a "Business Combination" in clause (iii) of the definition of a Change in Control in Section 2(c) of the Plan, the Committee administering the Plan may
 - (A) cancel any or all of this Option and pay to Participant an amount equal to the amount that Participant would have received in the Business Combination if the Option had been fully exercised immediately prior to such transaction, less the aggregate exercise price of the cancelled Option, or
 - (B) if the aggregate exercise price of the Option is greater than the amount that the Participant would receive if Participant had exercised the Option immediately prior to the Business Combination, the Committee may cancel the Option for no consideration or payment of any kind.

Payment of any amount payable pursuant to clause (ii) of the preceding sentence may be made in cash or, in the event that the consideration to be received in such transaction includes securities or other property, in cash and/or securities or other property in the Committee's discretion.

To the extent then exercisable, the Option may be exercised in whole or in part, from time to time. The Participant shall exercise the Option using a written notice of exercise in a form and in accordance with procedures approved by the Company, and the notice of exercise shall be accompanied by payment of the exercise price. Unless otherwise determined by the Committee, payment may be made in accordance with the terms and conditions of the Plan (i) in cash (including check, bank draft, money order or wire transfer of immediately available funds), (ii) by delivery of outstanding shares of Common Stock with a Fair Market Value on the date of exercise equal to the aggregate exercise price payable with respect to the options' exercise, (iii) by means of any cashless exercise procedures approved by the Committee and as may be in effect on the date of exercise or (iv) by any combination of the foregoing, in each case in accordance with the terms and conditions of the Plan.

3. Transfer of Option

Unless otherwise permitted by the Committee or Section 14 of the Plan, the Option may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than pursuant to the laws of descent and distribution. Any attempted disposition in violation of this Section 3 and Section 14 of the Plan shall be void.

4. Status of Participant

The Participant shall not be, or have rights as, a stockholder of the Company with respect to any of the shares of Common Stock subject to the Option until such shares have been purchased and issued to him or her. The Company shall not be required to issue or transfer any certificates for shares of Common Stock purchased upon exercise of the Option until all applicable requirements of law have been complied with and the shares have been duly listed on any securities exchange on which the Common Stock may then be listed.

5. No Effect on Capital Structure

The Option shall not affect the right of the Company or any Subsidiary to reclassify, recapitalize or otherwise change its capital or debt structure or to merge, consolidate, convey any or all of its assets, dissolve, liquidate, windup, or otherwise reorganize.

6. Expiration of Option

The right to purchase Common Stock under the Option shall expire on the Expiration Date specified in Section 2 of this Agreement, which is ten (10) years from the date the Option was granted, unless the Option expires earlier in the circumstances described below in this Section 6. As used herein, “*Termination of Service*” means termination of a Participant’s employment by or service to the Company, including any of its Subsidiaries.

(a) Death.

Upon a Termination of Service by reason of death, the Option shall vest in full and shall be exercisable by the executor or administrator of Participant’s estate (or any person to whom the Option is transferred by will or the laws of descent and distribution) until the earlier of the Expiration Date or 12 months after the date of such Termination of Service, and thereafter the Option shall terminate and cease to be exercisable. In addition, notwithstanding the other provisions of this Section 6, if a Participant dies after a Termination of Service but while an Option is otherwise exercisable, the portion of the Option that is exercisable as of the date of such Termination of Service shall expire on the earlier of the Expiration Date or 12 months after the date of death.

(b) Disability.

Upon a Termination of Service by reason of Disability, the Participant shall have the right until the earlier of the Expiration Date or 12 months after the date of such Termination of Service to exercise only that portion of the Option that was exercisable as of the date of such Termination of Service, and thereafter the Option shall terminate and cease to be exercisable.

(c) Retirement

Upon a Termination of Service by reason of Retirement, the Participant shall have the right, until the earlier of the Expiration Date or two (2) years after the date of such Termination of Service, to exercise only that portion of the Participant's Option that was exercisable as of the date of such Termination of Service, and thereafter the Option shall terminate and cease to be exercisable.

(d) Termination of Service for Cause.

Upon a Termination of Service for Cause, the portion, if any, of the Option that remains unexercised at the time the Participant is notified of such Termination of Service shall terminate and cease to be exercisable as of such time.

(e) Termination of Service without Cause.

Upon a Termination of Service without Cause for any reason other than those set forth specifically in this Section 6, the Participant shall have the right until the earlier of the Expiration Date or for 90 days after the date of such Termination of Service to exercise only that portion of the Option that was exercisable as of the date of such Termination of Service, and thereafter the Option shall terminate and cease to be exercisable.

It is the Participant's responsibility to be aware of the date the Option terminates.

7. Committee Authority

Any question concerning the interpretation of this Agreement, any adjustments required to be made under the Plan, and any controversy that may arise under the Plan or the Grant Agreement shall be determined by the Committee in its sole discretion. Any decisions by the Committee regarding the Plan or this Agreement shall be final and binding.

8. Plan Controls

The terms of this Agreement are governed by the terms of the Plan, as it exists on the date of the grant and as the Plan is amended from time to time. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan shall control.

9. Limitation on Rights; No Right to Future Grants; Extraordinary Item.

By entering into this Agreement and accepting the Option, the Participant acknowledges that: (a) the Plan is discretionary and may be modified, suspended or terminated by the Company at any time as provided in the Plan, provided that, except as provided in Section 17 of the Plan, no amendment to this Agreement shall adversely affect in a material manner the Participant's rights under this Agreement without his or her written consent; (b) the grant of the Option is a one-time benefit and does not create any contractual or other right to receive future grants of awards or benefits in lieu of awards; (c) all determinations with respect to any such future grants, including, but not limited to, the times when awards will be granted, the number of shares subject to each award, the award price, if any, and the time or times when each award will be settled, will be at the sole discretion of the Company; (d) participation in the Plan is voluntary; (e) the value of the Option is an extraordinary item which is outside the scope of the Participant's employment contract, if any, unless expressly provided for in any

such employment contract; (f) the Option is not part of normal or expected compensation for any purpose, including without limitation for calculating any benefits, severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and the Participant will have no entitlement to compensation or damages as a consequence of the forfeiture of any unvested portion of the Option as a result of the Participant's Termination of Service for any reason; (g) the future value of the Common Stock subject to the Option is unknown and cannot be predicted with certainty, (h) neither the Plan, the Option nor the issuance of the shares underlying the Option confers upon the Participant any right to continue in the employ or service of (or any other relationship with) the Company or any Subsidiary, nor do they limit in any respect the right of the Company or any Subsidiary to terminate the Participant's employment or other relationship with the Company or any Subsidiary, as the case may be, at any time with or without Cause, and (i) the grant of the Option will not be interpreted to form an employment relationship with the Company or any Subsidiary; and furthermore, the grant of the Option will not be interpreted to form an employment contract with the Company or any Subsidiary.

10. General Provisions

(a) Notice

Whenever any notice is required or permitted hereunder, such notice must be in writing and delivered in person or by mail (to the address set forth below if notice is being delivered to the Company) or electronically. Any notice delivered in person or by mail shall be deemed to be delivered on the date on which it is personally delivered, or, whether actually received or not, on the third business day after it is deposited in the United States mail, certified or registered, postage prepaid, addressed to the person who is to receive it at the address set forth in this Agreement. Notices delivered to the Participant in person or by mail shall be addressed to the address for the Participant in the records of the Company. Notices delivered to the Company in person or by mail shall be addressed as follows:

Company: NRG Energy, Inc.
 Attn: Vice President, Human Resources
 901 Marquette Avenue, Suite 2300
 Minneapolis, MN 55402

The Company or the Participant may change, by written notice to the other, the address previously specified for receiving notices.

(b) No Waiver

No waiver of any provision of this Agreement will be valid unless in writing and signed by the person against whom such waiver is sought to be enforced, nor will failure to enforce any right under this Agreement constitute a continuing waiver of the same or a waiver of any other right hereunder.

(c) Undertaking

The Participant hereby agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either the Participant or the Option pursuant to the express provisions of this Agreement.

(d) Entire Contract

This Agreement and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Plan and will in all respects be construed in conformity with the express terms and provisions of the Plan.

(e) Successors and Assigns

The provisions of this Agreement shall inure to the benefit of, and be binding on, the Company and its successors and assigns and Participant and Participant's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law.

(f) Securities Law Compliance

The Company currently has an effective registration statement on file with the Securities and Exchange Commission with respect to the shares of Common Stock subject to the Option. The Company intends to maintain this registration but has no obligation to the Participant to do so. If the registration ceases to be effective, the Participant will not be able to exercise the Option or transfer or sell shares of Common Stock issued pursuant to the Option unless exemptions from registration under applicable securities laws are available. Such exemptions from registration are very limited and might be unavailable. Participant agrees that any resale of the shares of Common Stock issued pursuant to the Option shall comply in all respects with the requirements of all applicable securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, the Securities Exchange Act of 1934 and the respective rules and regulations promulgated thereunder) and any other law, rule or regulation applicable thereto, as such laws, rules, and regulations may be amended from time to time. The Company shall not be obligated to either issue shares of Common Stock or permit the resale of any such shares if such issuance or resale would violate any such requirements.

(g) Taxes

- (i) Participant Election. Unless otherwise determined by the Committee, a Participant may elect to deliver shares of Common Stock (or have the Company withhold Shares acquired upon exercise of the Option) to satisfy, in whole or in part, the amount the Company is required to withhold for taxes in connection with the exercise of the Option. The Participant must make the election on or before the date the amount of tax to be withheld is determined. Once made, the election is irrevocable. The fair market value of the shares to be withheld or delivered will be the Fair Market Value as of the date the amount of tax to be withheld is determined. In the event a Participant elects to deliver or have the Company withhold shares of Common Stock pursuant to this Section 11(g)(i), such delivery or withholding must be made subject to the conditions and pursuant to the procedures set forth in Section 6(b) of the Plan with respect to the delivery or withholding of Common Stock in payment of the exercise price of options.
- (ii) Company Requirement. The Company may require, as a condition to any grant or exercise under this Agreement or to the delivery of certificates for Shares issued upon exercise of the Option, that Participant make provision for the payment to the Company, either pursuant to paragraphs (i) of (ii) of this Section 11(g), of federal,

state or local taxes of any kind required by law to be withheld with respect to any grant or delivery of Common Stock. The Company, to the extent permitted or required by law, shall have the right to deduct from any payment of any kind (including salary or bonus) otherwise due to a Participant, an amount equal to any federal, state or local taxes of any kind required by law to be withheld with respect to any grant or delivery of Common Stock under the Plan and this Agreement.

(h) Information Confidential

As partial consideration for the granting of the Option, the Participant agrees that he or she will keep confidential all information and knowledge that the Participant has relating to the manner and amount of his or her participation in the Plan; provided, however, that such information may be disclosed as required by law and may be given in confidence to the Participant's spouse, tax and financial advisors, or to a financial institution to the extent that such information is necessary to secure a loan.

(i) Governing Law

Except as may otherwise be provided in the Plan, the provisions of this Agreement shall be governed by the laws of the state of Delaware, without giving effect to principles of conflicts of law.

[SIGNATURES ON NEXT PAGE]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

NRG ENERGY, INC.

By: _____

Name: David Crane

Title: President & CEO

PARTICIPANT:

Name: _____



**NRG ENERGY, INC. LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT**

«Mail_Merge_Name»

«Address»

«City» «State» «Zip»

Congratulations on your selection as a Participant under the Long-Term Incentive Compensation Plan (“Plan”) of NRG Energy, Inc. (the “Company”). You have been chosen to receive Restricted Stock Units (“RSUs”) under the Plan.

This Restricted Stock Unit Agreement (this “Agreement”) constitutes the Grant Agreement pursuant to Section 8 of the Plan. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the Plan’s terms shall completely supersede and replace the conflicting terms of this Agreement. Capitalized terms used but not defined in this Agreement shall have the meaning assigned to them in the Plan. You are sometimes referred to as the “Participant” in this Agreement.

PLEASE NOTE THAT BY SIGNING THIS AGREEMENT YOU ARE ACKNOWLEDGING THAT YOU AGREE TO BE BOUND BY THE TERMS OF THIS AGREEMENT AND THE PLAN, INCLUDING WITHOUT LIMITATION TERMS AND CONDITIONS THAT MAY LIMIT YOUR ABILITY TO PURCHASE THE COMMON STOCK UNDERLYING THE RSUs GRANTED IN THIS AGREEMENT.

1. Grant of RSU.

You are hereby granted RSUs as follows:

Date of Grant: «Grant_Date»

Vesting Commencement Date: Date of Grant

Vesting Period: Please refer to Section 2 of this Agreement

Total Number of RSUs: «RSUs»

2. Vesting Schedule.

Provided that you have been continuously employed by the Company during the vesting period, the RSUs will vest in full on the third anniversary of the Date of Grant.

Notwithstanding the foregoing, if there is a Change in Control (as defined in the Plan) of the Company, the RSUs shall vest in full immediately upon such Change in Control.

You may receive a deferral form prior to vesting, at which time you would be given the opportunity to defer receipt of the common stock underlying the RSU in accordance with the terms of the deferral form, or you would be able to elect to receive your shares on the vesting date.

3. Conversion of RSU and Issuance of Shares

Upon vesting of the Award, one share of Common Stock shall be issued for each RSU that vests on such vesting date, subject to the terms and conditions of this Agreement and the Plan.

4. Transfer of RSUs

Unless otherwise permitted by the Committee or Section 14 of the Plan, the RSUs may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than pursuant to a will or the laws of descent and distribution. Any attempted disposition in violation of this Section 4 and Section 14 of the Plan shall be void.

5. Status of Participant

The Participant shall not be, or have rights as, a stockholder of the Company with respect to any of the shares of Common Stock subject to the Award unless such Award has vested, and shares underlying the RSU have been issued and delivered to him or her. The Company shall not be required to issue or transfer any certificates for shares of Common Stock upon vesting of the Award until all applicable requirements of law have been complied with and such shares have been duly listed on any securities exchange on which the Common Stock may then be listed.

6. No Effect on Capital Structure

The Award shall not affect the right of the Company or any Subsidiary to reclassify, recapitalize or otherwise change its capital or debt structure or to merge, consolidate, convey any or all of its assets, dissolve, liquidate, windup, or otherwise reorganize.

7. Expiration and Forfeiture of Award

Your Award shall vest and/or expire in the circumstances described below in this Section 7. As used herein, “*Termination of Service*” means termination of a Participant’s employment by or service to the Company, including any of its Subsidiaries.

(a) Death.

Upon a Termination of Service by reason of death, the Award shall vest in full and the Common Stock underlying the Award shall be issued and delivered to the Participant’s legal representatives, heirs, legatees, or distributees.

(b) Termination of Service other than as a result of Death.

Upon a Termination of Service by any reason other than death, including without limitation as a result of Disability, Retirement, voluntary resignation or termination for Cause, any unvested portion of the Award shall expire and be forfeited to the Company.

8. Committee Authority

Any question concerning the interpretation of this Agreement, any adjustments required to be made under the Plan, and any controversy that may arise under the Plan or the Grant Agreement shall be determined by the Committee in its sole discretion. Any decisions by the Committee regarding the Plan or this Agreement shall be final and binding.

9. Plan Controls

The terms of this Agreement are governed by the terms of the Plan, as it exists on the date of the grant and as the Plan is amended from time to time. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the terms of the Plan shall control.

10. Limitation on Rights; No Right to Future Grants; Extraordinary Item.

By entering into this Agreement and accepting the Award, the Participant acknowledges that: (a) the Plan is discretionary and may be modified, suspended or terminated by the Company at any time as provided in the Plan, provided that, except as provided in Section 17 of the Plan, no amendment to this Agreement shall adversely affect in a material manner the Participant's rights under this Agreement without his or her written consent; (b) the grant of the Award is a one-time benefit and does not create any contractual or other right to receive future grants of awards or benefits in lieu of awards; (c) all determinations with respect to any such future grants, including, but not limited to, the times when awards will be granted, the number of shares subject to each award, the award price, if any, and the time or times when each award will be settled, will be at the sole discretion of the Company; (d) participation in the Plan is voluntary; (e) the value of the Award is an extraordinary item which is outside the scope of the Participant's employment contract, if any, unless expressly provided for in any such employment contract; (f) the Award is not part of normal or expected compensation for any purpose, including without limitation for calculating any benefits, severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments, and the Participant will have no entitlement to compensation or damages as a consequence of the forfeiture of any unvested portion of the Award as a result of the Participant's Termination of Service for any reason; (g) the future value of the Common Stock subject to the Award is unknown and cannot be predicted with certainty, (h) neither the Plan, the Award nor the issuance of the shares underlying the Award confers upon the Participant any right to continue in the employ or service of (or any other relationship with) the Company or any Subsidiary, nor do they limit in any respect the right of the Company or any Subsidiary to terminate the Participant's employment or other relationship with the Company or any Subsidiary, as the case may be, at any time with or without Cause, and (i) the grant of the Award will not be interpreted to form an employment relationship with the Company or any Subsidiary; and furthermore, the grant of the Award will not be interpreted to form an employment contract with the Company or any Subsidiary.

11. General Provisions

(a) Notice

Whenever any notice is required or permitted hereunder, such notice must be in writing and delivered in person or by mail (to the address set forth below if notice is being delivered to the Company) or electronically. Any notice delivered in person or by mail shall be deemed to be delivered on the date on which it is personally delivered, or, whether actually received or not, on the third business day after it is deposited in the United States mail, certified or registered, postage prepaid, addressed to the person who is to receive it at the address set forth in this Agreement. Notices delivered to the Participant in person or by mail shall be addressed to the address for the Participant in the records of the Company. Notices delivered to the Company in person or by mail shall be addressed as follows:

Company: NRG Energy, Inc.
Attn: Vice President, Human Resources
901 Marquette Avenue, Suite 2300
Minneapolis, MN 55402

The Company or the Participant may change, by written notice to the other, the address previously specified for receiving notices.

(b) No Waiver

No waiver of any provision of this Agreement will be valid unless in writing and signed by the person against whom such waiver is sought to be enforced, nor will failure to enforce any right under this Agreement constitute a continuing waiver of the same or a waiver of any other right hereunder.

(c) Undertaking

The Participant hereby agrees to take whatever additional action and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either the Participant or the Award pursuant to the express provisions of this Agreement.

(d) Entire Contract

This Agreement and the Plan constitute the entire contract between the parties hereto with regard to the subject matter hereof. This Agreement is made pursuant to the provisions of the Plan and will in all respects be construed in conformity with the express terms and provisions of the Plan.

(e) Successors and Assigns

The provisions of this Agreement shall inure to the benefit of, and be binding on, the Company and its successors and assigns and Participant and Participant's legal representatives, heirs, legatees, distributees, assigns and transferees by operation of law.

(f) Securities Law Compliance

The Company currently has an effective registration statement on file with the Securities and Exchange Commission with respect to the shares of Common Stock subject to the Award. The Company intends to maintain this registration but has no obligation to the Participant to do so. If the registration ceases to be effective, the Participant will not be able to transfer or sell shares of Common Stock issued pursuant to the Award unless exemptions from registration under applicable securities laws are available. Such exemptions from registration are very limited and might be unavailable. Participant agrees that any resale of the shares of Common Stock issued pursuant to the Award shall comply in all respects with the requirements of all applicable securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, the Securities Exchange Act of 1934 and the respective rules and regulations promulgated thereunder) and any other law, rule or regulation applicable thereto, as such laws, rules, and regulations may be amended from time to time. The Company shall not be obligated to either issue shares of Common Stock or permit the resale of any such shares if such issuance or resale would violate any such requirements.

(g) Taxes

Participant acknowledges that the removal of restrictions with respect to an RSU will give rise to a withholding tax liability, and that no shares of Common Stock are issuable hereunder until such withholding obligation is satisfied in full. The Participant agrees to remit to the Company the amount of any taxes required to be withheld. The Committee, in its sole discretion, may permit Participant to satisfy all or part of such tax obligation through withholding of the number of shares of Stock otherwise issued to him or her hereunder and/or by the Participant transferring to the Company nonrestricted shares of Common Stock previously owned by the Participant for at least six (6) months prior to the vesting of the Award hereunder, with the amount of the withholding to be credited based on the current Fair Market Value of the Stock as of the date the amount of tax to be withheld is determined.

(h) Information Confidential

As partial consideration for the granting of the Award, the Participant agrees that he or she will keep confidential all information and knowledge that the Participant has relating to the manner and amount of his or her participation in the Plan; provided, however, that such information may be disclosed as required by law and may be given in confidence to the Participant's spouse, tax and financial advisors, or to a financial institution to the extent that such information is necessary to secure a loan.

(i) Governing Law

Except as may otherwise be provided in the Plan, the provisions of this Agreement shall be governed by the laws of the state of Delaware, without giving effect to principles of conflicts of law.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

NRG ENERGY, INC.

By: _____

Name: David Crane

Title: President & CEO

PARTICIPANT:

Name: _____

CERTIFICATION

I, David Crane, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NRG Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Omitted pursuant to SEC Release 33-8238;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DAVID CRANE

David Crane
Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2004

CERTIFICATION

I, Robert Flexon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NRG Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Omitted pursuant to SEC Release 33-8238;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ ROBERT FLEXON

Robert Flexon
Chief Financial Officer
(Principal Financial Officer)

Date: November 9, 2004

CERTIFICATION

I, James Ingoldsby, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NRG Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Omitted pursuant to SEC Release 33-8238;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JAMES INGOLDSBY

James Ingoldsby
Controller
(Principal Accounting Officer)

Date: November 9, 2004

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of NRG Energy, Inc. (the Company) on Form 10-Q for the quarter ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (Form 10-Q), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Form 10-Q.

Date: November 9, 2004

/s/ DAVID CRANE

David Crane,
Chief Executive Officer
(Principal Executive Officer)

/s/ ROBERT FLEXON

Robert Flexon,
Chief Financial Officer
(Principal Financial Officer)

/s/ JAMES INGOLDSBY

James Ingoldsby,
Controller
(Principal Accounting Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to NRG Energy, Inc. and will be retained by NRG Energy, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.